

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to the group reorganisation undertaken during the year (the "Group Reorganisation"), (i) the issued share capital of certain subsidiaries of the Company carrying on hotel and leisure-related business were disposed of to Apex Quality Group Limited ("Apex"), the then wholly-owned subsidiary of the Company, satisfied by the issue of shares in Apex; (ii) intra-group balances between the Company and those subsidiaries carrying on hotel and leisure related business acquired by Apex were transferred; (iii) amounts due to China Strategic Holdings Limited, a substantial shareholder of the Company, were transferred from the Company to Apex; and (iv) shares in Apex were distributed in specie to the shareholders of the Company at the completion of the aforesaid transfer.

Following the completion of the Group Reorganisation on 12th December, 2003, the Company has ceased to be the holding of Apex and the Group has discontinued to engage in hotel and leisure-related business. Further details of the Group Reorganisation were set out in the circular of the Company dated 31st October, 2003.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 46.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA:

Income taxes

In the current year, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. As a result of this change in policy, the balances on the Group's property, plant and equipment (note 16) and deferred tax liabilities (note 35) as at 31st December, 2002 have been increased by HK\$243,105,000. Comparative amounts for 2002 have been restated accordingly. The adoption of this SSAP has had no material effects on the results for the current or prior accounting periods.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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

Goodwill

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

Goodwill is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

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

Negative goodwill arising on acquisition prior to 1st January, 2001 continues to be held in reserve and will be credited at the time of disposal of the relevant subsidiary.

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

Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Investments in subsidiaries

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interest in an associate

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

Recognition of revenue

Hotel revenue from rooms and other ancillary services is recognised when the services are rendered.

Income from sale of completed properties is recognised on the execution of a binding sales agreement.

Toll revenue is recognised on a receipt basis.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the period of the respective leases.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance of the investment property revaluation reserve attributable to the property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease, including the renewal period, is of 20 years or less.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Properties under construction and construction in progress

Properties under construction and construction in progress are stated at cost, which includes land cost, the related construction costs and borrowing costs capitalised in accordance with the Group's accounting policies, less accumulated impairment losses. No depreciation or amortisation is provided on properties under construction and construction in progress until the construction is completed and the properties and assets are ready for use.

Hotel properties

Hotel property is stated at cost less accumulated impairment loss. Cost comprises land costs, development costs, borrowing cost capitalised in accordance with the Group's accounting policy and other direct cost attributable to the property. No depreciation or amortisation is provided on hotel property. It is the Group's policy to maintain in a continual state of sound repair and maintenance and to extend and make improvements thereto from time to time, and accordingly the directors consider that given the estimated life of this asset any depreciation would be insignificant.

The gain or loss arising from disposal or retirement of hotel property is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Other property, plant and equipment

Property, plant and equipment, other than properties under construction, construction in progress and hotel properties, are stated at cost less depreciation, amortisation and accumulated impairment losses.

Depreciation of toll road is calculated to write off their costs, commencing from the date of commencement of commercial operation of the toll roads, based on the ratio of actual traffic volume compared to the total expected traffic volume over the remaining period of the respective joint venture period of the relevant company in which the toll highway operates as estimated by management or by reference to traffic projection reports prepared by independent traffic consultants.

Depreciation and amortisation is provided to write off the cost of the other assets over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold improvements	20% or the term of the lease or land use rights, if shorter
Furniture, equipment and motor vehicles	12.5% - 20%

Assets held under finance lease are depreciated over the estimated useful lives on the same basis as assets owned by the Group.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Leased assets

Leases are classified as finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance lease are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and original principal at the inception of the respective leases value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the relevant lease term.

Properties under/held for development

Properties under/held for development where no decision has yet been taken to re-sell or hold for long term purposes are stated at cost, less accumulated impairment losses. No depreciation or amortisation is provided on properties under/held for development.

Costs comprise land cost, development costs and other direct costs attributable to the properties.

Investments in securities

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Club debenture

Club debenture is stated at cost less any identified impairment loss.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase. Net realisable value is calculated at the actual or estimated selling price less related costs of marketing and selling.

Inventories

Inventories comprising food, beverages and general stores are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Retirement benefit scheme

Payments to state-managed retirement benefit schemes and Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rate for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

The tax currently payable is based on the results for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

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

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

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

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

4. TURNOVER

Turnover represents the net amounts received and receivable from outside customers during the year and is analysed as follows:

	2003	2002
	HK\$'000	HK\$'000
Hotel operations	120,066	56,642
Sales of properties	—	51,231
Property rental income	12,517	7,401
Toll highway income	—	66,418
	<hr/> 132,583 <hr/>	<hr/> 181,692 <hr/>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS**Business segments**

For management purposes, the Group is currently organised into two major operating divisions — property sales and development and property rental. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Property sales and development — sales and development of properties

Property rental — leasing of properties

Pursuant to the Group Reorganisation, the hotel operation engaged by the Group in prior years was discontinued on 12th December, 2003 (see note 9).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

For the year ended 31st December, 2003

	Continuing operations			Discontinuing operation	Consolidated HK\$'000
	Property sales and development HK\$'000	Property rental HK\$'000	Other operations HK\$'000	Hotel operation HK\$'000	
TURNOVER					
External sales	—	12,517	—	120,066	132,583
RESULT					
Segment result	(5,331)	(1)	4,651	(121,792)	(122,473)
Unallocated corporate expenses					(25,839)
Loss from operations					(148,312)
Finance costs					(36,391)
Loss before taxation					(184,703)
		Property sales and development HK\$'000	Property rental HK\$'000		Consolidated HK\$'000
ASSETS					
Segment assets		294,741	313,724		608,465
Unallocated corporate assets					5,217
Consolidated total assets					613,682
LIABILITIES					
Segment liabilities		97,794	18,214		116,008
Unallocated corporate liabilities					133,581
Consolidated total liabilities					249,589

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

For the year ended 31st December, 2003 *(continued)*

OTHER INFORMATION

	Continuing operations			Discontinuing operation	Consolidated HK\$'000
	Property sales and development HK\$'000	Property rental HK\$'000	Other operations HK\$'000	Hotel operation HK\$'000	
Capital additions	24,208	—	—	9,219	33,427
Depreciation and amortisation	—	58	1,314	19,659	21,031
Impairment losses and revaluation decrease	4,927	1,317	—	128,259	134,503
Release of negative goodwill	—	—	—	(872)	(872)
Unrealised loss on investment in securities	—	—	26	—	26
Amortisation of bank borrowings arrangement fee	—	—	—	424	424
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

