

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

1 CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- (i) Property trading and investments; and
- (ii) Property management and related services.

2 IMPACT OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised): "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised; and

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 24 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in notes 3 and 24 to the financial statements.



NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain equity investments, as further explained below.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

(c) Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

(d) Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(f) Goodwill

Goodwill arising on the acquisition of associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

(g) Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/ amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

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As at 31 December 2003

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Negative goodwill *(continued)*

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provisions of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

(h) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation of fixed assets is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20%
Office equipment, furniture and fixtures	15%
Computer software	20%
Motor vehicles	20%
Computer equipment	33%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(j) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.



NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis.

(l) Properties held for development

Properties held for development are stated at cost which includes land cost, development expenditure, professional fees, capitalised interest and other expenses incurred incidental to the development less any accumulated impairment losses.

(m) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(n) Non- trading investments

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the non-trading investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired any relevant loss recorded in the revaluation reserve is taken to the profit and loss account.

Transfers from the investments revaluation reserve to the profit and loss account as a result of impairment are written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised.

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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

(p) Foreign currency transactions

The Group's financial records are maintained and the financial statements are stated in Hong Kong dollars. Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the consolidated profit and loss account.

(q) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) disposal of properties held for sale, on the execution of legally binding contracts of sale;
- (ii) rental income from properties, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (iii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (iv) dividend income, when the shareholders' right to receive payment has been established; and
- (v) property management revenue, when the services are rendered.

(s) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

(t) Borrowing costs

Borrowing costs indirectly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Employee benefits

(i) Retirement benefits scheme

The Group contributes to a defined contribution provident fund scheme for its employees. The Group's contributions under the scheme are charged to the profit and loss account as incurred. The amount of the Group's contributions is based on specified percentages of the basic salaries of employees. Any employers' contributions relating to unvested benefits forfeited by employees who leave the Group are used to reduce the Group's ongoing contributions otherwise payable.

(ii) Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

(iii) Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.



NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

4 SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) Property investment;
- (b) Property trading;
- (c) Property management and related services; and
- (d) Operation of driver training centres and tunnel operation and management.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

4 SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments in 2003. There are no sales or other transactions between the business segments.

Group 2003	Property investment HK\$'000	Property trading HK\$'000	Property management and related services HK\$'000	Operation of driver training centres and tunnel operation and management HK\$'000	Consolidated HK\$'000
Segment revenue	87,794	9,835	8,011	—	105,640
Segment results	52,459	(6,628)	5,343	(3,577)	47,597
Unallocated income, net					1,239
Finance costs					(23,052)
Operating profit					25,784
Share of results of associates				29,566	29,566
Goodwill amortisation				(13,236)	(13,236)
Profit before tax					42,114
Tax					(13,709)
Net profit attributable to shareholders					28,405
Segment assets	1,815,255	90,538	9,897	—	1,915,690
Interests in associates	—	—	—	797,673	797,673
Unallocated assets					26,915
Total assets					2,740,278
Segment liabilities	871,797	10,215	11,819	—	893,831
Unallocated liabilities					11,238
Total liabilities					905,069
Other segment information:					
Capital expenditure	734	5,872	—	—	6,606
Depreciation	—	—	503	—	503
Deficit arising on revaluation of investment properties	26,656	—	—	—	26,656
Write back of provision for impairment loss on property held for development	—	9,562	—	—	9,562
Write down of properties held for sale	—	106	—	—	106
Amortisation of goodwill on acquisition of an associate	—	—	—	13,236	13,236
Loss on deemed disposal of partial interest in an associate	—	—	—	3,577	3,577

NOTES TO FINANCIAL STATEMENTS

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4 SEGMENT INFORMATION (continued)

(a) Business segments (continued)

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments in 2002. There are no sales or other transactions between the business segments.

