

1. CORPORATE INFORMATION

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

- property investment
- provision of serviced apartment and property management services
- trading of steel
- manufacture and trading of electronic products

In the opinion of the directors, the ultimate holding company is Power Resources Holdings Limited, a company incorporated in the British Virgin Islands.

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

The following revised SSAP and Interpretation are effective for the first time for the current year’s financial statements and have had a significant impact thereon:

- SSAP 12 (Revised): “Income taxes”
- Interpretation 20: “Income taxes - Recovery of revalued non-depreciable assets”

These SSAP and Interpretation prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAP and Interpretation, are summarised as follows:

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 these SSAP and Interpretation 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 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; and
- a deferred tax liability has been recognised on the revaluation of the Group’s investment properties.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 27 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 note 3 and in note 27 to the financial statements.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment properties in the deferred tax calculated under SSAP 12.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 short term investment, as further explained below.

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.

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.

Associates

An associate is a company, not being a subsidiary, 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.

Goodwill

Goodwill arising on the acquisition of subsidiaries and 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 five 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 subsidiaries or 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 and any relevant reserves, as appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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.

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 of 10 years. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries or 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 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 land | Over the terms of the leases |
| Buildings | 4% or over the lease terms, if shorter |
| Leasehold improvements | Over the lease terms |
| Furniture, fixtures and office equipment | 20% - 33 1/3% |
| Motor vehicles | 20% - 25% |
| Plant and machinery | 10% - 20% |
| Vessels | 30% |

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

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, capitalised interest during the period of development and other direct costs attributable to such properties. Net realisable value is calculated as the estimated selling price less all costs to completion, if applicable, and costs of marketing and selling.

Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. 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.

Long term investments

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

The fair values of such listed securities are their quoted market prices at the balance sheet date. The fair values of such unlisted securities are estimated by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities, or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and 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 and time deposits represent assets which are not restricted as to use.

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:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in associates except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

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:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income from property letting, in the period in which the properties are let and on a straight-line basis over the lease terms;
- (c) income from the provision of service apartments and property management services, and project management, in the period in which such services are rendered;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (e) dividend income, when the shareholders' right to receive payment has been established; and
- (f) from the sale of listed securities, on the trade date.

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 are approved by the shareholders and declared, they are recognised as a liability.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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 profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Employee benefits

Retirement benefits scheme

The Group operates defined contribution Mandatory Provident Fund retirement benefits schemes (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its Hong Kong employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

As stipulated by the regulations of the PRC government, each of the Group's subsidiaries in the PRC participates in the central pension scheme operated by the local municipal government for all of their staff. These PRC subsidiaries are required to contribute a certain percentage of their covered payroll to the scheme to fund the benefits. The only obligation of the Group with respect to the scheme is to pay the ongoing required contributions under the scheme. Contributions under the scheme are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share option scheme

Both the Company and its subsidiary, Oriental Explorer Holdings Limited, operate share option schemes 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 the 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.

Employment ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of probable future long service payments based on the best estimate of the probable future outflow of resources which has been earned by the employees from their service to the Group at the balance sheet date.

4. SEGMENT INFORMATION

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

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

- (a) Hong Kong;
- (b) elsewhere in the People's Republic of China ("PRC"); and
- (c) Thailand

In determining the Group's business segments, revenues and results are attributed to the segments based on the nature of their operations and the services they provide.

There were no intersegment sales and transfer during the year (2002: Nil).

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

4. SEGMENT INFORMATION (continued)

(a) Geographical segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments.

| Group | Hong Kong | | Elsewhere in the PRC | | Thailand | | Consolidated | |
|--|------------------|------------------|----------------------|------------------|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Segment revenue: | | | | | | | | |
| Sales to external customers | 38,460 | 39,358 | 101,614 | 62,532 | 194,178 | — | 334,252 | 101,890 |
| Other revenue | 841 | 4,942 | 5,396 | 2,796 | — | — | 6,237 | 7,738 |
| Total | 39,301 | 44,300 | 107,010 | 65,328 | 194,178 | — | 340,489 | 109,628 |
| Segment results | 12,047 | 13,676 | 70,165 | 44,897 | 2,005 | — | 84,217 | 58,573 |
| Interest and dividend income and unallocated gains | | | | | | | 23,304 | 4,761 |
| Unallocated expenses | | | | | | | (2,833) | — |
| Profit from operating activities | | | | | | | 104,688 | 63,334 |
| Finance costs | | | | | | | (24,340) | (27,012) |
| Share of profits and losses of associates | | | | | | | (621) | 1,696 |
| Negative goodwill on acquisition of interest in an associate recognised as income | | | | | | | 633 | 13,290 |
| Profit before tax | | | | | | | 80,360 | 51,308 |
| Tax | | | | | | | 1,521 | (7,401) |
| Profit before minority interests | | | | | | | 81,881 | 43,907 |
| Minority interests | | | | | | | (27,151) | (13,259) |
| Net profit from ordinary activities attributable to shareholders | | | | | | | 54,730 | 30,648 |

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

4. SEGMENT INFORMATION (continued)

(a) Geographical segments (continued)

| Group | Hong Kong | | Elsewhere in the PRC | | Thailand | | Consolidated | |
|--|------------------|------------------|----------------------|------------------|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Segment assets | 727,422 | 667,136 | 1,934,065 | 976,397 | 75,579 | — | 2,737,066 | 1,643,533 |
| Interests in associates | — | 32,679 | — | 343,513 | — | — | — | 376,192 |
| Long term investment | 330 | — | — | — | — | — | 330 | — |
| Negative goodwill | (70,100) | — | (24,177) | — | — | — | (94,277) | — |
| Unallocated assets | | | | | | | 138,684 | 181,219 |
| Total assets | | | | | | | 2,781,803 | 2,200,944 |
| Segment liabilities | 31,475 | 21,302 | 55,518 | 158,556 | 53,450 | — | 140,443 | 179,858 |
| Unallocated liabilities | | | | | | | 1,359,479 | 1,077,263 |
| Total liabilities | | | | | | | 1,499,922 | 1,257,121 |
| Other segment information: | | | | | | | | |
| Depreciation and amortisation | 1,739 | 1,517 | 2,695 | 2,962 | — | — | 4,434 | 4,479 |
| Deficit/(surplus) on revaluation of investment properties | (8,703) | 43,200 | (21,164) | (3,332) | — | — | (29,867) | 39,868 |
| Provisions for bad and doubtful debts | — | 2,203 | — | 273 | — | — | — | 2,476 |
| Capital expenditure | 20,141 | 77 | 25,960 | 1,155 | — | — | 46,101 | 1,232 |