For the year ended 31st December, 2002

	Continuing operations			Discontinuing operations		Consolidated HK\$'000
	Property sales and development HK\$'000	Property rental HK\$'000	Other operations HK\$'000	Toll highway operation HK\$'000	Hotel operation HK\$'000	
TURNOVER						
External sales	51,231	7,401	—	66,418	56,642	181,692
RESULT						
Segment result	(7,418)	(8,515)	(272)	(45,968)	(517)	(62,690)
Unallocated corporate expenses						(29,541)
Loss from operations						(92,231)
Finance costs						(44,680)
Share of result of an associate						(151)
Loss before taxation						(137,062)
	Continuing operations			Discontinuing operation		Consolidated HK\$'000
	Property sales and development HK\$'000	Property rental HK\$'000		Hotel operation HK\$'000		
ASSETS						
Segment assets	540,346	56,818		1,813,795		2,410,959
Unallocated corporate assets						125,570
Consolidated total assets						2,536,529
LIABILITIES						
Segment liabilities	115,019	3,384		89,612		208,015
Unallocated corporate liabilities						1,277,423
Consolidated total liabilities						1,485,438

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

For the year ended 31st December, 2002 (continued)

OTHER INFORMATION

	Continuing operations			Discontinuing operations		Consolidated HK\$'000
	Property sales and development HK\$'000	Property rental HK\$'000	Other operations HK\$'000	Toll highway operation HK\$'000	Hotel operation HK\$'000	
Capital additions	20,690	8	13	3,868	1,196,389	1,220,968
Capital additions under finance lease	—	—	—	—	3,277	3,277
Depreciation and amortisation	31	29	1,362	27,457	2,106	30,985
Impairment losses and revaluation decrease	1,185	9,069	—	70,467	—	80,721
Release of negative goodwill	—	—	—	—	(107)	(107)
Unrealised loss on investment in securities	—	—	412	—	—	412
Allowance for bad and doubtful debts	—	—	511	—	—	511
Amortisation of bank borrowings arrangement fee	—	—	—	—	35	35

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

An analysis of the Group's revenue by geographical market, irrespective of the origin of the goods and services, is presented below:

	Total revenue	
	2003 HK\$'000	2002 HK\$'000
People's Republic of China (the "PRC")	78,347	123,806
Hong Kong	63,887	58,878
	<u>142,234</u>	<u>182,684</u>

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

	Carrying amount of assets		Capital additions	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
PRC	611,622	1,631,068	30,930	571,944
Hong Kong	2,060	901,223	2,497	652,301
Others	—	4,238	—	—
	<u>613,682</u>	<u>2,536,529</u>	<u>33,427</u>	<u>1,224,245</u>

6. IMPAIRMENT LOSSES AND REVALUATION DECREASE

	2003 HK\$'000	2002 HK\$'000
Impairment losses and revaluation decrease recognised in respect of:		
— hotel properties	110,259	—
— payment for investments	18,000	—
— properties under/held for development	4,400	—
— investment properties	1,317	9,069
— properties under construction	527	—
— toll highway	—	70,467
— properties held for sale	—	1,185
	<u>134,503</u>	<u>80,721</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

7. LOSS FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Loss from operations has been arrived at after charging:		
Directors' emoluments (<i>note 10</i>)	4,568	1,392
Other staff costs	59,763	40,839
Total staff costs	64,331	42,231
Less: amount capitalised in construction in progress, properties under construction and properties under/ held for development	(1,419)	(1,241)
	62,912	40,990
Depreciation and amortisation	21,031	30,985
Auditors' remuneration	1,288	1,310
Cost of inventories recognised	9,764	17,099
Cost of properties sold	—	51,795
Unrealised loss on investments in securities	26	412
Allowance for bad and doubtful debts	—	511
Loss on disposal of property, plant and equipment	172	—
and after crediting:		
Release of negative goodwill, included in other operating income	872	107
Gain on disposal of property, plant and equipment	—	3
Gain on disposal of investments in securities	1,041	—
Interest income	126	302
Net rental income in respect of premises after outgoings of HK\$2,108,000 (2002: HK\$1,772,000)	18,888	12,207

Included in total staff costs is an aggregate amount of approximately HK\$4,523,000 (2002: HK\$3,115,000) in respect of contribution to retirement benefit scheme paid or payable by the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

8. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on		
— bank borrowings not wholly repayable within five years	12,180	37,689
— other borrowings wholly repayable within five years	6,613	5,586
— finance lease	262	177
— amount due to a related company	3,214	—
— convertible note	1,363	108
— promissory note	12,335	1,085
Amortisation of bank borrowings arrangement fee	424	35
	<u>36,391</u>	<u>44,680</u>

9. DISCONTINUING OPERATION

Pursuant to the Group Reorganisation as set out in note 1, the Group discontinued its operation in hotel and leisure-related business during the year by transferring the interest in those subsidiaries engaged in hotel and leisure-related business to Apex and distributed the shares in Apex to the shareholders of the Company.

During the year ended 31st December, 2002, the Group entered into an agreement to dispose of a wholly-owned subsidiary, Fameluxe Investments Limited ("Fameluxe") which held 60% interest in Shenzhen Longchen Xingyuan Industrial Co., Ltd. ("Longchen Xingyuan") which is engaged in the operation of a toll highway in the PRC.

The results for the period up to date of disposal and the carrying amounts of the assets and liabilities of Apex and Fameluxe at the date of disposal are disclosed in notes 5 and 36, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

10. DIRECTORS' EMOLUMENTS

	2003 HK\$'000	2002 HK\$'000
Fees		
— Independent non-executive directors	255	200
Other emoluments		
— Executive directors		
Salaries and benefits	4,289	1,176
Retirement benefits schemes contributions	24	16
	4,568	1,392

The emoluments of the directors were within the following bands:

	No. of directors	
	2003	2002
Nil to HK\$1,000,000	12	9
HK\$1,000,001 to HK\$1,500,000	1	—
HK\$2,500,001 to HK\$3,000,000	1	—

11. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group included two directors (2002: two directors) of the Company whose emoluments are disclosed in note 10. The emoluments of the remaining highest paid individuals were as follows:

	2003 HK\$'000	2002 HK\$'000
Remuneration,		
Salaries and benefits	1,626	1,885
Retirement benefits schemes contribution	36	36
	1,662	1,921

The emoluments of the individuals for both years were less than HK\$1,000,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

12. TAXATION

The taxation credit for the year ended 31st December, 2003 represented deferred tax credit.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries had no assessable profit in either year.