Group 2002	Property investment HK\$'000	Property trading HK\$'000	Property management and related services HK\$'000	Operation of driver training centres and tunnel operation and management HK\$'000	Consolidated HK\$'000 (Restated)
Segment revenue	110,654	33,876	8,915	—	153,445
Segment results	83,212	(21,043)	5,203	(12,517)	54,855
Unallocated income, net Finance costs					1,648 (31,785)
Operating profit					24,718
Share of results of associates				21,228	21,228
Goodwill amortisation				(13,524)	(13,524)
Profit before tax					32,422
Tax					(9,108)
Net profit attributable to shareholders					23,314
Segment assets	1,836,227	124,782	7,048	—	1,968,057
Interests in associates	—	—	—	725,883	725,883
Unallocated assets					5,371
Total assets					2,699,311
Segment liabilities	856,819	21,179	15,926	—	893,924
Unallocated liabilities					11,475
Total liabilities					905,399
Other segment information:					
Capital expenditure	9,544	373	968	—	10,885
Depreciation	—	—	366	—	366
Deficit arising on revaluation of investment properties	22,004	—	—	—	22,004
Provision for impairment loss on property held for development	—	7,373	—	—	7,373
Write down of properties held for sale	—	14,000	—	—	14,000
Amortisation of goodwill on acquisition of an associate	—	—	—	13,524	13,524
Loss on deemed disposal of partial interest in an associate	—	—	—	12,517	12,517

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

4 SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments. There are no sales between the geographical segments.

Group 2003

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue	<u>105,640</u>	<u>—</u>	<u>105,640</u>
Other segment information:			
Segment assets	2,719,515	20,763	2,740,278
Capital expenditure	<u>6,567</u>	<u>39</u>	<u>6,606</u>

Group 2002

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Consolidated <i>HK\$'000</i> (Restated)
Segment revenue	<u>119,569</u>	<u>33,876</u>	<u>153,445</u>
Other segment information:			
Segment assets	2,639,958	59,353	2,699,311
Capital expenditure	<u>4,785</u>	<u>6,100</u>	<u>10,885</u>



NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

5 TURNOVER, REVENUE AND GAINS

Turnover represents the aggregate of gross rental income received and receivable from investment properties, the proceeds from sales of properties and property interests, and income from property management and related services.

An analysis of the Group's turnover, other revenue and gains is as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover		
Rental income from investment properties	87,794	110,654
Sale of properties and property interests	9,835	33,876
Income from property management and related services	8,011	8,915
	<u>105,640</u>	<u>153,445</u>
Other revenue and gains		
Interest income	4,575	2,824
Rental income net of outgoings on properties held for sale	292	1,133
Penalty income from early termination of leases	—	545
Reinstatement compensation	1,682	—
Gain on trading of listed shares	1,529	—
Others	565	—
	<u>8,643</u>	<u>4,502</u>

NOTES TO FINANCIAL STATEMENTS

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6 OPERATING PROFIT

The Group's operating profit is arrived at after charging/(crediting) the following:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Depreciation	503	366
Loss on disposal of fixed assets	1	16
Loss on disposal of property interests	—	2,986
Loss on deemed disposal of partial interest in an associate	3,577	12,517
Provision for doubtful debts, net	14,250	—
Gain on disposal of a subsidiary	—	(4,901)
Auditors' remuneration	627	649
Staff costs:		
Wages and salaries	6,958	6,634
Discretionary bonuses	2,550	2,720
Pension contributions*	296	272
	<u>9,804</u>	<u>9,626</u>
Gross rental income	(88,470)	(112,539)
Less: Outgoings	<u>4,146</u>	<u>4,336</u>
Net rental income	<u>(84,324)</u>	<u>(108,203)</u>
Exchange gains, net	<u>(2)</u>	<u>(1)</u>

* At 31 December 2003, there was no forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years (2002: Nil).