(b) Business segments

The following tables present revenue and certain asset, liability and expenditure information for the Group's business segments:

| Group | Property Investment | | Provision of serviced apartment and property management services | | Steel trading | | Electronic products | | Corporate and others | | Consolidated | |
|-----------------------------|---------------------|------------------|--|------------------|------------------|------------------|---------------------|------------------|----------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Segment revenue: | | | | | | | | | | | | |
| Sales to external customers | 127,014 | 91,166 | 6,345 | 7,342 | 194,178 | — | 6,715 | — | — | 3,382 | 334,252 | 101,890 |
| Other segment information: | | | | | | | | | | | | |
| Segment assets | 2,597,019 | 1,634,658 | 3,505 | 2,290 | 75,229 | — | 4,237 | — | 57,076 | 6,585 | 2,737,066 | 1,643,533 |
| Segment liabilities | (62,332) | (166,169) | (6,749) | (4,907) | (55,684) | — | (7,486) | — | (8,192) | (8,782) | (140,443) | (179,858) |
| Capital expenditure | 19,576 | 709 | 75 | 516 | — | — | 192 | — | 26,258 | 7 | 46,101 | 1,232 |

5. TURNOVER, REVENUE AND GAINS

Turnover represents the aggregate of the invoiced value of goods sold, after allowances for returns and trade discounts, and the total amounts received and receivable from the provision of service apartment and property management services and rental income, net of PRC business taxes, from property letting, after elimination of all significant intra-group transactions.

An analysis of turnover, other revenue and gains is as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|--------------------------------|---------------------|
| Turnover | | |
| Rental income from property letting | 126,275 | 91,166 |
| Service apartment and property management | 7,084 | 7,342 |
| Trading of steel | 194,178 | — |
| Manufacturing and trading of electronic products | 6,715 | — |
| Pub operations | — | 3,382 |
| | <hr/> 334,252 <hr/> | <hr/> 101,890 <hr/> |
| Other revenue and gains | | |
| Interest income | 888 | 4,761 |
| Gain on disposal of long term investments | 36 | — |
| Gain on disposal of short term listed investments | 4,361 | — |
| Gain on disposal of fixed assets | 22 | 678 |
| Negative goodwill recognised as income | 9,232 | — |
| Dividend income from listed investment | 287 | — |
| Others | 7,614 | 7,060 |
| | <hr/> 22,440 <hr/> | <hr/> 12,499 <hr/> |

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

6. PROFIT FROM OPERATING ACTIVITIES

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

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| Cost of inventories sold | 190,731 | — |
| Cost of services provided | 32,745 | 26,415 |
| Depreciation | 4,075 | 4,120 |
| Amortisation of goodwill* | 359 | 359 |
| Minimum lease payments under operating leases for land and buildings | 744 | — |
| Auditors' remuneration | 1,140 | 505 |
| Provision for bad and doubtful debts | 439 | 2,476 |
| Write back of provision for bad and doubtful debts | (439) | — |
| Loss on deemed disposal of interest in an associate | — | 5,449 |
| Loss on disposal of fixed assets | 32 | — |
| Loss on disposal of investment properties | 2,817 | — |
| Staff costs (including directors' remuneration (note 8)): | | |
| Wages and salaries | 8,513 | 9,983 |
| Pension scheme contributions** | 268 | 206 |
| | <u>8,781</u> | <u>10,189</u> |
| Gross rental income | (126,275) | (91,166) |
| Less: Outgoings | 6,829 | 4,867 |
| Net rental income | <u>(119,446)</u> | <u>(86,299)</u> |
| Exchange losses, net | 136 | 1,588 |
| Unrealised gain on listed investments | <u>(4,630)</u> | <u>—</u> |

* The amortisation of goodwill for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.

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

7. FINANCE COSTS

| | Group | |
|---|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Interest on bank loans wholly repayable within five years | 11,345 | 12,362 |
| Interest on bank loans wholly repayable after five years | 12,995 | 14,650 |
| | <u>24,340</u> | <u>27,012</u> |

8. DIRECTORS' REMUNERATION

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

| | Group | |
|------------------------------|-------------------------|-------------------------|
| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Non-executive directors: | | |
| Fees | 180 | 180 |
| Executive directors: | | |
| Salaries | 467 | 975 |
| Pension scheme contributions | 19 | 36 |
| | <u>666</u> | <u>1,191</u> |

The remuneration of all of the directors fell within the band of Nil to HK\$1,000,000 for the years ended 31 December 2002 and 2003.

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group 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 for the year are as follows:

| | Group | |
|------------------------------|-------------------------|-------------------------|
| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Salaries | 1,769 | 1,839 |
| Pension scheme contributions | 48 | 48 |
| | <u>1,817</u> | <u>1,887</u> |

The remuneration of the non-director highest paid employee fell within the band of Nil to HK\$1,000,000 for the years ended 31 December 2002 and 2003.

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

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. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable elsewhere in the PRC have been calculated at the applicable rates of tax prevailing in the areas in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | Group | |
|---|-------------------------|-------------------------|
| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Group: | | |
| Provision for the year: | | |
| People's Republic of China: | | |
| Current - Hong Kong | 2,228 | 2,844 |
| Current - Elsewhere | 4,011 | 4,175 |
| Deferred (<i>note 27</i>) | 1,571 | — |
| | <hr/> | <hr/> |
| | 7,810 | 7,019 |
| Overprovision in prior years | (9,331) | — |
| | <hr/> | <hr/> |
| | (1,521) | 7,019 |
| Share of tax attributable to associates | — | 382 |
| | <hr/> | <hr/> |
| Total tax charge/(credit) for the year | (1,521) | 7,401 |
| | <hr/> | <hr/> |