Tax in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. No provision for tax in other jurisdictions for both years has been made in the financial statements as neither the Company nor any of its subsidiaries had any assessable profits subject to tax in other jurisdictions.

The taxation credit for the year can be reconciled to the loss before taxation per the income statement as follows:

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	(184,703)	(137,062)
Tax at the domestic income tax rate of 17.5% (2002: 16%)	(32,323)	(21,930)
Tax effect of expenses that are not deductible in determining taxable profit	6,394	1,361
Tax effect of tax losses not recognised	21,940	53,629
Tax effect on income that are not taxable in any jurisdiction	(957)	(3,276)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(5,709)	(29,784)
	(10,655)	—

Details of deferred tax liabilities are set out in note 35.

13. DISTRIBUTION

	2003 HK\$'000	2002 HK\$'000
Distribution	444,426	—

Pursuant to the Group Reorganisation, shares in Apex were distributed in specie to the shareholders of the Company on the basis of one Apex's share for every existing issued share of the Company. The amount of distribution represents the Company's investment cost in Apex at the date of completion of the Group Reorganisation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

14. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$170,207,000 (2002: HK\$99,810,000) and on the weighted average number of 277,408,596 (2002: 147,881,656) ordinary shares in issue during the year.

The weighted average number of ordinary shares used for the purpose of calculating basic earnings per share for the year ended 31st December, 2002 has been retrospectively adjusted for the effect of the consolidation of every ten ordinary shares of US\$0.002 each into one share of US\$0.02 each, as disclosed in note 28.

No diluted loss per share has been presented as there is no dilutive potential shares in issue.

15. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
VALUATION	
At 1st January, 2003	283,272
Revaluation decrease	(1,317)
	<hr/>
At 31st December, 2003	<u>281,955</u>

The valuation of the Group's investment properties at 31st December, 2003 was carried out by RHL Appraisal Limited, an independent firm of qualified professional valuers, on an open market value basis. The revaluation decrease of HK\$1,317,000 (2002: HK\$9,069,000) has been charged to the consolidated income statement for the year ended 31st December, 2003.

All the Group's investment properties are held for rental under medium term land use rights in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

16. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK\$'000	Properties under construction HK\$'000	Leasehold improvements HK\$'000	Furniture, equipment and motor vehicles HK\$'000	Hotel properties HK\$'000	Total HK\$'000
THE GROUP						
COST						
At 1st January, 2003						
— as original stated	914	255,773	16,556	73,383	1,386,192	1,732,818
— adjustment on adoption of SSAP12 (Revised)	—	—	—	—	253,924	253,924
— as restated	914	255,773	16,556	73,383	1,640,116	1,986,742
Additions	489	2,775	5,382	3,837	—	12,483
Disposals	—	—	—	(1,847)	—	(1,847)
Disposal of subsidiaries (note 36)	—	—	(21,938)	(70,701)	(1,640,116)	(1,732,755)
At 31st December, 2003	1,403	258,548	—	4,672	—	264,623
DEPRECIATION, AMORTISATION AND IMPAIRMENT						
At 1st January, 2003						
— as original stated	—	155,139	3,351	11,317	61,318	231,125
— adjustment on adoption of SSAP12 (Revised)	—	—	—	—	10,819	10,819
— as restated	—	155,139	3,351	11,317	72,137	241,944
Charge for the year	—	—	2,680	18,351	—	21,031
Impairment loss for the year	—	527	—	—	110,259	110,786
Eliminated on disposals	—	—	—	(1,438)	—	(1,438)
Eliminated on disposal of subsidiaries (note 36)	—	—	(6,031)	(24,114)	(182,396)	(212,541)
At 31st December, 2003	—	155,666	—	4,116	—	159,782
NET BOOK VALUE						
At 31st December, 2003	1,403	102,882	—	556	—	104,841
At 31st December, 2002						
— as restated	914	100,634	13,205	62,066	1,567,979	1,744,798

- (a) The properties under construction are situated in the PRC and are held under medium-term land use rights. During the year, the directors of the Group reassessed the carrying amount of the properties under construction with reference to the valuation made by RHL Appraisal Limited, an independent firm of professional valuers on an open market basis. An impairment loss of approximately HK\$527,000 has been identified which has been recognised in the consolidated income statement in the current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

(b) The carrying value of hotel properties comprises:

	THE GROUP	
	2003 HK\$'000	2002 <i>HK\$'000</i>
Properties held under long term leases in Hong Kong	—	683,436
Properties held under medium term land use rights in the PRC	—	884,543
	<u>—</u>	<u>1,567,979</u>

During the year, impairment losses of HK\$24,033,000, HK\$47,431,000 and HK\$38,795,000 were identified for the hotel properties in Guangzhou, Hong Kong and Beijing, respectively and were recognised in the consolidated income statement, with reference to the valuation made by RHL Appraisal Ltd., an independent firm of qualified professional valuers under discounted cash flow method, using respective discount rate of 9%, 7% and 9%.

(c) At 31st December, 2002, the net book value of furniture, equipment and motor vehicles includes an amount of HK\$3,046,000 in respect of assets held under finance lease.

17. PROPERTIES UNDER/HELD FOR DEVELOPMENT

	THE GROUP <i>HK\$'000</i>
COST	
At 1st January, 2003	326,581
Development costs incurred	<u>20,944</u>
At 31st December, 2003	<u>347,525</u>
IMPAIRMENT	
At 1st January, 2003	184,525
Impairment loss recognised for the year	<u>4,400</u>
At 31st December, 2003	<u>188,925</u>
NET BOOK VALUE	
At 31st December, 2003	<u>158,600</u>
At 31st December, 2002	<u>142,056</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

17. PROPERTIES UNDER/HELD FOR DEVELOPMENT *(continued)*

All the properties under/held for development are situated in the PRC, other than Hong Kong, under the following terms:

	2003 HK\$'000	2002 HK\$'000
Medium-term land use rights	111,000	111,000
Long-term land use rights	47,600	31,056
	<u>158,600</u>	<u>142,056</u>

During the year, the directors of the Group reassessed the carrying amount of the properties under development with reference to the valuation made by RHL Appraisal Limited, an independent firm of professional valuers, on an open market basis. An impairment loss of approximately HK\$4,400,000 has been identified which has been recognised in the consolidated income statement in the current year.