NOTES TO FINANCIAL STATEMENTS

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7 FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other loans:		
Wholly repayable within five years	9,646	12,869
Not wholly repayable within five years	12,932	17,983
Loan arrangement fees	474	933
	<u>23,052</u>	<u>31,785</u>

8 DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees	700	700
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	1,820	1,810
Discretionary bonuses	2,000	2,200
Pension scheme contributions	86	87
	<u>4,606</u>	<u>4,797</u>

The directors' fees of HK\$700,000 (2002: HK\$700,000) were payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

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

NOTES TO FINANCIAL STATEMENTS

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8 DIRECTORS' REMUNERATION (continued)

The number of the directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	5	5
HK\$2,500,001 to HK\$3,000,000	1	1
	<u>6</u>	<u>6</u>

9 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2002: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2002: four) non-director, highest paid employees are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Basic salaries, bonuses, housing allowances, other allowances and benefits in kind	2,523	2,498
Discretionary bonuses	385	355
Pension scheme contributions	116	115
	<u>3,024</u>	<u>2,968</u>

The number of non-director, highest paid employees' remuneration fell within the following bands is as follows:

	Number of employees	
	2003	2002
HK\$500,001 to HK\$1,000,000	3	3
HK\$1,000,001 to HK\$1,500,000	1	1
	<u>4</u>	<u>4</u>

NOTES TO FINANCIAL STATEMENTS

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10 TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year.

	2003 HK\$'000	2002 HK\$'000 (Restated)
Group:		
Hong Kong	5,821	6,704
Overprovision in prior years	(20)	(158)
	<u>5,801</u>	<u>6,546</u>
Deferred	2,452	(1,871)
	<u>8,253</u>	<u>4,675</u>
Share of tax attributable to associates	5,456	4,433
	<u>13,709</u>	<u>9,108</u>

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries and associates are domiciled to the tax expense at the effective tax rates are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Profit before tax	<u>42,114</u>	<u>32,422</u>
Tax at the statutory tax rate of 17.5% (2002: 16%)	7,370	5,188
Overprovision of tax in prior years	(20)	(158)
Unrecognised temporary differences	(117)	3,420
Effect on opening deferred tax of increase in rates	689	—
Income not subject to tax	(5,253)	(32,995)
Expenses not deductible for tax	13,671	33,862
Tax losses utilised from previous periods	(1,874)	(264)
Others	(757)	55
	<u>13,709</u>	<u>9,108</u>
Tax charge at the Group's effective rate	<u>13,709</u>	<u>9,108</u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

11 NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK\$325,711,000 (2002: HK\$9,775,000).

12 DIVIDEND

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Proposed, final — HK1.5 cents (2002: HK1.5 cents) per ordinary share	<u>11,957</u>	<u>11,957</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13 EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the net profit attributable to shareholders for the year of HK\$28,405,000 (2002: HK\$23,314,000 (as restated)), and the weighted average of 797,157,415 (2002: 797,157,415) ordinary shares in issue during the year.

The diluted earnings per share amount for the years ended 31 December 2003 and 2002 have not been shown as the share options outstanding during both years had an anti-dilutive effect on the basic earnings per share for these years.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

14 FIXED ASSETS

Group

	Leasehold improvements <i>HK\$'000</i>	Office equipment, furniture and fixtures <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:						
At 1 January 2003	743	212	453	923	358	2,689
Additions	—	42	—	—	2	44
Disposals	—	(2)	—	—	(1)	(3)
At 31 December 2003	<u>743</u>	<u>252</u>	<u>453</u>	<u>923</u>	<u>359</u>	<u>2,730</u>
Accumulated depreciation:						
At 1 January 2003	25	7	178	308	287	805
Provided during the year	149	35	90	184	45	503
Disposals	—	—	—	—	(2)	(2)
At 31 December 2003	<u>174</u>	<u>42</u>	<u>268</u>	<u>492</u>	<u>330</u>	<u>1,306</u>
Net book value:						
At 31 December 2003	<u><u>569</u></u>	<u><u>210</u></u>	<u><u>185</u></u>	<u><u>431</u></u>	<u><u>29</u></u>	<u><u>1,424</u></u>
At 31 December 2002	<u><u>718</u></u>	<u><u>205</u></u>	<u><u>275</u></u>	<u><u>615</u></u>	<u><u>71</u></u>	<u><u>1,884</u></u>

