

Notes to the Financial Statements

For the year ended 31st December, 2003

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability under Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Future Opportunity Limited, incorporated in the British Virgin Islands.

The Company acts as an investment holding company while its subsidiaries are principally engaged in property development in the People's Republic of China (the "PRC").

2. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time, Hong Kong Financial Reporting Standard ("HKFRS") — Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA. This revised SSAP has introduced a new basis of accounting for income taxes (including both current taxation and deferred taxation) and additional disclosure requirements, which have been adopted in the financial statements.

The principal effect of the implementation of revised SSAP 12 is in relation to deferred taxation. Revised SSAP 12 requires the adoption of a balance sheet liability method, whereby deferred taxation is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exception. Comparative amounts for prior period have been restated accordingly. As a result of the adoption of revised SSAP 12, the opening balance of investment property revaluation reserve at 1st January, 2003 has been decreased by HK\$2,474,000 (1st January, 2002: HK\$2,432,000). The balances of the Group's leasehold land and building revaluation reserve and minority interests at 1st January, 2003 have been decreased by HK\$214,000 and HK\$357,000, respectively (1st January, 2002: nil).

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 leasehold land and buildings, and have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill

For the year ended 31st December, 2001, the Group has adopted SSAP 30 "Business combinations" and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1st January, 2001 is held in reserves and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary or joint venture, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1st January, 2001 will be credited to income at the time of disposal of the relevant subsidiary or joint venture.

Goodwill arising on acquisitions after 1st January, 2001 is capitalised and amortised on a straight line basis following an assessment of its useful economic life. Current estimate of goodwill's useful life does not exceed twenty years. Negative goodwill arising on acquisitions after 1st January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

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 independent professional valuation at the balance sheet date. Any surplus or deficit arising on revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement.

Notes to the Financial Statements

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

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

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than twenty years.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any identified impairment loss. Results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Property, plant and equipment

Property, plant and equipment, other than leasehold land and buildings, are stated at cost less depreciation and amortisation and any identified impairment loss.

Land and buildings are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation, and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

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

Notes to the Financial Statements

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Depreciation and amortisation are provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold land	Over the remaining terms of the leasehold land
Buildings	Over the remaining terms of the leasehold land or 50 years, whichever is shorter
Furniture, fixtures and equipment	20%
Plant and machinery	10%
Motor vehicles	20%

The gain or loss arising from 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.

Properties under development

Properties under development are stated at cost less any identified impairment loss. Cost comprises the cost of the land together with direct costs attributable to the development of the properties and borrowing costs capitalised during the period of development. Properties under development which are due for completion more than one year from the balance sheet date are shown as non-current assets while properties under development which are due for completion within one year from the balance sheet date are shown as current assets.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises the cost of the land together with direct costs attributable to the completion of the properties. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Notes to the Financial Statements

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment *(Continued)*

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

Turnover

Turnover represents the amount received and receivable on sales of land and sales of developed properties, net of sales tax.

Revenue recognition

Sale of land is recognised when the title has passed or when the sale contracts signed become unconditional, whichever is earlier.

Sale of developed properties is recognised upon execution of the sale agreements.

When a development property is sold in advance of completion, income is recognised only when the property is completed and has passed the inspection process. Deposits received from the purchasers prior to this stage are recorded as customers' deposits and included in current liabilities.

Rental income is recognised on a straight line basis over the term of relevant lease.

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

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease terms.

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 taxation.

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

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred taxation liabilities are generally recognised for all taxable temporary differences, and deferred taxation 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 of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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 taxation asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Business tax is recognised as an expense in the year in which it is incurred.

Land appreciation tax is recognised as an expense to the extent that it is probable that the Group has the obligations to pay the tax to the tax authorities in the PRC excluding Hong Kong and Macau.

Notes to the Financial Statements

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalisation of borrowing costs

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

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas subsidiaries are translated at exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Translation 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.