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

10. TAX (continued)

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 are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group - 2003

| | Hong Kong | | Elsewhere in the PRC | | Total | |
|--|----------------|---------------|-------------------------|------------|----------------|--------------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Profit before tax | <u>16,939</u> | | <u>63,421</u> | | <u>80,360</u> | |
| Tax at the statutory tax rate | 2,964 | 17.5 | 20,929 | 33.0 | 23,893 | 29.7 |
| Adjustments in respect of current tax of previous periods | (9,331) | (55.1) | — | — | (9,331) | (11.6) |
| Income not subject to tax | (1,314) | (7.8) | (13,554) | (21.3) | (14,868) | (18.5) |
| Expenses not deductible for tax | 1,218 | 7.2 | 29 | 0 | 1,247 | 1.6 |
| Tax losses not recognised | 1,153 | 6.8 | 159 | 0.2 | 1,312 | 1.6 |
| Tax losses utilised from previous periods | (823) | (4.9) | (3,552) | (5.6) | (4,375) | (5.4) |
| Others | <u>601</u> | <u>3.6</u> | <u>—</u> | <u>—</u> | <u>601</u> | <u>0.7</u> |
| Tax charge at the Group's effective rate | <u>(5,532)</u> | <u>(32.7)</u> | <u>4,011</u> | <u>6.3</u> | <u>(1,521)</u> | <u>(1.9)</u> |

Group - 2002

| | Hong Kong | | Elsewhere in the PRC | | Total | |
|---|---------------|-------------|-------------------------|-------------|---------------|-------------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Profit before tax | <u>15,480</u> | | <u>35,828</u> | | <u>51,308</u> | |
| Tax at the statutory tax rate | 2,477 | 16.0 | 11,823 | 33.0 | 14,300 | 27.9 |
| Income not subject to tax | (2,417) | (15.6) | (8,807) | (24.5) | (11,224) | (21.9) |
| Expenses not deductible for tax | 2,480 | 16.0 | — | — | 2,480 | 4.8 |
| Tax losses not recognised | 133 | 0.8 | 1,117 | 3.1 | 1,250 | 2.4 |
| Tax losses utilised from previous periods | (590) | (3.8) | — | — | (590) | (1.1) |
| Others | <u>1,143</u> | <u>7.4</u> | <u>42</u> | <u>0.1</u> | <u>1,183</u> | <u>2.3</u> |
| Tax charge at the Group's effective rate | <u>3,226</u> | <u>20.8</u> | <u>4,175</u> | <u>11.7</u> | <u>7,399</u> | <u>14.4</u> |

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, is HK\$214,000 (2002: net loss of HK\$46,000).

12. DIVIDENDS

| | Group and Company | |
|---|-------------------------|-------------------------|
| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Interim dividend of 0.15 HK cents (2002: 0.15 HK cents) per ordinary share | 6,001 | 6,001 |
| Proposed final dividend of 0.3 HK cents (2002: 0.25 HK cents) per ordinary share | 12,002 | 10,001 |
| | 18,003 | 16,002 |

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 is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$54,730,000 (2002: HK\$30,648,000) and the weighted average of 4,000,526,323 (2002: 4,000,526,323) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2002 and 2003 have not been disclosed as no diluting events existed during either year.

14. INTERESTS IN SUBSIDIARIES

| | Company | |
|--------------------------|-------------------------|-------------------------|
| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Unlisted shares, at cost | 656,622 | 656,622 |
| Due from subsidiaries | 235,458 | 251,749 |
| Due to subsidiaries | (1,800) | (1,800) |
| | 890,280 | 906,571 |

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

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

14. INTERESTS IN SUBSIDIARIES (continued)

Other than those subsidiaries acquired during the year, particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued share capital/ registered capital | Percentage of equity interest attributable to the Company | Principal activities |
|---------------------------------------|---|--|--|-------------------------|
| Call Rich Investments Limited | British Virgin Islands | US\$50,000 | 59.16** | Investment holding |
| Charter Million Investment Limited | Hong Kong/ PRC | HK\$2 | 62.83 | Property investment |
| Fexlink Limited | Hong Kong | HK\$100 | 57.5 | Property investment |
| Forever Richland Limited | British Virgin Islands | US\$50,000 | 75 | Investment holding |
| Fortune Text Holdings Limited | Hong Kong/ PRC | HK\$2 | 62.83 | Property investment |
| Godfrey Investments Limited | British Virgin Islands | US\$1 | 100 | Investment holding |
| Good Connection Investments Limited | British Virgin Islands/ PRC | US\$50,000 | 45.50*/*** | Property investment |
| Grandfield Nominees Limited | Hong Kong | HK\$1,000,000 | 100 | Property investment |
| Head Wonder International Limited | British Virgin Islands | US\$10,000 | 62.83 | Investment holding |
| Kiuson Development Limited | Hong Kong | HK\$100 | 45.50*/*** | Investment holding |
| Kiuson Development (Shanghai) Ltd. ## | PRC | US\$10,000,000 | 100 | Property investment |
| Lau & Partners Consultants Limited | Hong Kong/ PRC | HK\$10,000 | 100 | Property investment |
| Limitless Investment Limited | British Virgin Islands | US\$2 | 100 | Investment holding |
| Lucky River Limited | British Virgin Islands | US\$1 | 100 | Investment holding |

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

14. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued share capital/ registered capital | Percentage of equity interest attributable to the Company | Principal activities |
|---|---|--|--|--|
| Maxlord Limited | Hong Kong | HK\$10,000 | 100 | Property Investment |
| Million Growth Investment Limited | Hong Kong | HK\$10,000 | 100 | Provision of recreational services |
| Multifield (Holdings) Limited | Hong Kong | HK\$1,000,000 | 100 | Investment holding, provision of management services and agency services |
| Multifield Hotel Serviced Apartment Management (Shanghai) Ltd. ## | PRC | US\$200,000 | 100 | Provision of property management and administration services |
| Multifield International Hotel Management Limited | Hong Kong | HK\$10,000 | 100 | Provision of property management and administration services |
| Multifield Investment (HK) Limited | British Virgin Islands | US\$1 | 100 | Investment holding |
| Multifield Investment (PRC) Limited | British Virgin Islands | US\$1 | 100 | Investment holding |
| Multifield Management Services Limited | British Virgin Islands | US\$2 | 100 | Investment holding |
| Multifield Properties Holdings Limited | British Virgin Islands | US\$1 | 100 | Investment holding |
| Multifield Properties Limited | Hong Kong | HK\$9,000 | 100 | Investment holding |