18. NEGATIVE GOODWILL

	THE GROUP HK\$'000
GROSS AMOUNT	
At 1st January, 2003	18,796
Disposal of subsidiaries <i>(note 36)</i>	<u>(18,796)</u>
At 31st December, 2003	<u>—</u>
RELEASED TO INCOME	
At 1st January, 2003	(107)
Released in the year	(872)
Eliminated on disposal of subsidiaries <i>(note 36)</i>	<u>979</u>
At 31st December, 2003	<u>—</u>
CARRYING AMOUNT	
At 31st December, 2003	<u>—</u>
At 31st December, 2002	<u>18,689</u>

The negative goodwill was released to income on a straight line basis of 20 years.

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31st December, 2003***19. INTERESTS IN SUBSIDIARIES**

	THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	—	3,219,175
Amounts due from subsidiaries	1,213,071	775,023
	1,213,071	3,994,198
Less: Impairment losses/allowances for recoverability	(749,324)	(2,840,448)
	463,747	1,153,750

The directors have reviewed the carrying amounts of the assets of the subsidiaries as at the balance sheet date in light of the current market condition and impairment losses of investment cost in and allowances for amounts due from subsidiaries of approximately HK\$749,324,000 (2002: HK\$2,840,448,000) have been recognised.

In the opinion of the directors, the amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. The amounts are unlikely to be repaid within one year and are therefore shown as non-current.

Particulars of the Company's principal subsidiaries as at 31st December, 2003 are set out in note 46.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

20. INVESTMENTS IN SECURITIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Other investments in Hong Kong		
Listed equity security	—	3,648
Investment securities outside Hong Kong		
Listed equity security	—	3,636
Unlisted debt security	—	603
Total and reported as non-current	—	4,239
Total	—	7,887
Market value of listed securities	—	7,284
Carrying amount analysed for report purposes as:		
Current	—	4,251
Non-current	—	3,636
	—	7,887

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

21. PAYMENT FOR INVESTMENTS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Payment for acquisition of interest in subsidiaries	—	183,000	—	75,000

Notes:

- (a) During the year ended 31st December, 2002, the Group entered into a conditional agreement ("Agreement") to acquire the entire share capital of, and the shareholders' loan to, Shropshire Property Limited ("Shropshire") from Wing On for a consideration of HK\$108,000,000 ("Consideration") satisfied by the issue of 366,666,666 shares in the Company. Shropshire has the right to acquire a 60% interest in Luoyang Golden Gulf Hotel Co., Ltd. ("Luoyang Golden Gulf"), a company established and operates a hotel in Luoyang, the PRC, for a consideration HK\$90,600,000. In the opinion of the directors, the sole asset of Shropshire is the right to acquire a 60% interest in Luoyang Golden Gulf, for which the Group has no further obligation to incur any additional costs to complete the acquisition of Luoyang Golden Gulf and the transfer of the necessary land use rights for the operations of the hotel.

During the year, the Group re-assessed the carrying value of Shropshire with reference to the valuation made by Norton Appraisals Limited, an independent firm of valuer, on the hotel operated and owned by Luoyang Golden Gulf using a discounted cash flow method, at a discount rate of 12%. An impairment loss of HK\$18,000,000 has been identified and recognised in the consolidated income statement for the year ended 31st December, 2003.

Pursuant to the Group Reorganisation, this payment for investment has been disposed of during the year ended 31st December, 2003.

- (b) During the year ended 31st December, 2002, a payment of HK\$75,000,000 was made in accordance with a memorandum of understanding entered into with an independent third party, for the possible acquisition of the entire share capital of, and the shareholders' loan to, a company holding approximately a 87% interest in a hotel located in Shenyang. On 12th December, 2003, the Company terminated this investment proposal and the deposit was fully refunded.

Details of this were set out in the announcement of the Company dated 12th December, 2003.

22. LOANS FROM/TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

THE GROUP

The amounts are unsecured, interest-free and will not be repaid within one year and are therefore shown as non-current.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

23. PROPERTIES HELD FOR SALE

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
At 1st January	31,793	32,880
Acquired on acquisition of subsidiaries	—	51,893
Disposal	—	(51,795)
Disposal of subsidiaries (note 36)	(98)	—
Impairment loss	—	(1,185)
	<u>31,695</u>	<u>31,793</u>
At 31st December, at net realisable value	<u>31,695</u>	<u>31,793</u>

The carrying value of properties held for sale comprises:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Properties held under long-term land use rights in the PRC	28,000	28,000
Properties held under medium-term leases or medium-term land use rights in		
— PRC	3,695	3,695
— Hong Kong	—	98
	<u>31,695</u>	<u>31,793</u>

In respect of properties held for sale with a carrying amount of approximately HK\$28,000,000, the transfer of title to the land use right and property ownership has not yet been completed at the balance sheet date. The Group has paid the full amount of the consideration in accordance with the sale and purchase agreement and in the opinion of the directors, such transfer will be completed in due course.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

24. TRADE AND OTHER RECEIVABLES

The Group has a policy of agreeing credit terms with each of its trade customers in the light of the individual customer's merit.

Included in trade and other receivables are trade receivables of HK\$128,000 (2002: HK\$11,712,000) and their aged analysis is as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
0 to 90 days	128	10,198
91 to 180 days	—	1,514
	<u>128</u>	<u>11,712</u>

25. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$1,623,000 (2002: HK\$6,520,000), all of which are aged within 90 days.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

26. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable under finance lease				
Within one year	—	1,284	—	1,022
In the second to fifth years inclusive	—	1,607	—	1,468
	<u>—</u>	<u>2,891</u>	<u>—</u>	<u>2,490</u>
Less: Future finance charges	—	(401)	N/A	N/A
Present value of lease obligations	<u>—</u>	<u>2,490</u>	—	2,490
Less: Amount due for settlement within one year included under current liabilities			—	(1,022)
Amount due after one year			<u>—</u>	<u>1,468</u>

For the year ended 31st December, 2002, the effective borrowing rate was 12%. Interest rate is fixed at the contract rate. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The Group's obligations under finance lease was secured by the lessor's charge over the leased assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

27. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank borrowings	—	385,680	—	—
Other borrowing	130,000	114,000	130,000	114,000
	130,000	499,680	130,000	114,000
Less: Unamortised bank borrowings arrangement fee	—	(2,652)	—	—
	130,000	497,028	130,000	114,000
Secured	—	383,028	—	—
Unsecured	130,000	114,000	130,000	114,000
	130,000	497,028	130,000	114,000
The maturity profile of the above borrowings is as follows:				
Within one year	80,000	28,640	80,000	—
More than one year, not exceeding two years	50,000	142,640	50,000	114,000
More than two years, but not exceeding five years	—	85,920	—	—
More than five years	—	239,828	—	—
	130,000	497,028	130,000	114,000
Less: Amount due within one year included under current liabilities	(80,000)	(28,640)	(80,000)	—
Amount due after one year	50,000	468,388	50,000	114,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