Retirement benefits cost

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

Notes to the Financial Statements

For the year ended 31st December, 2003

4. SEGMENT INFORMATION

Business Segments

The Group's principal activities are sales of land and sales of developed properties. These two business segments are the basis on which the Group reports its primary segment information. Segment information about these businesses is presented as below:

	Sales of land HK\$'000	Sales of developed properties HK\$'000	Total HK\$'000
For the year ended 31st December, 2003			
Turnover	<u>35,800</u>	<u>154,921</u>	<u>190,721</u>
Result			
Segment result	<u>22,646</u>	<u>40,526</u>	63,172
Other operating income			3,498
Unallocated corporate expenses			<u>(23,284)</u>
Profit from operations			43,386
Finance costs			<u>(5,571)</u>
Profit before taxation			37,815
Taxation			<u>(3,778)</u>
Profit before minority interests			34,037
Minority interests			<u>(1,510)</u>
Profit attributable to shareholders			<u>32,527</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

4. SEGMENT INFORMATION (Continued)

Business Segments (Continued)

	Sales of land <i>HK\$'000</i>	Sales of developed properties <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31st December, 2003			
Balance sheet			
Assets			
Segment assets	<u>75,231</u>	<u>288,392</u>	363,623
Unallocated corporate assets			<u>121,974</u>
Total assets			<u>485,597</u>
Liabilities			
Segment liabilities	<u>5,933</u>	<u>59,913</u>	65,846
Unallocated corporate liabilities			<u>141,528</u>
Total liabilities			<u>207,374</u>
Other information			
Additions of property, plant and equipment			447
Depreciation and amortisation of property, plant and equipment			<u>585</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

4. SEGMENT INFORMATION (Continued)

Business Segments (Continued)

	Sales of land HK\$'000	Sales of developed properties HK\$'000	Total HK\$'000
For the year ended 31st December, 2002			
Turnover	<u>31,253</u>	<u>106,357</u>	<u>137,610</u>
Result			
Segment result	<u>19,677</u>	<u>40,804</u>	60,481
Other operating income			8,337
Unallocated corporate expenses			<u>(16,511)</u>
Profit from operations			52,307
Finance costs			<u>(3,317)</u>
Profit before taxation			48,990
Taxation			<u>(14,435)</u>
Profit before minority interests			34,555
Minority interests			<u>(7,012)</u>
Profit attributable to shareholders			<u>27,543</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

4. SEGMENT INFORMATION (Continued)

Business Segments (Continued)

	Sales of land HK\$'000	Sales of developed properties HK\$'000	Total HK\$'000
As at 31st December, 2002			
Balance sheet			
Assets			
Segment assets	119,983	296,811	416,794
Unallocated corporate assets			135,929
Total assets			552,723
Liabilities			
Segment liabilities	10,186	75,503	85,689
Unallocated corporate liabilities			211,871
Total liabilities			297,560
Other information			
Additions of property, plant and equipment			851
Depreciation and amortisation of property, plant and equipment			491

Geographical Segments

All of the Group's turnover for both years was generated in the PRC.

At the balance sheet date, over 90% (2002: over 90%) of the Group's segment assets were located in the PRC.

During the year, over 90% (2002: over 90%) of the Group's additions to property, plant and equipment took place in the PRC.

Notes to the Financial Statements

For the year ended 31st December, 2003

5. PROFIT FROM OPERATIONS

	2003	2002
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	1,020	1,000
Depreciation and amortisation	585	491
Directors' remuneration (note 6)	4,369	2,856
Other staff's retirement benefit scheme contributions	417	380
Other staff costs	5,394	4,061
	10,180	7,297
Loss on disposal of property, plant and equipment	—	122
Operating lease rentals in respect of		
— land and buildings	840	795
— office equipment	8	2
and after crediting:		
Interest income	730	693
Gross rental income	1,310	1,237
Less: Outgoings	(62)	(27)
Net rental income from properties	1,248	1,210

Notes to the Financial Statements

For the year ended 31st December, 2003

6. DIRECTORS' AND EMPLOYEES' REMUNERATION

	2003	2002
	HK\$'000	HK\$'000
Fees for		
— executive directors	—	—
— independent non-executive directors	90	—
	<u>90</u>	<u>—</u>
Other emoluments for executive directors		
— basic salaries and allowance	4,236	2,838
— retirement benefit scheme contributions	43	18
	<u>4,279</u>	<u>2,856</u>
Total directors' remuneration	<u>4,369</u>	<u>2,856</u>

The remuneration of the directors falls within the following band:

	2003	2002
	Number	Number
Nil — HK\$1,000,000	<u>7</u>	<u>8</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

6. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)

Employees' remuneration:

The five highest paid individuals of the Group included four (2002: four) directors, details of whose remuneration are set out above. The remuneration of the remaining individual is as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	260	600
Retirement benefit scheme contributions	12	—
	<u>272</u>	<u>600</u>

No remuneration has ever been paid by the Group to the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. No directors have ever waived any emoluments.

7. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	(1,364)	(2,061)
Amounts due to minority shareholders	(235)	(270)
Loans from minority shareholders	(3,451)	(3,032)
Other borrowings wholly repayable within five years	(521)	(390)
	<u>(5,571)</u>	<u>(5,753)</u>
Less: Amount capitalised in properties under development	—	2,436
	<u>(5,571)</u>	<u>(3,317)</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

8. TAXATION

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
PRC Enterprise Income Tax charge		
— Current year	(6,051)	(14,730)
— Overprovision in prior years	2,273	295
	<u>(3,778)</u>	<u>(14,435)</u>

The PRC enterprise income tax is calculated at rates applicable to respective subsidiaries.

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit arising from or derived in Hong Kong for both years.

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

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Profit before taxation	<u>37,815</u>	<u>48,990</u>
Tax rate of 33% applicable to the Group's subsidiaries in the PRC (2002: 33%)	(12,479)	(16,167)
Tax effect of expenses not deductible for tax purpose	(485)	(2,703)
Tax effect of income not taxable for tax purpose	7,736	2,940
Overprovision in prior years	2,273	295
Tax effect of unrecognised tax losses	(1,345)	(823)
Effect of different tax rates of subsidiaries operating in the other jurisdictions	<u>522</u>	<u>2,023</u>
Tax effect and effective tax rate for the year	<u>(3,778)</u>	<u>(14,435)</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

9. DIVIDEND

For the year ended 31st December, 2003, the directors of the Company proposed a final dividend of HK3.0 cents (2002: HK3.0 cents) per share, which is subject to approval by the shareholders in the forthcoming annual general meeting.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$32,527,000 (2002: HK\$27,543,000) and 292,600,000 (2002: weighted average number of 259,107,397) shares in issue during the year.

No diluted earnings per share has been presented as the Company did not have any dilutive potential ordinary shares outstanding in both years.

11. INVESTMENT PROPERTIES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Valuation at 1st January	13,585	13,458
Surplus arising on revaluation	283	127
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Valuation at 31st December	13,868	13,585
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The Group's investment properties are held under the following lease terms:

	2003	2002
	HK\$'000	HK\$'000
Under long leases	2,170	2,170
Under medium term leases	11,698	11,415
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	13,868	13,585
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The Group's investment properties are situated in the PRC and are not rented out under operating leases. The investment properties were valued on an open market value at 31st December, 2003 by Chesterton Petty Limited, a firm of international property consultants. The revaluation surplus of approximately HK\$283,000 (2002: HK\$127,000) has been credited to the investment property revaluation reserve.

Notes to the Financial Statements

For the year ended 31st December, 2003

12. PROPERTY, PLANT AND EQUIPMENT

	The Group				The Company	
	Leasehold land and buildings HK\$'000	Furnitures, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Total equipment HK\$'000	Furnitures, fixtures and equipment HK\$'000
COST OR VALUATION						
At 1st January, 2002	9,639	1,677	278	2,593	14,187	50
Additions	—	157	—	290	447	—
Revaluation	132	—	—	—	132	—
At 31st December, 2003	9,771	1,834	278	2,883	14,766	50
Comprising:						
— at cost	—	1,834	278	2,883	4,995	50
— at valuation	9,771	—	—	—	9,771	—
	9,771	1,834	278	2,883	14,766	50
DEPRECIATION AND AMORTISATION						
At 1st January, 2002	—	1,068	66	2,360	3,494	4
Provided for the year	326	181	12	66	585	10
Eliminated on revaluation	(326)	—	—	—	(326)	—
At 31st December, 2003	—	1,249	78	2,426	3,753	14
NET BOOK VALUES						
At 31st December, 2003	9,771	585	200	457	11,013	36
At 31st December, 2002	9,639	609	212	233	10,693	46

Notes to the Financial Statements

For the year ended 31st December, 2003

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's leasehold land and buildings situated in the PRC are held under the following lease terms:

	2003	2002
	HK\$'000	HK\$'000
Under long leases	9,372	9,380
Under medium term leases	399	259
	<u>9,771</u>	<u>9,639</u>

The Group's leasehold land and buildings are situated in the PRC and were valued on an open market existing use basis at 31st December, 2003 by Chesterton Petty Limited, a firm of international property consultants. The revaluation surplus of approximately HK\$172,000 (2002: HK\$649,000) has been credited to the leasehold land and building revaluation reserve.