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

14. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued share capital/ registered capital | Percentage of equity interest attributable to the Company | Principal activities |
|--|---|--|--|---|
| Multifield Property Agency Limited | Hong Kong | HK\$2 | 100 | Provision of property agency services |
| Multifield Property Management Limited | Hong Kong | HK\$2 | 100 | Provision of property management services |
| Multifield International Holdings (B.V.I.) Limited | British Virgin Islands | US\$40 | 100 | Investment holding |
| Nichiyu Consultants Limited | British Virgin Islands | US\$2 | 100 | Investment holding |
| Quick Profits Limited | British Virgin Islands | US\$2 | 100 | Investment holding |
| Quick Returns Group Limited | British Virgin Islands | US\$1 | 100 | Investment holding |
| Richwell Properties Limited | Hong Kong | Ordinary HK\$110,000 Non-voting deferred HK\$10,000# | 57.5 | Property investment |
| Silver Nominees Limited | Hong Kong | HK\$2 | 100 | Property investment |
| Sino Yield Investments Limited | British Virgin Islands | US\$3 | 66.7 | Investment holding |
| Skilful Investments Limited | British Virgin Islands/ PRC | US\$50,000 | 45.50*/*** | Property letting |
| Tellink Development Limited | Hong Kong/ PRC | HK\$100 | 100 | Property investment |
| Triple Luck Investments Limited | British Virgin Islands | US\$50,000 | 57.5 | Investment holding |

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

14. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued share capital/ registered capital | Percentage of equity interest attributable to the Company | Principal activities |
|--|---|--|--|--|
| Verywell Properties Limited | British Virgin Islands/ Hong Kong | US\$1 | 100 | Property investment |
| Win Channel Enterprises Limited | Hong Kong | HK\$2 | 66.7 | Property investment |
| Windsor Properties (Shanghai) Co., Ltd. ## | PRC | US\$5,000,000 | 100 | Property investment |
| Windsor Property Management (Shanghai) Co., Ltd. ## | PRC | US\$200,000 | 100 | Provision of property management services |
| Windsor Renaissance Hotel Property Management (Shanghai) Ltd. ## | PRC | US\$140,000 | 100 | Provision of property management services |
| Winner Strong Limited | Hong Kong | HK\$100 | 57.5 | Property investment |
| Wise Chance Limited | Hong Kong | HK\$100 | 100 | Pub operations |
| Wise Success Limited | Hong Kong | HK\$100 | 57.5 | Property investment |

On 18 March 2003, the Group increased its equity interest in Rich Returns Limited ("Rich Returns") to 51% (2002: 48%) by acquiring an additional 3% equity interest from a shareholder of Rich Returns, for a cash consideration of HK\$12,531,000. Rich Returns was previously held by the Group as an interests in associates (see note 19).

On 27 June 2003, the Group increased its equity interest in Oriental Explorer Holdings Limited ("Oriental Explorer") to 56.56% (2002: 25.85%) by making a voluntary conditional cash offer to acquire an additional 26.80% equity interest from the public, for a cash consideration of HK\$25,434,000. Oriental Explorer was previously held by the Group as an interests in associates (see note 19).

As a result of the above acquisitions, the Group has the following subsidiaries transferred from interests in associates.

| Name | Place of incorporation/ registration and operations | Nominal value of issued share capital/ registered capital | Percentage of equity interest attributable to the Company | Principal activities |
|--|---|--|--|--|
| Alphatronics Limited | Hong Kong | HK\$6,000,000 | 42.42* | Trading of electronic products |
| Alphatronics Electronic (Shenzhen) Co., Ltd. ## | PRC | US\$3,310,000 | 42.42* | Manufacture of electronic components |

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

14. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued share capital/ registered capital | Percentage of equity interest attributable to the Company | Principal activities |
|--|---|--|--|-----------------------------------|
| East Winner Limited | British Virgin Islands | US\$1 | 56.56 | Investment holding |
| Ever Ford Development Limited | Hong Kong | HK\$10,000 | 61.18**** | Investment holding |
| Inter China Limited | British Virgin Islands | US\$100 | 32.24* | Investment holding |
| Linkful Electronics Limited | British Virgin Islands | US\$1 | 56.56 | Investment holding |
| Linkful (Holdings) Limited | Hong Kong | Ordinary HK\$1,000 Non-voting Deferred HK\$20,000,000 | 56.56 | Investment holding |
| Linkful Investment (Holdings) Limited | British Virgin Islands | US\$1 | 56.56 | Investment holding |
| Linkful (PRC) Holdings Limited | British Virgin Islands | US\$1 | 56.56 | Investment holding |
| Linkful (PRC) Investments Limited | Hong Kong | HK\$2 | 56.56 | Investment holding |
| Linkful Management Consultancy Limited | British Virgin Islands | US\$1 | 56.56 | Investment holding |
| Linkful Management Services Limited | Hong Kong | HK\$2 | 56.56 | Provision of management services |
| Linkful Metals Trading Limited | British Virgin Islands/Thailand | US\$1 | 56.56 | Metal trading |
| Lunkful Properties Company Limited | Hong Kong | HK\$2 | 56.56 | Investment and property |
| Linkful Secretarial Services Limited | Hong Kong | HK\$10,000 | 56.56 | Provision of consultancy services |

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

14. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued share capital/ registered capital | Percentage of equity interest attributable to the Company | Principal activities |
|--|---|--|--|-------------------------|
| Linkful Strategic Investment Limited | British Virgin Islands | US\$1 | 56.56 | Investment holding |
| Linkful Worldwide (Holdings) Limited | British Virgin Islands | US\$100 | 56.56 | Investment holding |
| Linkful Worldwide Investment Limited | British Virgin Islands | US\$1 | 56.56 | Investment holding |
| Oriental Explorer Holdings Limited | Bermuda | HK\$18,000,000 | 56.56 | Investment holding |
| Prince Properties Limited | Hong Kong | HK\$10,000 | 78.28***** | Investment holding |
| Rich Returns Limited | British Virgin Islands | US\$100 | 61.18**** | Investment holding |
| Snowdon Worldwide Limited | British Virgin Islands | US\$1 | 56.56 | Investment holding |
| Windsor Properties Development (Shanghai) Limited ## | PRC | US\$10,500,000 | 61.18**** | Property investment |

Except for Multifield International Holdings (B.V.I.) Limited, all subsidiaries are indirectly held by the Company.

* These companies are subsidiaries of non wholly-owned subsidiaries of the Company and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over the entities.

** The Group holds a direct equity interest of 45% in this subsidiary, and an indirect equity interest of 14.16% by virtue of the Group's 56.56% interest in Oriental Explorer Holdings Limited, which holds a 25.04% equity interest in this subsidiary.

*** The Group holds a direct equity of 37% in these subsidiaries, and an indirect equity interest of 8.50% by virtue of the Group's 56.56% interest in Oriental Explorer Holdings Limited, which holds 15.02% equity interest in these subsidiaries.