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As at 31 December 2003

15 INVESTMENT PROPERTIES

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
At 1 January	1,793,330	1,855,790
Deficit on revaluation	(26,656)	(22,004)
Additions	696	9,544
Disposals	—	(50,000)
	<u>1,767,370</u>	<u>1,793,330</u>
At 31 December	<u>1,767,370</u>	<u>1,793,330</u>

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

	Hong Kong	Mainland China	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	
At valuation:			
Long term leases	947,370	—	947,370
Medium term leases	815,000	5,000	820,000
	<u>1,762,370</u>	<u>5,000</u>	<u>1,767,370</u>

The revaluation of the above investment properties was carried out by FPD Savills (Hong Kong) Limited, an independent firm of professionally qualified valuers, on an open market, existing use basis as at 31 December 2003.

Certain of the Group's investment properties were pledged to banks to secure banking facilities granted to the Group (note 23 to the financial statements).

Further particulars of the Group's investment properties are included on page 66.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

16 PROPERTY HELD FOR DEVELOPMENT

	Group	
	2003 HK\$'000	2002 HK\$'000
At 1 January	48,000	55,000
Development expenditure incurred	5,872	373
Write back of provision/(provision for impairment loss)	9,562	(7,373)
	<u>63,434</u>	<u>48,000</u>
At 31 December	<u>63,434</u>	<u>48,000</u>

Property held for development represents a development project which is situated in Hong Kong and held under a medium term lease.

17 INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	1,465,569	1,465,569
Due from subsidiaries	<u>1,221,061</u>	<u>853,144</u>
	2,686,630	2,318,713
Less: Provision for impairment	<u>(1,129,766)</u>	<u>(1,075,404)</u>
	<u>1,556,864</u>	<u>1,243,309</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Details of the principal subsidiaries of the Company are set out in note 34 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

18 INTERESTS IN ASSOCIATES

	Notes	Group	
		2003 HK\$'000	2002 HK\$'000 (Restated)
Share of net assets		457,296	369,442
Goodwill on acquisition less amortisation		218,186	236,601
Dividend receivable		—	2,840
Convertible note	(i)	80,457	117,000
Share option	(ii)	21,734	—
Loan to an associate	(ii)	20,000	—
		<u>797,673</u>	<u>725,883</u>
Market value of listed equity securities		<u>283,062</u>	<u>186,061</u>

Notes:

- (i) Please refer to note 31(c) for details of the convertible note. During the year, conversion rights attached to the convertible note amounting to HK\$36,543,000 were exercised by the Group.
- (ii) Please refer to note 31(d) for details of the share option and loan to an associate.

The goodwill capitalised in interests in associates is amortised on the straight line basis over its estimated useful life of 20 years from the date of acquisition. Movement of goodwill is shown as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000 (Restated)
At 1 January	236,601	261,209
Negative goodwill on scrip dividends received	(3,189)	(3,305)
Amortisation	(13,236)	(13,524)
Unamortised goodwill written off on deemed disposals of partial interest in an associate	(1,990)	(7,779)
At 31 December	<u>218,186</u>	<u>236,601</u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

18 INTERESTS IN ASSOCIATES (continued)

Particulars of the associate is as follows:

Name	Business structure	Place of incorporation and operations	Percentage of attributable equity to the Group	
			2003	2002
The Cross-Harbour (Holdings) Limited	Corporate	Hong Kong	27.55%	27.32%

The above associate was not audited by Ernst & Young.

The Cross-Harbour (Holdings) Limited ("Cross-Harbour") is an investment holding company, incorporated and listed in Hong Kong, with its subsidiaries engaged in the operation of driver training centres and the business of tunnel operation and management in Hong Kong.