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of approximately HK\$7,580,000 (2002: HK\$7,907,000).

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	128,074	128,074
Amounts due from subsidiaries	47,451	56,439
	<u>175,525</u>	<u>184,513</u>

The carrying value of the Company's investment in subsidiaries is estimated by the directors on the basis of the underlying net assets of the subsidiaries at the time they were acquired by the Company pursuant to the group reorganisation taken place in May 2002.

Notes to the Financial Statements

For the year ended 31st December, 2003

13. INTERESTS IN SUBSIDIARIES (Continued)

The amounts due from subsidiaries are unsecured, bear interest at prevailing market rates and do not have fixed repayment terms.

Details of the subsidiaries as at 31st December, 2003 are set out in note 34.

14. PROPERTIES UNDER DEVELOPMENT

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
The properties under development are due for completion:		
Within one year	108,094	18,954
More than one year	69,927	99,409
	<u>178,021</u>	<u>118,363</u>

The properties under development situated in the PRC are held under the following lease terms:

	2003	2002
	HK\$'000	HK\$'000
Under long leases	83,940	23,582
Under medium term leases	94,081	94,781
	<u>178,021</u>	<u>118,363</u>

As at the balance sheet date, the properties under development included interest capitalised of approximately HK\$7,516,000 (2002: approximately HK\$8,678,000).

Notes to the Financial Statements

For the year ended 31st December, 2003

15. AMOUNTS DUE TO SUBSIDIARIES

The Company

The amounts are unsecured, interest free and repayable on demand.

16. PROPERTY SALE RECEIVABLE

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
An aged analysis of the property sale receivable is as follows:		
Within three months	44,423	60,801
Four months to one year	17,335	4,176
Between one to two years	2,799	3,308
Over two years	666	386
	<u>65,223</u>	<u>68,671</u>

Under the Group's current credit policy on sales of developed properties, individual customer has to fully settle the purchase consideration before the Group transfers the title of the property to the customers.

For sales of land, individual customer has to substantially settle the purchase consideration before the Group transfers the title of the land to the customers.

17. CREDITORS AND ACCRUED CHARGES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
An aged analysis of the trade creditors, included in the creditors and accrued charges, is as follows:		
Within three months	2,459	8,790
Four months to one year	77	33,348
Over one year	21,688	13,136
	<u>24,224</u>	<u>55,274</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

17. CREDITORS AND ACCRUED CHARGES (Continued)

At the balance sheet date, included in creditors and accrued charges is a loan due to a third party of approximate HK\$848,000 (2002: HK\$3,900,000). The loan is unsecured, bears interest at 10% (2002: 10%) per annum and repayable on demand.

18. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY

The Group and the Company

The amount is unsecured, interest free and has no fixed repayment terms.

19. AMOUNTS DUE TO MINORITY SHAREHOLDERS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Interest bearing advances	3,074	3,730
Non-interest bearing advances	291	2,077
	<u>3,365</u>	<u>5,807</u>

The amounts are unsecured and have no fixed terms of repayment. The interest paid was charged at interest rate of 5.85% (2002: 5.85%) per annum on interest bearing advances.

20. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans	8,491	42,253	—	—
Bank overdraft	81	—	81	—
	<u>8,572</u>	<u>42,253</u>	<u>81</u>	<u>—</u>
Secured	8,491	28,302	—	—
Unsecured	81	14,151	81	—
Total	<u>8,572</u>	<u>42,453</u>	<u>81</u>	<u>—</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

21. DEFERRED TAXATION

The following are the major deferred taxation liabilities recognised by the Group and movements thereon during the current and prior years:

	Revaluation of properties
	<i>HK\$'000</i>
At 1st January, 2002	
— as previously reported	—
— adjustment on adoption of SSAP 12 (Revised)	2,432
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— as restated	2,432
Charge to revaluation reserves for the year	256
Charge to minority interests	357
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Balance at 1st January, 2003	3,045
Charge to revaluation reserves for the year	150
Charge to minority interests	95
	<hr/>
At 31st December, 2003	<u>3,290</u>

At the balance sheet date, the Group had unused tax losses of approximately HK\$196,000 (2002: HK\$196,000) available to offset against future assessable profits. No deferred taxation asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

The Company did not have any significant unprovided deferred taxation during the year or at the balance sheet date.