**** The Group holds a direct equity of 51% in this subsidiary, and an indirect equity interest of 10.18% by virtue of the Group's 56.56% interest in Oriental Explorer Holdings Limited, which holds 18% equity interest in these subsidiaries.

***** The Group holds a direct equity interest of 50% in this subsidiary, and an indirect equity interest of 28.28% by virtue of the Group's 56.56% interest in Oriental Explorer Holdings Limited, which holds a 50% equity interest in this subsidiary.

The deferred shares carry no rights to dividends, no rights to vote at general meetings, no rights to participate in the profits or assets and no rights to receive any surplus on a return of capital on a winding-up (other than the amount paid up on such shares, provided that the holders of the ordinary shares of that company have been distributed, in the winding-up, a sum of HK\$100,000,000,000 in aggregate).

These subsidiaries are registered as wholly-foreign owned enterprises under the PRC law.

The above table lists 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.

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

15. FIXED ASSETS

GROUP

| | Leasehold land and buildings <i>HK\$'000</i> | Leasehold improvements <i>HK\$'000</i> | Furniture, fixtures and office equipment <i>HK\$'000</i> | Motor vehicles <i>HK\$'000</i> | Plant and machinery <i>HK\$'000</i> | Vessels <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|---|--|--|--------------------------------------|---|----------------------------|--------------------------|
| Cost: | | | | | | | |
| At 1 January 2003 | 9,808 | 4,739 | 18,196 | 2,770 | — | — | 35,513 |
| Acquisition of subsidiaries (<i>note 30(b)</i>) | 822 | 118 | 233 | 192 | 686 | 2,019 | 4,070 |
| Additions | — | 65 | 612 | 1,620 | 108 | 1,950 | 4,355 |
| Disposals | — | — | (150) | (713) | — | — | (863) |
| At 31 December 2003 | 10,630 | 4,922 | 18,891 | 3,869 | 794 | 3,969 | 43,075 |
| Accumulated depreciation: | | | | | | | |
| At 1 January 2003 | 437 | 4,307 | 15,110 | 2,223 | — | — | 22,077 |
| Provided during the year | 237 | 224 | 1,881 | 327 | 196 | 1,210 | 4,075 |
| Disposals | — | — | (133) | (349) | — | — | (482) |
| At 31 December 2003 | 674 | 4,531 | 16,858 | 2,201 | 196 | 1,210 | 25,670 |
| Net book value: | | | | | | | |
| At 31 December 2003 | 9,956 | 391 | 2,033 | 1,668 | 598 | 2,759 | 17,405 |
| At 31 December 2002 | 9,371 | 432 | 3,086 | 547 | — | — | 13,436 |

The Group's leasehold land and buildings included above are held in elsewhere of the PRC under the following lease terms:

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|--------------------|-------------------------|-------------------------|
| At cost: | | |
| Long term leases | 1,623 | 308 |
| Medium term leases | 9,500 | 9,500 |
| | 11,123 | 9,808 |

Certain of the Group's land and buildings with a net book value of approximately HK\$8,977,500 (2002: HK\$9,167,500) were pledged to secure general banking facilities granted to the Group (*note 23*).

16. INVESTMENT PROPERTIES

| | Group | |
|---|-------------------------|-------------------------|
| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| At beginning of year | 1,334,900 | 1,375,100 |
| Additions | 36,233 | — |
| Acquisition of subsidiaries (<i>note 30(b)</i>) | 900,000 | — |
| Prior years' development cost overprovision | — | (332) |
| Disposals | (8,600) | — |
| Surplus/(deficit) on revaluation | 29,867 | (39,868) |
| At end of year | <u>2,292,400</u> | <u>1,334,900</u> |

The Group's investment properties at 31 December 2003 are situated in Hong Kong and the PRC and are held under the following lease terms:

| | Hong Kong <i>HK\$'000</i> | Elsewhere <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--------------------|------------------------------|------------------------------|--------------------------|
| Long term leases | 255,000 | 1,911,400 | 2,166,400 |
| Medium term leases | 126,000 | — | 126,000 |
| | <u>381,000</u> | <u>1,911,400</u> | <u>2,292,400</u> |

The revaluation of the Group's investment properties as at 31 December 2003 was performed by B.I. Appraisals Limited, an independent firm of professionally qualified valuers, on an open market value, existing use basis.

The investment properties held by the Group are leased to third parties under operating leases, further summary details which are included in note 33 to the financial statements.

At 31 December 2003, certain of the Group's investment properties with a value of HK\$1,323,080,000 (2002: HK\$1,319,300,000), were pledged to secure general banking facilities granted to the Group (note 24).

Further particulars of the Group's investment properties are included on pages 62 to 64.

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

17. INVESTMENTS

Long term investments:

| | Group | |
|--------------------------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Unlisted equity investments, at cost | <u>330</u> | <u>—</u> |

Short term investments:

| | Group | |
|--|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Listed equity investments in Hong Kong, at market value | <u>46,241</u> | <u>—</u> |

18. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

| | Group | |
|--|----------------------|----------------------------------|
| | Goodwill HK\$'000 | Negative goodwill HK\$'000 |
| Cost: | | |
| At beginning of year | 1,795 | — |
| Reclassification from interests in associates (<i>note 19</i>) | — | 34,357 |
| Acquisition of subsidiaries (<i>note 30(b)</i>) | 539 | 92,824 |
| At 31 December 2003 | <u>2,334</u> | <u>127,181</u> |
| Accumulated amortisation (recognition as income): | | |
| At beginning of year | 628 | — |
| Reclassification from interests in associates (<i>note 19</i>) | — | (22,325) |
| Amortisation provided/(recognised as income) during the year | 359 | (9,232) |
| At 31 December 2003 | <u>987</u> | <u>(31,557)</u> |
| Net book value: | | |
| At 31 December 2003 | <u>1,347</u> | <u>(95,624)</u> |
| At 31 December 2002 | <u>1,167</u> | <u>—</u> |

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

19. INTERESTS IN ASSOCIATES

| | Group | |
|----------------------------------|------------------|--------------------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 (Restated) |
| Share of net assets: | | |
| Listed investment in Hong Kong | — | 69,395 |
| Unlisted investments | — | 174,055 |
| Negative goodwill on acquisition | — | (12,665) |
| | — | 230,785 |
| Loans to associates | — | 212,314 |
| Loans from associates | — | (66,907) |
| | — | 376,192 |
| Listed shares, at market value | — | 25,607 |

Except for a loan to an associate amounting to HK\$92,740,000 in 2002 which was interest-bearing at 10% per annum, the loans to/from the associates are unsecured, interest-free and have no fixed terms of repayment.