Extracts of the consolidated operating results and consolidated financial position of the associate, Cross-Harbour, are as follows:

	2003 HK\$'000	2002 HK\$'000 (Restated)
Operating results for the year:		
Turnover	<u>255,234</u>	<u>271,284</u>
Net profit attributable to shareholders	<u>87,235</u>	<u>61,753</u>
Financial position at 31 December:		
Non-current assets	1,565,600	1,413,240
Current assets	390,596	345,490
Current liabilities	(147,473)	(148,558)
Non-current liabilities	(105,257)	(218,300)
Minority interests	<u>(42,857)</u>	<u>(39,010)</u>
Net asset value	<u>1,660,609</u>	<u>1,352,862</u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

19 NON-TRADING INVESTMENTS

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted investments	<u>1,913</u>	<u>5,371</u>

20 PROPERTIES HELD FOR SALE

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong:		
At cost	—	1,988
At net realisable value	<u>6,300</u>	<u>15,000</u>
	<u>6,300</u>	<u>16,988</u>

21 TRADE DEBTORS

An aged analysis of the trade debtors at the balance sheet date is as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Not yet due	—	9,000
0 - 30 days	627	17,422
31 - 60 days	1,652	1,541
More than 60 days	<u>7,014</u>	<u>7,155</u>
	<u>9,293</u>	<u>35,118</u>

Included in trade debtors are HK\$5,000,000 (2002: HK\$32,100,000) which represent proceeds receivable from property buyers and their settlement is based on a payment schedule of the corresponding sale and purchase agreements.

The remaining balance of trade debtors is primarily rental receivables from tenants which is normally due on the first day of the month.

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NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

22 TRADE CREDITORS

An aged analysis of the trade creditors at the balance sheet date is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
0 - 30 days	977	1,146
31 - 60 days	382	795
More than 60 days	—	165
	<u>1,359</u>	<u>2,106</u>

23 BANK LOANS, SECURED

(a) Bank loans are repayable as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	356,000	174,000
In the second year	41,500	186,000
In the third to fifth year	215,100	167,000
After the fifth year	226,400	316,000
	<u>839,000</u>	<u>843,000</u>
Amounts classified under current liabilities	<u>(356,000)</u>	<u>(174,000)</u>
Amounts classified under non-current liabilities	<u>483,000</u>	<u>669,000</u>

(b) At the balance sheet date, the Group's banking facilities were secured by:

- (i) Mortgages on certain investment properties with an aggregate carrying value of HK\$1,760,000,000 (2002: HK\$1,785,000,000) and the assignment of rental income from certain of the properties. In addition, the Company has pledged all the issued shares of certain subsidiaries and subordinated its loans to certain subsidiaries in favour of the lenders of the above bank loans; and
- (ii) Corporate guarantees issued by the Company.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

24 DEFERRED TAX

The movement in deferred tax liabilities, arising from accelerated tax depreciation, during the year is as follows:

Deferred tax liabilities**Group**

	<i>HK\$'000</i>
At 1 January 2003	
As previously reported	—
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	7,349
	<hr/>
As restated	7,349
Deferred tax charged to the profit and loss account during the year, including a charge of HK\$689,000 due to the effect of a change in tax rates (<i>note 10</i>)	2,452
	<hr/>
Deferred tax liabilities at 31 December 2003	9,801
	<hr/> <hr/>
At 1 January 2002	
As previously reported	—
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	9,220
	<hr/>
As restated	9,220
Deferred tax credited to the profit and loss account during the year	(1,871)
	<hr/>
Deferred tax liabilities at 31 December 2002	7,349
	<hr/> <hr/>

The Group has tax losses arising in Hong Kong of HK\$119,744,000 (2002: HK\$129,560,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

24 DEFERRED TAX *(continued)*

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 31 December 2003 and 2002 by HK\$9,801,000 and HK\$7,349,000, respectively. In addition, the Group's interests in associates as at 31 December 2003 and 2002 decreased by HK\$774,000 and HK\$1,604,000, respectively. As a consequence, the consolidated net profit attributable to shareholders for the years ended 31 December 2003 and 2002 have been decreased by HK\$1,622,000 and increased by HK\$874,000, respectively, and the consolidated retained profits at 1 January 2003 and 2002 have been reduced by HK\$8,953,000 and HK\$9,827,000, respectively, as detailed in the consolidated statement of changes in equity.