22. LOANS FROM MINORITY SHAREHOLDERS

The Group

The loans are unsecured, bear interest at 10% (2002: 10%) per annum and will not be demanded for repayment within one year from the balance sheet date. Accordingly, the loans are shown as non-current liabilities.

Notes to the Financial Statements

For the year ended 31st December, 2003

23. LONG TERM PAYABLES

The Group

The amounts represented the payables to certain suppliers and construction companies and were repaid in full during the year.

24. SHARE CAPITAL

	Number of ordinary shares of HK\$0.10 each	Amount HK\$'000
Authorised		
On incorporation	1,000,000	100
Increase in authorised share capital	<u>999,000,000</u>	<u>99,900</u>
As at 31st December, 2002 and 2003	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid		
On incorporation	1,000,000	—
Upon the group reorganisation		
— 1,000,000 nil paid shares credited as fully paid	—	100
— issue of new shares	110,000	11
Capitalisation issue	208,890,000	20,889
Issue of new shares to the public	<u>82,600,000</u>	<u>8,260</u>
As at 31st December, 2002 and 2003	<u><u>292,600,000</u></u>	<u><u>29,260</u></u>

There were no changes in share capital during the year.

25. SHARE OPTIONS SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 15th May, 2002 for the primary purpose of providing incentives to directors and eligible employees. Under the Scheme, the directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Notes to the Financial Statements

For the year ended 31st December, 2003

25. SHARE OPTIONS SCHEME (Continued)

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the issued shares of the Company from time to time.

Options granted must be exercised in accordance with the terms of the Scheme at any time during a period of 2 years commencing on the date on which the offer of the grant of the options is made, which must not be more than 10 years from the date of offer of the grant of the option, upon payment of HK\$1 per option.

The exercise price is determined by the directors of the Company, and would not be less than the higher of the average closing price of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options; the closing price of the shares on the Stock Exchange on date of offer; and the nominal value of the shares.

No options have been granted under the Scheme since its adoption.

26. RESERVES

	THE COMPANY			
	Share premium	Contributed surplus	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Arising from the group reorganisation	—	127,961	—	127,961
Arising from shares issued to the public	74,340	—	—	74,340
Share issue expenses	(20,001)	—	—	(20,001)
Capitalisation issue	(20,889)	—	—	(20,889)
Net loss for the period	—	—	(3,933)	(3,933)
At 31st December, 2002	33,450	127,961	(3,933)	157,478
Dividend paid	—	(8,778)	—	(8,778)
Net loss for the year	—	—	(7,296)	(7,296)
At 31st December, 2003	<u>33,450</u>	<u>119,183</u>	<u>(11,229)</u>	<u>141,404</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

26. RESERVES (Continued)

The contributed surplus of the Company represents the difference between the combined shareholders' funds of China Fair Land Properties Limited, the wholly owned subsidiary of the Company, at the date on which its shares were acquired by the Company, and the nominal value of the Company's shares issued for the acquisition.

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

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

The Company's reserves available for distribution to shareholders are as follows:

	2003	2002
	HK\$'000	HK\$'000
Contributed surplus	119,183	127,961
Deficit	(11,229)	(3,933)
	<u>107,954</u>	<u>124,028</u>

27. MAJOR NON-CASH TRANSACTION

On 3rd December, 2003, the directors of 寧波拓展房地產開發有限公司 Ningbo Tuo-zhan Real Estate Development Co., Ltd., a subsidiary of the Company, declared a dividend of approximately HK\$1,617,000 and HK\$1,078,000 to its minority shareholders, 中國房地產開發總公司寧波分公司 (China State Real Estate Development Corporation Ningbo Branch) ("Ningbo CSREDC") and Geyung (Real Estates) Company Limited, respectively.

Notes to the Financial Statements

For the year ended 31st December, 2003

27. MAJOR NON-CASH TRANSACTION (Continued)

On 28th November, 2002, 長春長信國際房地產開發有限公司 Changchun Changxin International Real Estate Development Co., Ltd. ("CCCX Real Estate"), a subsidiary of the Company, entered into a sale and purchase agreement (the "Agreement") with 吉林省長福經貿有限公司 ("長福經貿"), an independent third party. Pursuant to the Agreement, CCCX Real Estate agreed to sell a parcel of land (the "Land") situated in Changchun of the PRC to 長福經貿 for a consideration of approximately HK\$30,670,000. The consideration was partly satisfied by setting off against an amount of approximately HK\$9,434,000 due by the immediate holding company of CCCX Real Estate to 長福經貿, and the remaining balance of approximately HK\$21,236,000 has been settled in cash during the year.

28. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged its properties under development and properties held for sales to a bank in the PRC to secure the credit facilities of approximately HK\$8,491,000 (2002: HK\$28,302,000) granted by this bank. The aggregate carrying value of the properties under development and properties held for sales at 31st December, 2003 pledged amounted to approximately HK\$62,264,000 (2002: HK\$90,551,000).

29. CONTINGENT LIABILITIES

At 31st December, 2003, the Group provided guarantees of approximately HK\$11,274,000 (2002: HK\$25,337,000) to banks in favour of its customers in respect of the mortgage loans provided by the banks to such customers for purchase of the Group's developed properties. These guarantees provided by the Group to the banks would be released upon receiving the building ownership certificate of the respective property by the banks from the customers as a pledge for security to the mortgage loan granted.

During the year ended 31st December, 2002, the State Administration of Tax in the PRC promulgated a circular to all local tax authorities requiring them to levy land appreciation tax on property developers. In the opinion of the directors, after consulting the Group's PRC tax consultants and meeting with the officials responsible for land appreciation tax of the local tax authorities of the relevant cities in which the Group has property development projects, the Group is unlikely to receive demands from the local tax authorities for the payment of land appreciation tax in respect of sales of land and developed properties for the period commencing from 1st January, 2001, the date on which the exemption period lapsed. The Group has not, however, been able to secure written confirmations from the relevant local tax authorities, but the directors consider that there is only a small possibility that land appreciation tax might be

Notes to the Financial Statements

For the year ended 31st December, 2003

29. CONTINGENT LIABILITIES (Continued)

levied. Against these backgrounds, no provisions for land appreciation tax have been made in these financial statements. Should such levies take place, then land appreciation tax amounts to approximately HK\$55,112,000 (2002: HK\$37,402,000) for the period from 1st January, 2001 to 31st December, 2003 has to be provided for in these financial statements.

30. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company were committed to make the following minimum lease payments under non-cancellable operating leases with average lease terms of 2 years which fall due as follows:

	THE GROUP				THE COMPANY			
	2003		2002		2003		2002	
	Rented premises HK\$'000	Office equipment HK\$'000	Rented premises HK\$'000	Office equipment HK\$'000	Rented premises HK\$'000	Office equipment HK\$'000	Rental premises HK\$'000	Office equipment HK\$'000
Operating leases which expire:								
Within one year	684	11	995	8	208	11	479	8
In the second to fifth year inclusive	—	30	260	42	—	30	260	42
	<u>684</u>	<u>41</u>	<u>1,255</u>	<u>50</u>	<u>208</u>	<u>41</u>	<u>739</u>	<u>50</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

31. CAPITAL COMMITMENT

	THE GROUP
	2003 & 2002
	<i>HK\$'000</i>
Capital expenditure in respect of capital contribution to a PRC subsidiary contracted for but not provided in the financial statements	<u>3,108</u>

The Company had no capital commitments for both years.

32. RELATED PARTY TRANSACTION

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental paid to Chance Fair International Development Limited ("Chance Fair International") (Note)	<u>325</u>	<u>408</u>

Note:

The Group entered into a sub-tenancy agreement with Chance Fair International, an intermediate holding company, on 22nd May, 2001 pursuant to which Chance Fair International agreed to sub-lease a portion of the office premises to the Group. The sub-tenancy agreement was renewed for a term commencing from 20th May, 2002 to 19th May, 2003 (both dates inclusive) and 20th May, 2003 to 19th May, 2004 (both dates inclusive) at a monthly rental of approximately HK\$31,000 and HK\$25,000, respectively, exclusive of other charges.

The above transaction was carried out in accordance with the terms of the relevant agreement governing such transaction.

Notes to the Financial Statements

For the year ended 31st December, 2003

33. RETIREMENT BENEFIT SCHEME

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

The employees of the Group's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the relevant local government authorities in the PRC. All employees are entitled to an annual pension equal to a fixed portion of their individual final basic salaries at their retirement date. The Group is required to make contributions to the retirement schemes at rates ranging from 4% to 5% of the basic salaries of its employees.