The amounts of negative goodwill recognised in interests in associates arising from the acquisition thereof are as follows:

| | Group HK\$'000 |
|--|-------------------|
| Cost: | |
| At beginning of year | 34,357 |
| Reclassification to negative goodwill (<i>note 18</i>) | (34,357) |
| At 31 December 2003 | — |
| Accumulated recognition as income: | |
| At beginning of year | 21,692 |
| Recognised as income during the year | 633 |
| Reclassification to negative goodwill (<i>note 18</i>) | (22,325) |
| At 31 December 2003 | — |
| Net book value: | |
| At 31 December 2003 | — |
| At 31 December 2002 | 12,665 |

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

19. INTERESTS IN ASSOCIATES *(continued)*

Extracts of the published consolidated operating results and consolidated financial position of a major associate, Oriental Explorer Holdings Limited, are as follows:

| | 2002 <i>HK\$'000</i> <i>(Restated)</i> |
|---|---|
| Operating results for the year: | |
| Turnover | 1,051,836 |
| Net profit attributable to shareholders | 3,868 |
| Financial position: | |
| Non-current assets | 118,432 |
| Current assets | 222,932 |
| Current liabilities | (72,834) |
| Net assets | 268,530 |

The consolidated operating results and consolidated financial position of another major associate, Rich Returns Limited, are as follows:

| | 2002 <i>HK\$'000</i> |
|---|--------------------------------|
| Operating results for the year: | |
| Turnover | 2,781 |
| Net profit attributable to shareholders | 645 |
| Financial position: | |
| Non-current assets | 900,272 |
| Current assets | 33,344 |
| Current liabilities | (360,201) |
| Non-current liabilities | (209,717) |
| Net assets | 363,698 |

During the year, the Group increased its equity interest in Rich Returns to 51% (2002: 48%) by acquiring an additional 3% equity interest from a shareholder of Rich Returns. As a result, Rich Returns was accounted for as a subsidiary of the Group thereafter (see note 14).

During the year, the Group increased its equity interest in Oriental Explorer to 56.56% (2002: 25.85%) by making a voluntary conditional cash offer to acquire an additional 26.80% equity interest from the public. As a result, Oriental Explorer was accounted for as a subsidiary of the Group thereafter (see note 14).

20. PROPERTIES HELD FOR SALE

The properties held for sale are stated at cost, and are held under medium term leases in Hong Kong and are pledged to the extent of HK\$253,666,000 to secure general banking facilities granted to the Group (note 24).

21. TRADE AND BILLS RECEIVABLES

| | Group | |
|------------------------------------|-------------------------|-------------------------|
| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Trade receivables | 59,594 | 3,891 |
| Bills receivables | 22,041 | — |
| Less: Provision for doubtful debts | (215) | — |
| | 81,420 | 3,891 |

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

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---------------|-------------------------|-------------------------|
| 1 - 3 months | 58,629 | 3,318 |
| 4 - 6 months | 141 | 425 |
| Over 6 months | 609 | 148 |
| | 59,379 | 3,891 |

An aged analysis of bills receivables is as follows:

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---------------------|-------------------------|-------------------------|
| Within three months | 22,041 | — |

For the Group's property rental business, the tenants are usually required to settle the rental payments on the first day of the rental period, and are required to pay rental deposits with amounts ranging from two to three months' rental in order to secure any default in their rental payments.

The Group's trading terms with steel customers are mainly on credit. Invoices are normally payable within two months of issuance, except for certain well established customers, where the terms are extended to three to six months in some cases, subject to the approval of senior management. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

22. INVENTORIES

| | Group | |
|------------------|-------------------------|-------------------------|
| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Raw materials | 1,106 | — |
| Work in progress | 18 | — |
| Finished goods | 1,012 | — |
| | <hr/> | <hr/> |
| | 2,136 | — |
| | <hr/> | <hr/> |

As at 31 December 2003, no inventories were carried at net realisable value or pledged as security for any liability of the Group (2002: Nil).

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | Group | |
|---------------------------|-------------------------|-------------------------|
| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Cash and bank balances | 118,054 | 15,065 |
| Non-pledged time deposits | 12,649 | 159,900 |
| | <hr/> | <hr/> |
| | 130,703 | 174,965 |
| Pledged deposits | 7,800 | — |
| | <hr/> | <hr/> |
| | 138,503 | 174,965 |
| | <hr/> | <hr/> |

The time deposits of HK\$7,800,000 (2002: HK\$Nil) were pledged as security for banking facilities granted.

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

24. BANK LOANS, SECURED

| | Group | |
|---|-------------------------|-------------------------|
| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Bank loans are repayable: | | |
| Within one year | 93,843 | 122,752 |
| In the second year | 290,699 | 336,259 |
| In the third to fifth years, inclusive | 215,827 | 214,690 |
| Wholly repayable beyond five years | 82,127 | 130,774 |
| | <u>682,496</u> | <u>804,475</u> |
| Less: Portion due within one year classified as current liabilities | <u>(93,843)</u> | <u>(122,752)</u> |
| Long term portion | <u>588,653</u> | <u>681,723</u> |

The Group's banking facilities were secured by:

- (i) first legal charges over certain of the Group's investment properties, fixed assets and properties held for sale with an aggregate net book value of approximately HK\$1,586 million at the balance sheet date;
- (ii) personal guarantees given by certain directors of the Company and its subsidiaries and the minority shareholders; and
- (iii) corporate guarantees issued by the Company.

25. TRADE AND BILLS PAYABLES

| | Group | |
|----------------|-------------------------|-------------------------|
| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Trade payables | 10,509 | 2,914 |
| Bills payables | 53,450 | — |
| | <u>63,959</u> | <u>2,914</u> |

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

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---------------|-------------------------|-------------------------|
| 1 - 3 months | 7,995 | 1,282 |
| 4 - 6 months | 463 | 9 |
| Over 6 months | 2,051 | 1,623 |
| | <u>10,509</u> | <u>2,914</u> |

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

25. TRADE AND BILLS PAYABLES *(continued)*

An aged analysis of bills payable at the balance sheet is as follows:

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---------------------|--------------------------------|-------------------------|
| Within three months | 53,450 | — |

26. DUE TO A DIRECTOR/MINORITY SHAREHOLDER

The amount due to a director is unsecured, interest-free and is not repayable within one year. The amount due to a minority shareholder is unsecured, interest-free and has no fixed terms of repayment.