25 SHARE CAPITAL**Shares**

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Authorised:		
1,500,000,000 ordinary shares of HK\$0.1 each	<u>150,000</u>	<u>150,000</u>
Issued and fully paid:		
797,157,415 ordinary shares of HK\$0.1 each	<u>79,716</u>	<u>79,716</u>

Share options

The particulars in relation to the share option scheme of the Company that are required to be disclosed under Rules 17.07 to 17.09 of Chapter 17 of the Listing Rules and SSAP 34, are as follows:

At a Special General Meeting of the Company held on 22 December 1993, the Share Option Plan was approved and adopted. At 31 December 2003, there were 2,400,000 (2002: 2,400,000) options outstanding which are exercisable in stages from the date of grant and no option will be exercisable later than 10 years after the date of grant. The amount payable on acceptance of the option is minimal. No options have been granted, exercised or expired during the year.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

25 SHARE CAPITAL (continued)

Share options (continued)

Terms of share options outstanding at the balance sheet date were as follows:

Exercisable period	Exercise price HK\$	Number of options		Vested number of options	
		2003	2002	2003	2002
<i>Directors</i>					
3 April 2000 to 2 April 2010	0.5860	2,000,000	2,000,000	1,600,000	1,200,000
<i>Other employees</i>					
16 January 1997 to 15 July 2006	0.9488	100,000	100,000	100,000	100,000
3 April 2000 to 2 April 2010	0.5860	300,000	300,000	240,000	180,000
		<u>2,400,000</u>	<u>2,400,000</u>	<u>1,940,000</u>	<u>1,480,000</u>

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NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

26 RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 22 and 23 of the financial statements.

The Group's contributed surplus originally represented the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

Company

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Retained profits/ (Accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	94,535	1,345,068	1,350	(271,440)	1,169,513
2001 final dividend paid	—	(15,943)	—	—	(15,943)
Profit for the year	—	—	—	9,775	9,775
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	94,535	1,329,125	1,350	(261,665)	1,163,345
2002 final dividend paid	—	(11,957)	—	—	(11,957)
Profit for the year	—	—	—	325,711	325,711
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	<u>94,535</u>	<u>1,317,168</u>	<u>1,350</u>	<u>64,046</u>	<u>1,477,099</u>

The contributed surplus of the Company originally represented the excess of the fair values of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued for their acquisition at the time of the reorganisation in preparation for the listing of the Company's shares in prior year. Under the Companies Act (1981) of Bermuda (as amended), the contributed surplus may be distributed to shareholders under certain circumstances.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before tax to net cash inflow generated from operations

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (Restated)
Profit before tax		42,114	32,422
Adjustments for:			
Share of results of associates		(29,566)	(21,228)
Interest income	5	(4,575)	(2,824)
Deficit arising on revaluation of investment properties		26,656	22,004
(Write back of impairment loss)/ impairment loss on non-trading investments		(853)	3,542
Gain on disposal of non-trading investment		—	(5,190)
Loss on deemed disposal of partial interest in an associate	6	3,577	12,517
(Write back of provision)/provision for impairment loss on property held for development		(9,562)	7,373
Gain on disposal of a subsidiary		—	(4,901)
Amortisation of goodwill on acquisition of an associate		13,236	13,524
Depreciation	6	503	366
Loss on disposal of fixed assets	6	1	16
Finance costs	7	22,578	30,852
		<hr/>	<hr/>
Operating profit before working capital changes		64,109	88,473
Decrease in trade debtors, other debtors, deposits and prepayments		14,132	18,272
Increase/(decrease) in trade creditors and other payables		3,663	(11,614)
Decrease in properties held for sale		10,688	43,000
		<hr/>	<hr/>
Net cash inflow generated from operations		<u>92,592</u>	<u>138,131</u>

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NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of a subsidiary