34. SUBSIDIARIES AND CO-OPERATIVE JOINT VENTURE

Details of the Company's subsidiaries and co-operative joint venture at 31st December, 2003 are as follows:

Name of company	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company		Principal activity
			Directly	Indirectly	
Subsidiary:					
長春長信國際房地產 開發有限公司	PRC for a term of 15 years commencing from 1993*	RMB10,000,000	—	75%	Property development
Changchun Changxin International Real Estate Development Co., Ltd.					
China Fair Land (Changchun) Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred** HK\$10,001	—	100%	Investment holding

Notes to the Financial Statements

For the year ended 31st December, 2003

34. SUBSIDIARIES AND CO-OPERATIVE JOINT VENTURE (Continued)

Name of company	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company		Principal activity
			Directly	Indirectly	
Subsidiary:					
China Fair Land (Qingdao) Limited	Hong Kong	Ordinary HK\$2	—	100%	Investment holding
China Fair Land (Shenyang) Limited	Hong Kong	Ordinary HK\$2	—	100%	Investment holding
China Fair Land (Suzhou) Limited	Hong Kong	Ordinary HK\$2	—	100%	Investment holding
China Fair Land (Nanjing) Limited	Hong Kong	Ordinary HK\$10,002	—	100%	Investment holding
China Fair Land (Ningbo) Limited ("China Fair Ningbo")	Hong Kong	Ordinary HK\$2 Non-voting deferred** HK\$10,000	—	100%	Investment holding
China Fair Land Properties Limited	British Virgin Islands	Ordinary US\$221	100%	—	Investment holding
China Fair Land (Shanghai) Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred ** HK\$10,002	—	100%	Investment holding
Falcon Fair Development Limited ("Falcon Fair")	Hong Kong	Ordinary HK\$2 Non-voting deferred ** HK\$10,002	—	100%	Investment holding and property investment

Notes to the Financial Statements

For the year ended 31st December, 2003

34. SUBSIDIARIES AND CO-OPERATIVE JOINT VENTURE (Continued)

Name of company	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company		Principal activity
			Directly	Indirectly	
Subsidiary:					
青島正輝廣廈房地產 開發有限公司 Qingdao Zhenghuiguangsha Real Estate Development Co. Ltd.	PRC for a term of 20 years commencing from 2002*	RMB20,000,000	—	70%	Inactive
寧波拓展房地產 開發有限公司 Ningbo Tuozhan Real Estate Development Co., Ltd. ("Ningbo Tuozhan")	PRC for a term of 15 years commencing from 1989*	RMB12,000,000	—	37.5%***	Property development
上海正輝房地產 開發有限公司 Shanghai Chance Fair Real Estate Development Co., Ltd.	PRC for a term of 70 years commencing from 1999*	US\$3,000,000	—	98%	Property development
Co-operative joint venture:					
幸福苑合作發展開發項目 Fortune Garden Joint Venture Project	PRC for a period of time to complete the project commencing from 1992*	US\$12,112,472	—	65.63%	Property development

Notes to the Financial Statements

For the year ended 31st December, 2003

34. SUBSIDIARIES AND CO-OPERATIVE JOINT VENTURE *(Continued)*

- * These are equity joint ventures established in the PRC.
- ** The rights and restrictions of the non-voting deferred shares of these subsidiaries are set out in paragraph (c) of the section headed "Group reorganisation" in Appendix VI of the prospectus dated 22nd May, 2002 issued by the Company.
- *** On 15th September, 1995, China Fair Ningbo, a wholly-owned subsidiary of the Company, entered into an irrevocable agreement (the "1995 Agreement") with Ningbo CSREDC, a 25% joint venture owner of Ningbo Tuozhan. Pursuant to the 1995 Agreement, Ningbo CSREDC agreed to cooperate with China Fair Ningbo in the management of Ningbo Tuozhan, including the voting by the directors appointed to the board of Ningbo Tuozhan by Ningbo CSREDC, and acting-in-concert with the directors appointed by China Fair Ningbo.

On 11th May, 2001, China Fair Ningbo and Ningbo CSREDC entered into a confirmation and agreement confirming that the directors appointed to the board of Ningbo Tuozhan by Ningbo CSREDC have since the signing of the 1995 Agreement always been voting in concert with and in accordance with the instructions of the directors appointed by China Fair Ningbo.

Based on the above-mentioned documents, the Company's directors consider that the Group effectively controls the financial and operating policies of Ningbo Tuozhan. Accordingly, the Company regards Ningbo Tuozhan as a subsidiary and accounts for as such in these financial statements.

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