28. SHARE CAPITAL

	Number of shares	Value US\$'000
Authorised		
At 1st January, 2002, ordinary shares of US\$0.02 each	1,900,000,000	38,000
Additions	17,100,000,000	342,000
	<hr/>	<hr/>
At 31st December, 2002	19,000,000,000	380,000
Subdivided into 10 shares of US\$0.002 each	171,000,000,000	—
	<hr/>	<hr/>
Ordinary shares of US\$0.002 each	190,000,000,000	380,000
Consolidation of shares	(171,000,000,000)	—
	<hr/>	<hr/>
At 31st December, 2003, ordinary shares of US\$0.02 each	<u>19,000,000,000</u>	<u>380,000</u>
	<hr/>	<hr/>
	Number of shares	Value HK\$'000
Issued and fully paid		
At 1st January, 2002, ordinary shares of US\$0.02 each	1,362,419,295	212,537
Issue of new shares	1,411,666,666	220,220
	<hr/>	<hr/>
At 31st December, 2002	2,774,085,961	432,757
Adjustment to nominal value	—	(389,481)
	<hr/>	<hr/>
Ordinary shares of US\$0.002 each	2,774,085,961	43,276
Consolidation of shares	(2,496,677,365)	—
	<hr/>	<hr/>
At 31st December, 2003, ordinary shares at US\$0.02 each	<u>277,408,596</u>	<u>43,276</u>
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

28. SHARE CAPITAL *(continued)*

Pursuant to a resolution passed in a special general meeting held on 26th November, 2003, the Group carried out the following capital reorganisation ("Capital Reorganisation") which involve inter-alia:

- The nominal value of the issued ordinary shares were reduced from US\$0.02 each to US\$0.002 each and approximately HK\$389,481,000 were transferred from share capital to contributed surplus ("Capital Reduction").
- Share premium of approximately HK\$271,023,000 were transferred to contributed surplus.
- Each authorised but unissued ordinary share of US\$0.02 each in the share capital of the Company was subdivided into ten shares of US\$0.002 each ("Share Subdivision")
- Every ten ordinary shares of US\$0.002 each in the issued and unissued share capital of the Company were consolidated into one ordinary share of US\$0.02 each ("Consolidated Shares"). ("Share Consolidation")

Details of the Capital Reorganisation were set out in the circular to the shareholders of the Company dated 31st October, 2003.

29. SHARE OPTIONS

On 4th June, 2002, the Company adopted a new share option scheme (the "2002 Scheme") for the primary purpose of providing incentives and rewards to employees, executives or officers, directors of the Company or any of its subsidiaries and any business consultants, agents, legal or financial advisers of the Company or any of its subsidiaries (the "Participants") for their contribution to the Group. The 2002 Scheme will expire on 3rd June, 2012. Under the 2002 Scheme, the Board may grant options to the participants to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. The exercise price is to be determined by the Board and shall not be less than the highest of

- (a) the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the offer date which must be a business day (and for this purpose, shall be taken to be the date of the Board meeting at which the Board proposes to grant the options);
- (b) the average of the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange for the 5 business days immediately preceding the offer date; and
- (c) The nominal value of a share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

29. SHARE OPTIONS *(continued)*

Pursuant to the 2002 Scheme, the maximum number of shares in the Company in respect of which options may be granted when aggregated with any other share option scheme of the Company is not permitted to exceed 13,624,193 shares, adjusted for Share Consolidation, representing 10% of the issued share capital of the Company as at the date of adoption of the 2002 Scheme or approximately 4.9% of the issued share capital of the Company as at the date of this report. Subject to the issue of a circular and the approval of the shareholders of the Company in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may refresh the limit at any time to 10% of the total number of shares in issue as at the date of approval by the shareholders of the Company in general meeting. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

No option may be granted to any person if the total number of shares of the Company already issued and issuable to him under all the options granted to him in any 12 month period up to and including the date of grant exceeding 1% of total number of shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the shareholders in general meeting. Such Participant and his associates (as defined in the Listing Rules) shall abstain from voting and/or other requirements prescribed under the Listing Rules from time to time. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

There is no specific requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years from the date of grant.

During the year, no options under the 2002 Scheme were granted or exercised by any directors or employees of the Company and its subsidiaries and no options were cancelled or lapsed since the adoption date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

30. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000 (Note a)	Contributed surplus HK\$'000 (Note b)	Deficit HK\$'000	Total HK\$'000
THE COMPANY					
At 1st January, 2002	78,795	945	3,088,504	(2,745,940)	422,304
Premium arising on issue of new shares	196,780	—	—	—	196,780
Share issue expenses	(4,552)	—	—	—	(4,552)
Net loss for the year	—	—	—	(88,641)	(88,641)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2002	271,023	945	3,088,504	(2,834,581)	525,891
Capital Reorganisation (note 28)	(271,023)	—	660,504	—	389,481
Set off against contributed surplus	—	—	(2,834,581)	2,834,581	—
Net loss for the year	—	—	—	(180,133)	(180,133)
Distribution (note 13)	—	—	(444,426)	—	(444,426)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2003	<u>—</u>	<u>945</u>	<u>470,001</u>	<u>(180,133)</u>	<u>290,813</u>

Notes:

- (a) The capital reserve of the Company represents capital redemption reserve fund.
- (b) The contributed surplus of the Company represents the aggregate of the difference between the underlying net assets of the subsidiaries which were acquired by the Company and the nominal amount of the share capital issued by the Company under a group reorganisation in 1995 of approximately HK\$3,088,504,000; an amount of approximately HK\$660,504,000 arising from Capital Reorganisation during the year, the deficit of the Company amounting to approximately HK\$2,834,581,000; and distribution of approximately HK\$444,426,000 pursuant to the Group Reorganisation.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (i) it is, or would the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

At 31st December, 2003, the reserve available for distribution to shareholders is HK\$289,868,000 (2002: HK\$253,923,000) which represents the aggregate of contributed surplus of HK\$470,001,000 (2002: HK\$3,088,504,000) net of the deficit of HK\$180,133,000 (2002: HK\$2,834,581,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

31. AMOUNTS DUE TO RELATED COMPANIES

THE GROUP AND THE COMPANY

The amounts represent advances from subsidiaries of China Strategic Holdings Limited ("CSH"), a substantial shareholder of the Company. Pursuant to the Group Reorganisation, the amounts were transferred to Apex during the year.