	Group	
	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Investment properties	—	50,000
Trade and other receivables	—	708
Bank loans	—	(38,500)
Trade and other payables	—	(2,969)
	<u>—</u>	<u>—</u>
	—	9,239
Gain on disposal of a subsidiary (note 6)	<u>—</u>	<u>4,901</u>
	<u>—</u>	<u>14,140</u>
Satisfied by:		
Cash, net of expenses	<u>—</u>	<u>14,140</u>

(c) Major non-cash transaction

In 2002, the Group disposed of a non-trade investment of HK\$1,000,000 in exchange for investment properties amounting to HK\$6,100,000.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

28 OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms of approximately two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	77,306	89,950
In the second to fifth year, inclusive	53,393	73,481
	<u>130,699</u>	<u>163,431</u>

(b) As lessee

The Group leases its office properties under operating lease arrangements. The leases for the office properties are negotiated for a term of approximately one year.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<u>634</u>	<u>634</u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

29 COMMITMENTS

In addition to the operating lease commitments detailed in note 28(b) above, the Group had the following capital commitments in respect of investment properties and property held for development as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Contracted, but not provided for	12	10,153
Authorised, but not contracted for	2,643	14,366
	<u>2,655</u>	<u>24,519</u>

30 CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	<u>—</u>	<u>—</u>	<u>1,019,400</u>	<u>1,053,400</u>

At the balance sheet date, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$839,000,000 (2002: HK\$843,000,000).

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

30 CONTINGENT LIABILITIES (continued)

- (b) A subsidiary has claimed against the contractor of a property development project, and deducted from payments to the contractor, approximately HK\$11 million for the delay in completion and defects of the construction works. In addition, there is a dispute of approximately HK\$1.7 million regarding the final contract amount. The contractor has denied the claim and is counter-claiming the subsidiary for HK\$22.3 million, including liquidated damages, the above-mentioned disputed contract sum and loss and expense. The case is pending arbitration. As at 31 December 2003, provisions of HK\$7.1 million (2002: HK\$7.4 million) have been made for the expected legal costs on this dispute, which the directors consider to be adequate, taking into account expert professional advice received. Utilisation of provision of HK\$0.3 million was incurred for legal cost during the year.
- (c) A subsidiary executed guarantees to secure a banking facility made available to an investee company and certain property buyers of the investee company in respect of mortgage loans. In 2002, the entire investment in the investee company was disposed of by the subsidiary. The purchaser of the disposed share of the investee company would provide indemnity to the subsidiary in respect of guarantees given by the subsidiary for and on behalf of the investee company after 31 December 1999. The total outstanding estimated amount of guarantees given by the subsidiary prior to 31 December 1999 is approximately HK\$7.8 million as at 31 December 2003 (2002: HK\$9.8 million).

31 RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	Notes	2003 HK\$'000	2002 HK\$'000
Rental charges paid to related companies	(a)	962	958
Administrative staff costs paid to a shareholder	(b)	611	494
Interest income on convertible note issued by an associate	(c)	3,233	2,289
Purchase of a share option issued by an associate	(d)	50,000	—