27. DEFERRED TAX

The movement in deferred tax liabilities during the year is as follows:

Group

| | 2003 | | | |
|---|---|--------------------------------------|-----------------|-----------------|
| | Accelerated tax depreciation | Revaluation of properties | Others | Total |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At 1 January 2003 | | | | |
| As previously reported | — | — | 31,131 | 31,131 |
| Prior year adjustment: SSAP 12 - restatement of deferred tax | — | 130,178 | — | 130,178 |
| As restated | — | 130,178 | 31,131 | 161,309 |
| Deferred tax charged to the profit and loss account during the year (<i>note 10</i>) | 1,571 | — | — | 1,571 |
| Acquisition of subsidiaries (<i>note 30(b)</i>) | — | 209,717 | — | 209,717 |
| Deferred tax charged to revaluation reserves, including a charge of HK\$2,915,000 due to the effect of a change in tax rates | — | 13,533 | 2,915 | 16,448 |
| At 31 December 2003 | 1,571 | 353,428 | 34,046 | 389,045 |

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

27. DEFERRED TAX (continued)

Group

| | 2002 | | Total HK\$'000 |
|--|--|--------------------|-------------------|
| | Revaluation of properties HK\$'000 | Others HK\$'000 | |
| At 1 January 2002 | | | |
| As previously reported | — | 31,131 | 31,131 |
| Prior year adjustment: | | | |
| SSAP 12 - restatement of deferred tax | 128,216 | — | 128,216 |
| As restated | 128,216 | 31,131 | 159,347 |
| Deferred tax charged to the profit and loss account during the year (note 10) | — | — | — |
| Deferred tax charged to revaluation reserves | 1,962 | — | 1,962 |
| At 31 December 2002 | 130,178 | 31,131 | 161,309 |

The Group has tax losses arising in Hong Kong of HK\$59,600,000 (2002: HK\$56,870,000) 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.

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 at 31 December 2003 and 2002 by HK\$357,914,000 and HK\$130,178,000, respectively. As a consequence, the consolidated investment property revaluation reserve at 1 January 2003 and 2002 have been reduced by HK\$207,530,000 and HK\$105,058,000, respectively, as detailed in the consolidated statement of changes in equity.

28. SHARE CAPITAL

Shares

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|--------------------------------|------------------|
| <i>Authorised:</i> | | |
| 50,000,000,000 shares of HK\$0.01 each | 500,000 <hr/> | 500,000 <hr/> |
| <i>Issued and fully paid:</i> | | |
| 4,000,526,323 shares of HK\$0.01 each | 40,005 <hr/> | 40,005 <hr/> |

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, other employees, adviser, consultant, agent, contractor, client or customer, or supplier of any member of the Group. The Scheme became effective on 27 June 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of securities available for issue under the Scheme is 400,052,632, which is equivalent to 10% of the issued share capital of the Company as at the date of annual report. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's share at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 5 days from the date of the offer upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, which is not later than 10 years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the board of directors, but may not be less than the higher of (i) the nominal value of the shares; (ii) the Stock Exchange closing price of the Company's shares on the date at offer of the share options and (iii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options have been granted, exercised, lapsed or cancelled since the establishment of the Scheme.

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

28. SHARE CAPITAL (continued)

The following share options of Oriental Explorer, a subsidiary of the Company, were outstanding during the year:

| Name Category of participant | Date of grant of share options | Exercise price of share options HK\$ | Number of share options | | | | At 31 December 2003 | Exercise period of share options |
|------------------------------------|-----------------------------------|---|-------------------------|-------------------------------|------------------------------|---------------------------------|---------------------------|------------------------------------|
| | | | At 1 January 2003 | Granted during the year | Lapsed during the year | Exercised during the year | | |
| Directors | | | | | | | | |
| Lau Chi Yung, Kenneth | 7 February 1998 | 0.112 | 19,500,000 | — | — | — | 19,500,000 | 7 February 1998 to 6 February 2008 |
| Tsang Pak Chung, Eddy | 7 February 1998 | 0.112 | 19,500,000 | — | — | — | 19,500,000 | 7 February 1998 to 6 February 2008 |
| Others employees | | | | | | | | |
| In aggregate | 7 February 1998 | 0.112 | 19,500,000 | — | — | — | 19,500,000 | 7 February 1998 to 6 February 2008 |
| | | | <u>58,500,000</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>58,500,000</u> | |

29. 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 page 19 of the financial statements.

Company

| | Notes | Contributed surplus HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|--|-------|------------------------------------|---------------------------------|-------------------|
| 1 January 2002 | | 508,882 | 70,431 | 579,313 |
| Arising from capital reduction | | 300,039 | — | 300,039 |
| Issues of bonus shares | | (6,667) | — | (6,667) |
| Net loss for the year | | — | (46) | (46) |
| Interim 2002 dividend | 12 | — | (6,001) | (6,001) |
| Proposed final 2002 dividend | 12 | — | (10,001) | (10,001) |
| At 31 December 2002 and 1 January 2003 | | <u>802,254</u> | <u>54,383</u> | <u>856,637</u> |
| Net profit for the year | | — | 214 | 214 |
| Interim 2003 dividend | 12 | — | (6,001) | (6,001) |
| Proposed final 2003 dividend | 12 | — | (12,002) | (12,002) |
| At 31 December 2003 | | <u>802,254</u> | <u>36,594</u> | <u>838,848</u> |

The contributed surplus of the Company originally arose as a result of the Group reorganisation in preparation for the public listing of the Company's shares and warrants on The Stock Exchange of Hong Kong Limited in 1998 and represents the excess of the fair value of the shares of the subsidiaries acquired over the nominal value of the shares of the Company issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus may be distributed to the Company's shareholders under certain circumstances.