32. DEPOSITS RECEIVED

THE GROUP

According to two pre-sale agreements dated 7th September, 1994, certain properties of the Group were pre-sold at an aggregate consideration of RMB818,491,770 and 10% of the sale proceeds were received and classified as deposits received in the financial statements. The amounts will be taken up in the income statement on completion of the sale and purchase agreements.

In the opinion of the directors, the completion is unlikely to take place within one year and the amounts are therefore shown in the balance sheet as non-current.

33. CONVERTIBLE NOTE

THE GROUP AND THE COMPANY

The convertible note was issued to Sinolink Worldwide (Holdings) Limited ("Sinolink") on 29th November, 2002. The note was unsecured, borne interest at 2% per annum and entitled the holder at any time after 29th November, 2002 up to and including 26th November, 2004 to convert the principal amount of the convertible note into shares in the Company at HK\$3.00 per share, adjusted for Share Consolidation.

On 12th December, 2003, the Company redeemed in full the convertible note and refunded the HK\$9 million deposit, included in trade and other payables at 31st December, 2002, made by Sinolink in relation to the termination of the convertible note placing agreement. Details of this were set out in the announcement of the Company dated 12th December, 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

34. PROMISSORY NOTE

THE GROUP

For the year ended 31st December, 2002, the promissory note was issued by Clever Basin Holdings Limited ("Clever Basin"), a wholly owned subsidiary of the Company, to Hutchison Hotels Holdings (International) Limited as partial consideration for the acquisition of the entire issued share capital of, and the shareholders' loan to, Makerston Limited ("Makerston"), which holds indirectly 95% interest in the Rosedale Hotel & Suites, Beijing (formerly known as Beijing Harbour Plaza Hotel) located in the PRC. The promissory note is interest bearing at HIBOR plus 2% per annum, repayable on 1st December, 2007 and secured by the entire issued share capital of, and shareholders' loan to Makerston and its subsidiaries holding 95% interest in the Rosedale Hotel & Suites, Beijing.

During the year, the promissory note was disposed of upon the disposal of Clever Basin to Apex and the shares in Apex was subsequently distributed to the shareholders of the Company pursuant to the Group Reorganisation set out in note 1.

35. DEFERRED TAX LIABILITIES

The movement for the year in the net deferred tax liabilities in relation to the temporary difference attributable to the hotel properties were as follows:

	HK\$'000
At 1st January, 2002	
— as previously reported	—
— adjustment on adoption of SSAP 12 (Revised)	41,522
	<hr/>
— as restated	41,522
Acquisition of subsidiaries	201,583
	<hr/>
At 31st December, 2002	243,105
Credit to income for the year	(10,655)
Disposal of subsidiaries by way of distribution	(232,450)
	<hr/>
At 31st December, 2003	<u>—</u>

At the balance sheet date, the Group has unused tax losses of HK\$88,258,338 (2002: HK\$513,540,257) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits stream.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

36. DISPOSAL OF SUBSIDIARIES

Pursuant to the Group Reorganisation, the Company disposed of Apex during the year by ways of distribution in specie, details of which are set out in note 1.

On 14th June, 2002, the entire interest in, and the shareholder's loan to, Tenways Investments Limited ("Tenways") was disposed of for a consideration of HK\$43,200,000, satisfied by the acquisition of a 65% interest in Wintime (note 37). On 26th November, 2002, Chang Jiang Resources Co., Ltd., a wholly owned subsidiary of the Company, disposed of the entire interest in Fameluxe, which held 60% interest in Longchen Xingyuan.

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Net assets disposed of:		
Property, plant and equipment	1,520,214	718,357
Negative goodwill released	(17,817)	—
Investments in securities	23	81
Payment for investments	90,000	—
Club debenture	713	—
Properties held for sale	98	—
Inventories	4,022	—
Loan receivable from an invested company	—	41,277
Advances to contractors	—	9,439
Trade and other receivables	59,088	4,028
Bank balances and cash	21,337	7,469
Trade and other payables	(105,104)	(144,110)
Obligations under a finance lease	(1,467)	—
Bank and other borrowings	(378,642)	(514,981)
Deferred taxation	(232,450)	—
Promissory note	(365,000)	—
Amount due to a related company	(81,406)	—
Loan from minority shareholders of a subsidiary	(187)	(18,434)
Minority interests	(68,996)	—
	444,426	103,126

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

36. DISPOSAL OF SUBSIDIARIES (continued)

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Satisfied by/represented by:		
Interest in a subsidiary	—	43,200
Cash consideration received	—	59,926
Distribution (note 38)	444,426	—
	444,426	103,126
Analysis of net (outflow) inflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Consideration received	—	59,926
Bank balances and cash disposed	(21,337)	(7,469)
Net (outflow) inflow of cash and cash equivalent in respect of disposal of subsidiaries	(21,337)	52,457

The subsidiaries disposed of during the year contributed HK\$120,066,000 (2002: HK\$66,418,000) to the Group's turnover and loss of HK\$121,792,000 (2002: HK\$45,968,000) to the Group's loss from operations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

37. ACQUISITION OF SUBSIDIARIES

On 24th June, 2002, the Company acquired a 65% interest in, and the shareholder's loan to, Wintime for a consideration of HK\$43.2 million, satisfied by the disposal of the entire interest in Tenways, details of which are set out in note 36.

On 2nd December, 2002, the Company and its subsidiaries has acquired Shropshire, Rosedale Hotel Group Limited and Makerston, which were engaged in hotel and leisure-related business.

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Net assets acquired:		
Property, plant and equipment	—	1,387,049
Payment for investment	—	108,000
Properties held for sale	—	51,893
Inventories	—	6,140
Trade and other receivables	—	14,782
Bank balances and cash	—	9,459
Trade and other payables	—	(49,676)
Deferred taxation	—	(201,583)
Bank borrowings	—	(382,993)
	—	943,071
Less: Interest previously acquired and classified as an associate	—	(8,075)
	—	934,996
Negative goodwill arising on acquisition	—	(18,796)
Total consideration	—	916,200

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

37. ACQUISITION OF SUBSIDIARIES (continued)

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Satisfied by:		
Shares allotted (note)	—	108,000
Promissory notes	—	365,000
Interest in a subsidiary	—	43,200
Cash consideration paid	—	400,000
	<u>—</u>	<u>916,200</u>
	<u>—</u>	<u>916,200</u>
Analysis of net outflow of cash and cash equivalents in connection with the acquisition of subsidiaries:		
Consideration paid	—	400,000
Bank balances and cash acquired	—	(9,459)
	<u>—</u>	<u>(9,459)</u>
Net outflow of cash and cash equivalent in respect of acquisition of subsidiaries	<u>—</u>	<u>390,541</u>
	<u>—</u>	<u>390,541</u>

The subsidiaries acquired during the year ended 31st December, 2002 contributed HK\$62,013,000 to the Group's turnover and a loss of HK\$3,947,000 to the Group's loss from operations.