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

31 RELATED PARTY TRANSACTIONS *(continued)**Notes:*

- (a) A subsidiary of the Company, Y. T. Group Management Limited ("YTGML"), entered into a sub-lease agreement with Chongqing Industrial Limited, a controlling shareholder of Yugang International Limited ("Yugang"), a substantial shareholder of the Company, to lease office space for a period of one year commencing on 18 October 2002 at HK\$66,392 per month plus applicable rates and expenses. The tenancy agreement has been renewed with the same terms for one year commencing on 18 October 2003.
- (b) YTGML entered into an agreement with Yugang to share the cost of common administrative staff at a monthly charge which is determined based on actual cost of the staff from time to time.
- (c) On 11 June 2002, a subsidiary of the Company, Honway Holdings Limited ("Honway"), invested HK\$117 million to purchase a convertible note (the "Note") issued by an associate, Cross-Harbour, which bears interest at 3.5% per annum with a maturity date of 11 June 2005. The Note carries a right of conversion into new ordinary shares of the associate at exercise prices of HK\$3.5, HK\$3.7 and HK\$3.9 per share during the years ending 11 June 2003, 11 June 2004 and 11 June 2005, respectively.
- (d) On 9 May 2003, Honway entered into a share option agreement with Cross-Harbour. The option was granted on 24 June 2003. Pursuant to the agreement, Honway was entitled to subscribe for up to a maximum of 60 million shares in the capital of Cross-Harbour at exercise prices of HK\$3.4, HK\$3.7 and HK\$4.0 per share during the years ending 24 June 2004, 24 June 2005 and 24 June 2006, respectively. The consideration paid by Honway for the option granted above was HK\$50,000,000, of which HK\$5,000,000 being the amount for purchasing the option, HK\$25,000,000 being the non-refundable and non-interest bearing deposit payable in advance for exercise of the option and HK\$20,000,000 being a three-year interest-free unsecured term loan advanced by Honway to Cross-Harbour.

32. POST BALANCE SHEET EVENT

On 15 December 2003, the Group entered into a sale and purchase agreement with an independent third party to dispose of a subsidiary, Achiever Assets Limited, for a cash consideration of HK\$63,800,000. This transaction was completed on 9 February 2004 and did not result in any significant gain or loss on disposal.

33. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 12 during the current year, the accounting treatment and presentation of certain terms in the financial statements and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

34 PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at the balance sheet date are as follows:

Name of company	Place of incorporation	Issued and fully paid share capital	Percentage of equity attributable to the Company		Principal activities and place of operation
			2003	2002	
Achiever Assets Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property development in Hong Kong
Asset Class Developments Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	100%	Property trading in the PRC
Best View Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	100%	Property holding in Hong Kong
Benefit Plus Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property investment in Hong Kong
E-Tech Services Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property management in Hong Kong
Gold Region Developments Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	100%	Property trading in the PRC
Harson Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property investment in Hong Kong
Honway Holdings Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	100%	Investment holding in Hong Kong

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NOTES TO FINANCIAL STATEMENTS

As at 31 December 2003

34 PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place of incorporation	Issued and fully paid share capital	Percentage of equity attributable to the Company		Principal activities and place of operation
			2003	2002	
Luckleen Development Limited	Hong Kong	100 ordinary shares of HK\$1 each	100%	100%	Property trading in Hong Kong
Mainland Sun Ltd.	British Virgin Islands	1 ordinary share of US\$1 each	100%	100%	Property investment in the PRC
Pencester Properties Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	100%	Property trading in the PRC
Real China Investments Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	100%	Property trading in the PRC
Real Start Developments Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	100%	Property trading in the PRC
Rosy Star Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property investment in Hong Kong
Score Goal Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property investment in Hong Kong
Score Target Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property trading in Hong Kong

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As at 31 December 2003

34 PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place of incorporation	Issued and fully paid share capital	Percentage of equity attributable to the Company		Principal activities and place of operation
			2003	2002	
Winwide Excel Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	—	Investment holding in Hong Kong
Y. T. (China) Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Investment holding in the PRC
Y. T. Finance Limited	Hong Kong	6,000 ordinary shares of HK\$500 each	100%	100%	Finance vehicle in Hong Kong
Y. T. Group Management Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Business management services in Hong Kong
Y. T. Investment Holdings Limited	British Virgin Islands	50,100 ordinary shares of US\$1 each	100%	100%	Investment holding in Asia
Y. T. Investment Management Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	100%	Securities investment in the PRC
Y. T. Properties International Limited	British Virgin Islands	201 ordinary shares of US\$1 each	100%	100%	Investment holding in Hong Kong
Y. T. Property Services Limited	Hong Kong	100 ordinary shares of HK\$1 each	100%	100%	Property management in Hong Kong

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As at 31 December 2003

34 PRINCIPAL SUBSIDIARIES *(continued)*

The above table includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. With the exception of Y. T. Investment Holdings Limited, all the above companies are indirect subsidiaries of the Company.

35 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2004.