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities:

| | <i>Notes</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Profit before tax | | 80,360 | 51,308 |
| Adjustments for: | | | |
| Finance costs | 7 | 24,340 | 27,012 |
| Share of profits and losses of associates | | 621 | (1,696) |
| Interest income | 5 | (888) | (4,761) |
| Dividend income from short term investments | 5 | (287) | — |
| Gain on disposal of fixed assets | 5 | — | (678) |
| Depreciation | 6 | 4,075 | 4,120 |
| Amortisation of goodwill | 6 | 359 | 359 |
| Negative goodwill recognised as income | | (9,865) | (13,290) |
| Provision for bad and doubtful debts | 6 | — | 2,476 |
| Gain on disposal of short term investments | 5 | (4,361) | — |
| Gain on disposal of long term investments | 5 | (36) | — |
| Unrealised gain on short term investments | 6 | (4,630) | — |
| Loss on disposal of investment properties | 6 | 2,817 | — |
| Loss on disposal of fixed assets | 6 | 32 | — |
| Loss on deemed disposal of interest in an associate | 6 | — | 5,449 |
| PRC indirect taxes | | 10,739 | 8,613 |
| Operating profit before working capital changes | | 103,276 | 78,912 |
| Increase in inventories | | (166) | — |
| Increase in trade and bills receivables | | (6,717) | (1,463) |
| Decrease in prepayments, deposits and other receivables | | 1,570 | 11,371 |
| Increase/(decrease) in trade and bills payable | | (30,155) | 1,716 |
| Increase in accrued expenses and other payables | | 10,114 | 2,674 |
| Increase/(decrease) in deposits received | | 1,421 | (2,700) |
| Cash generated from operations | | 79,343 | 90,510 |
| Hong Kong profits tax paid | | (175) | (5,443) |
| Hong Kong profits tax refunded | | 495 | 78 |
| PRC taxes paid | | (11,051) | (9,299) |
| Net cash inflow from operating activities | | 68,612 | 75,846 |

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2003

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of subsidiaries

| | Notes | 2003 HK\$'000 | 2002 HK\$'000 |
|---|-------|------------------|------------------|
| Net assets acquired: | | | |
| Investment properties | 16 | 900,000 | — |
| Fixed assets | 15 | 4,070 | — |
| Interests in associates | | 47,431 | — |
| Long term investments | | 89,753 | — |
| Negative goodwill | | (54,407) | — |
| Investment in deconsolidated subsidiaries | | 3,415 | — |
| Cash and bank balances | | 85,174 | — |
| Time deposits | | 8,091 | — |
| Trade and bills receivables | | 70,812 | — |
| Short term investments | | 41,447 | — |
| Inventories | | 1,970 | — |
| Prepayments, deposits and other receivables | | 11,876 | — |
| Trade and bills payables | | (91,200) | — |
| Accrued expenses and other payables | | (14,954) | — |
| Deposits received | | (3,229) | — |
| Due to related companies | | (591) | — |
| Tax payable | | (8,420) | — |
| Deferred tax | 27 | (209,717) | — |
| Due to shareholders | | (181,316) | — |
| Minority interests | | (326,603) | — |
| | | <hr/> | <hr/> |
| | | 373,602 | — |
| Goodwill on acquisition | 18 | 539 | — |
| Negative goodwill on acquisition | 18 | (92,824) | — |
| | | <hr/> | <hr/> |
| | | 281,317 | — |
| Satisfied by: | | | |
| Cash | | 34,965 | — |
| Reclassification to interests in subsidiaries from interests in associates | | 243,352 | — |
| Deposit paid for acquisition of additional interest in an associate | | 3,000 | — |
| | | <hr/> | <hr/> |
| | | 281,317 | — |
| | | <hr/> | <hr/> |

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Acquisition of subsidiaries *(continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Cash consideration | (34,965) | — |
| Cash and bank balances acquired | 85,174 | — |
| Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries | 50,209 | — |

The subsidiaries acquired during the year contributed HK\$200,893,145 to the Group's turnover and HK\$10,719,938 to the consolidated profit after tax and before minority interests for the year ended 31 December 2003. In the case of the associate which was reclassified to a subsidiary, these turnover and profit after tax amounts exclude the former associate's contribution to the results prior to its becoming a subsidiary.

(c) Major non-cash transactions

In 2002, bonus issues of the Company's shares were credited by way of capitalisation of the Group's retained profits of HK\$6,667,000.

31. COMMITMENTS

| | Group | |
|--|--------------------------------|-------------------------|
| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Capital commitments: | | |
| Contracted, but not provided for: | | |
| Renovation of properties | 2,965 | — |
| Acquisition of additional interest in an associate | — | 15,000 |
| Authorised, but not contracted for: | | |
| Renovation of properties | 420 | — |
| | 3,385 | 15,000 |

32. CONTINGENT LIABILITIES

The Company had guarantees amounting to HK\$524,694,000 (2002: HK\$497,890,000) given to banks for the banking facilities, which had been fully utilised at the balance sheet date, granted by the banks to certain subsidiaries.

Apart from the above, the Group and Company did not have any material contingent liabilities at the balance sheet date.

33. OPERATING LEASE ARRANGEMENTS

The Group leases its investment properties and properties held for sale (notes 16 and 20 to the financial statements, respectively) under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The tenants are usually required to settle the rental payments on the first day of the rental period, and are required to pay rental deposits with amounts ranging from two to three months' rental in order to secure any default in their rental payments.

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 HK\$'000 | 2002 HK\$'000 |
| Within one year | 123,904 | 67,933 |
| In the second to fifth years, inclusive | 49,977 | 17,831 |
| | <u>173,881</u> | <u>85,764</u> |

34. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

| | Notes | 2003 HK\$'000 | 2002 HK\$'000 |
|--|-------|-------------------|-------------------|
| Lease rental received from Linkful Management Services Limited | (i) | 900 | 1,500 |
| Business management fees received from Linkful Management Services Limited | (i) | — | 960 |
| Interest income received from an associate | (ii) | — | 4,196 |
| Advances to associates | (iii) | — | 49,548 |
| Advances from associates | (iii) | — | 23,762 |
| | | <u> </u> | <u> </u> |

Notes:

- (i) Mr. Lau Chi Yung, Kenneth ("Mr. Lau") and Mr. Tsang Pak Chung, Eddy, directors of the Company, are the directors of Linkful Management Services Limited. Mr. Lau is also a substantial shareholder of Oriental Explorer Holdings Limited, the ultimate holding company of Linkful Management Services Limited.

The lease rental received was arrived at after negotiations between both parties with reference to the prevailing market rentals.

The management fees were charged based on the direct costs incurred.

- (ii) The interest income received from an associate was charged at 10% per annum.

- (iii) The terms of the advances are set out in note 19 to the financial statements.

35. COMPARATIVE FIGURES

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 items and balances in the financial statements 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.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 April 2004.