Note:

The shares issued during the year ended 31st December, 2002 were at a premium of approximately 88% to the closing price of HK\$0.16 per share as quoted on the Stock Exchange on 2nd December, 2002, being the trading day immediately before the completion of the transaction for the acquisition of Shropshire. In view of the then market conditions and low trading volume of the Company's share on the Stock Exchange, the fair value of the assets acquired has been determined with reference to valuation made by Norton Appraisals Limited, an independent firm of professional valuers, on an open market basis which resulted in a difference of approximately HK\$49,333,333 between the market price and the fair value of the equity instrument.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

38. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2003, shares in Apex were distributed in specie to the shareholders of the Company on the basis of one Apex's share for every existing issued share in the Company pursuant to the Group Reorganisation. The amount of distribution of approximately HK\$444,426,000 represents the Group's share of net assets in Apex distributed at the date of completion of the Group Reorganisation.

During the year ended 31st December, 2002, the major non-cash transactions were as follows:

- (a) Decrease in interest previously acquired and classified as an associates of approximately HK\$8,075,000 as part of the consideration paid for acquisition of a subsidiary;
- (b) Consideration of HK\$43.2 million payable for the acquisition of Wintime was set off with the consideration of HK\$43.2 million receivable for the disposal of Tenways;
- (c) Allotment and issue of shares of HK\$108 million and promissory notes payable of HK\$365 million as the whole or part of the consideration for the acquisition of subsidiaries;
- (d) Finance lease arrangement in respect of assets with a total capital value at the inception of the leases of approximately HK\$3,277,000; and
- (e) Trade and other payables of HK\$46,200,000 undertaken by Ananda Wing On, was included in trade and other receivables.

39. CAPITAL COMMITMENTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements relating to:		
— properties under/held for development	33,039	43,108
— properties under construction	129,393	129,393
	162,432	172,501

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

40. OPERATING LEASE COMMITMENTS

The Group as lessee

The Group made minimum lease payments of approximately HK\$3,067,000 (2002: HK\$2,959,000) under operating leases during the year in respect of office properties. Operating lease payments represent rentals payable by the Group for certain of its office properties.

At 31st December, 2002, the Group had commitments for future minimum lease payments of approximately HK\$318,000 under non-cancellable operating leases which fall due within one year (2003: Nil).

The Group as lessor

Property rental income earned during the year was approximately HK\$20,996,000 (2002: HK\$13,979,000). Most of the properties held have committed tenants for the next three to seven years.

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	11,614	20,781
In the second to fifth years inclusive	40,483	66,897
Over five years	91,794	101,916
	<u>143,891</u>	<u>189,594</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

41. CONTINGENT LIABILITIES

Guarantees

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees given to bank in respect of bank facilities utilised by:				
Subsidiaries	—	—	—	387,347
Third parties	<u>14,045</u>	<u>14,045</u>	<u>14,045</u>	<u>14,045</u>
	<u>14,045</u>	<u>14,045</u>	<u>14,045</u>	<u>401,392</u>

Litigation

- (a) In August 1999, the architect of Paul Y. Plaza located in Guangzhou, the PRC, initiated legal proceedings against Eventic Limited ("Eventic"), a wholly-owned subsidiary of the Company in respect of claim for payment of service fees and other expenses of HK\$0.6 million and HK\$6.6 million respectively. Eventic engaged the architect for architectural services in respect of Paul Y. Plaza.

Eventic has vigorously defended the claims and made a counterclaim for loss and damages suffered due to insufficient supervision services provided by the architect.

In view of the counterclaim made by Eventic, the architect amended its total claims to HK\$7.7 million. At the date of this report, the proceedings are still ongoing and are at the stage of the exchange documents. After taking into consideration the advice of the Group's legal counsel, the directors consider the outcome of the proceedings will not have a material adverse financial effect to the Group.

- (b) In July 2001, Huizhou World Express Property Ltd. ("Huizhou World Express"), an indirect non-wholly owned subsidiary of the Company, as the developer, initiated legal proceedings against the Huizhou Municipal Government of the Guangdong Province, the PRC, in its capacity as the guarantor of Huizhou Jia Cheng Group Co., Ltd. ("Huizhou Jia Cheng"), the main contractor in the construction of Hongkong Macau Square, under a guarantee letter dated 7th September, 1994 executed by the Huizhou Municipal Government in favour of Huizhou World Express of RMB243.6 million, being the construction costs of RMB167.5 million paid by Huizhou World Express to Huizhou Jia Cheng together with the damages for the amount of RMB76.1 million.

As at date of this report, the proceeding are still ongoing. At this stage, the outcome cannot be predicted with certainty. As the total construction costs of Hongkong Macau Square has already been written off, the directors are of the opinion that there is unlikely to be any material adverse financial impact on the Group in the event that the final judgement is not in favour of Huizhou World Express.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

41. CONTINGENT LIABILITIES *(continued)*

Litigation *(continued)*

- (c) In June 2002, a sub-contractor of Paul Y. Plaza initiated legal proceedings against Eventic in respect of a claim for payment of sub-contract works for approximately RMB5.2 million.

Eventic has vigorously defended the claim as there was no contractual relationship between Eventic and the sub-contractor. Eventic has also made a counterclaim and/or set off against the sub-contractor for the balance of unused advance payment and overpayment of approximately RMB4.2 million and RMB0.8 million respectively paid to the sub-contractor.

At the date of this report, the proceedings are still ongoing. The directors are of the opinion that there is unlikely to be any material adverse financial impact on the Group in the event that the final judgement is not in favour of Eventic.

42. PLEDGE OF ASSETS

At 31st December, 2003, the Group has pledged certain part of properties under/held for development with a carrying value of HK\$16,628,000 to a bank for banking facilities utilised by a third party.

At 31st December, 2002, the Group has pledged the following assets for:

(a) Bank borrowings

- Certain part of a hotel property (including its integral part) with a carrying value of HK\$714,000,000.
- Certain part of properties under/held for development with a carrying value of HK\$16,628,000.
- A fixed charge over all the revenue and a floating charge over all the assets of Rosedale Park Limited, a wholly-owned subsidiary, engaging in hotel operation in Hong Kong and a fixed charge over all the shares in Hey Wealth Limited, a wholly owned subsidiary which holds the title of a hotel property in Hong Kong.

(b) Promissory notes

- A fixed charge over the entire issued share capital of and shareholders' loan to Makerston, and its subsidiaries holding the 95% interest in Rosedale Hotel & Suites — Beijing.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

43. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme ("the Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of the relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Group's subsidiary in PRC are members of the state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

44. POST BALANCE SHEET EVENTS

The following events occurred subsequent to the balance sheet date:

- (a) On 12th February, 2004, China Land Resources Limited, a wholly-owned subsidiary of the Company, entered into a letter of intent with an independent third party for the proposed acquisition of a 51% interest in, and the shareholders loan of HK\$13,127,480 to, Super Ocean Limited ("Super Ocean") for a consideration of RMB76,500,000 which shall be satisfied by the issue of 44,415,000 shares in the Company at HK\$1.625 per share. The date of fulfilment of the conditions to the letter of intent has been extended from 31st March, 2004 to 30th April, 2004.

Super Ocean has a 33% interest in Beijing Fujingyuan Real-estate Development Company Limited, which has the right to develop a commercial property at Lot No. B9 in Beijing Dong Cheng District Wang Fu Jing Area.

Details of this acquisition were set out in the announcement of the Company dated 5th March, 2004 and 6th April, 2004.

- (b) On 19th December, 2003, Velocity International Limited ("Velocity"), a substantial shareholder of the Company, has made a mandatory unconditional cash offer to acquire all the issued shares in the Company at a price of HK\$0.644 per share in cash. Details of this were set out in the circular to the shareholders of the Company dated 19th December, 2003. The offer was closed on 9th January, 2004 and Velocity acquired an additional 10,276,752 shares in the Company resulting from this mandatory unconditional cash offer. Velocity's interest in the Company was increased to 53.0% upon completion of the cash offer.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

45. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group incurred interest expenses of approximately HK\$3,214,000 (2002: HK\$5,131,000) to CSH. The interest charge was determined by both parties with reference to the prevailing market rate.

Details of the balances with related companies are disclosed in the balance sheets and notes 22 and 31.

46. PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Issued and fully paid ordinary share capital/registered capital	Place of incorporation/registration	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities and place of operation
			Directly	Indirectly	
			%	%	
Alpha Sheen Development Limited	HK\$100	Hong Kong	—	100	Property investment, PRC
Best Glory Limited	HK\$2	Hong Kong	—	70	Investment holding, Hong Kong
Bremer Assets Limited	US\$1	BVI	—	100	Investment holding, Hong Kong
China Land Group Limited	HK\$2	Hong Kong	—	100	Management services, Hong Kong
China Land Holdings Limited	US\$1	BVI	100	—	Investment holding, Hong Kong
China Land (HK) Limited	US\$1	BVI	—	100	Investment holding, Hong Kong
China Land (PRC) Limited	US\$1	BVI	—	100	Investment holding, Hong Kong

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

46. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Issued and fully paid ordinary share capital/registered capital	Place of incorporation/registration	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities and place of operation
			Directly %	Indirectly %	
China Land Resources Limited	US\$1	BVI	—	100	Inactive, Hong Kong
China Velocity Investments Limited (formerly known as HMD Securities Limited)	HK\$6,000,000	Hong Kong	—	100	Investment holding, Hong Kong
Dionysus Investments Limited	US\$10	BVI	—	70	Investment holding, Hong Kong
Eventic	HK\$2	Hong Kong	—	100	Investment holding, Hong Kong
Exburg Ltd.	US\$1	BVI	—	70	Investment holding, Hong Kong
Fast-Gain Worldwide Limited	US\$100	BVI	—	100	Investment holding, Hong Kong
Gladly Development Limited	HK\$2	Hong Kong	—	70	Investment holding, Hong Kong
Goldsmith Assets Limited	US\$1	BVI	—	70	Investment holding, Hong Kong
Guang Zhou Jiang Nan Property Co., Ltd. (Note 1)	HK\$68,000,000	PRC	—	75	Property development, PRC
Holburn Properties Limited	US\$1	BVI	—	70	Investment holding, Hong Kong

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

46. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Issued and fully paid ordinary share capital/registered capital	Place of incorporation/registration	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities and place of operation
			Directly %	Indirectly %	
Hongkong Macau (Nominees) Limited	HK\$2	Hong Kong	—	100	Nominee services, Hong Kong
Hongkong Macau (International) Ltd. (formerly known as Cavalier Holdings Ltd.)	US\$1	BVI	100	—	Investment holding, Hong Kong
Hongkong Macau Secretarial Services Limited	HK\$2	Hong Kong	—	100	Investment holding, Hong Kong
Huizhou Best Glory Property Ltd. ("Huizhou Best Glory") (Note 1 & 2)	HK\$31,878,000	PRC	—	70	Property development, PRC
Huizhou Gladly Property Ltd. ("Huizhou Gladly") (Note 1 & 2)	HK\$11,020,000	PRC	—	70	Property development, PRC
Huizhou World Express Property Ltd. ("Huizhou World Express") (Note 1 & 2)	HK\$109,200,000	PRC	—	70	Property development, PRC
Meiner Investment Limited	HK\$1,000	Hong Kong	—	100	Investment holding, Hong Kong
More Cash Ltd.	US\$2	BVI	—	100	Investment holding, Hong Kong

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

46. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Issued and fully paid ordinary share capital/registered capital	Place of incorporation/registration	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities and place of operation
			Directly %	Indirectly %	
Pearlbond Properties Limited	US\$1	BVI	—	100	Investment holding, Hong Kong
Shenzhen SEZ Development Centre Co., Ltd. (Note 1)	HK\$290,000,000	PRC	—	90	Development, holding and trading of properties, PRC
World Express Limited	HK\$2	Hong Kong	—	70	Investment holding, Hong Kong
Yetwide Investments Limited	HK\$2	Hong Kong	—	100	Property development, PRC

Notes:

1. This is a PRC Sino-foreign co-operative joint venture.
2. Best Glory Limited, Gladly Development Limited and World Express Limited are entitled to recoup their total investments from the after-tax earnings of Huizhou Best Glory, Huizhou Gladly and Huizhou World Express respectively before any amounts are distributed. Thereafter, the after-tax earnings of Huizhou Best Glory, Huizhou Gladly and Huizhou World Express are to be distributed as 90% to Best Glory Limited, Gladly Development Limited and World Express Limited respectively and 10% to the other joint venture partners respectively.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets and liabilities of the Group.