1. ORGANISATION AND PRINCIPAL ACTIVITIES

Dynamic Global Holdings Limited (the "Company") was incorporated in Bermuda on 10 April 1989 as an exempted company with limited liabilities under the Companies Act 1981 of Bermuda. The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 19 to the financial statements.

On 12 December 2002, the Company entered into a share transfer agreement (the "Transfer Agreement") to dispose of certain subsidiaries (the "Disposal") in the mainland of the People's Republic of China ("Mainland China") for a total consideration of RMB4 as follows:

(i) The Group's entire 100% interest in Fairyoung (Xiamen) Real Estate Development Limited ("Xiamen Real Estate"). Xiamen Real Estate and its subsidiaries operated certain property development projects and carried out general trading ("General Trading Operations"); and

(ii) The Group's entire 100% interest in Acot Company Limited ("Acot"). Acot and its subsidiary operated a toll bridge ("Toll Bridge Operations").

The Disposal was completed on 6 March 2003. The disposal of the General Trading Operations and Toll Bridge Operations were reclassified as "Discontinuing operations". Additional disclosures pursuant to the Statement of Standard Accounting Practice 33 are set out in note 7(a) to the financial statements.

On 9 May 2003, the Company entered into an agreement to acquire the entire issued share capital of Easy Carry Trading Limited ("Easy Carry"), Turbo Jet Development Limited ("Turbo Jet") and Profit Guard International Limited ("Profit Guard") for a total consideration of HK$39,000,000. Easy Carry, Turbo Jet and Profit Guard collectively held 100% registered capital of 南漳水鏡湖度假村酒店有限責任公司 which was operating a resort hotel in Mainland China.

1. ORGANISATION AND PRINCIPAL ACTIVITIES *(Continued)*

The consolidated financial statements for the year ended 31 December 2003 included the results and financial position of a subsidiary previously omitted namely, Binzhou Huifeng Sanwei Co., Ltd. The details of the financial information related to the subsidiary were as follows:

	2003	2002
	HK$'000	HK$'000
Turnover	**969**	639
Cost of sales	**(192)**	(307)
Gross profit	**777**	332
Selling and distribution expenses	**(10)**	(54)
Administrative expenses	**(243)**	(219)
Profit before tax	**524**	59
Tax	**–**	–
Net profit for the year	**524**	59
Total assets	**7,558**	7,036
Total liabilities	**(55)**	(58)

The subsidiary was previously omitted from the consolidated financial statements of the Group for the year ended 31 December 2002 as the directors were not aware of its existence.

2. BASIC OF PREPARATION

(a) INCOMPLETE BOOKS AND RECORDS

The financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, the financial statements for the year ended 31 December 2002 for a subsidiary of the Group, namely Fairyoung (Heilongjiang) Industry Co., Limited ("HLJ Industry"), were not available as the investment in HLJ Industry was frozen by a court in Mainland China. As such, we were unable to obtain sufficient evidence concerning the opening balances of the financial statements of HLJ Industry as at 1 January 2003.

During the year, the Group obtained a release from the court and the financial statements of HLJ Industry for the year ended 31 December 2002 were incorporated in the consolidated financial statements of the Group for the year ended 31 December 2002. Therefore, the comparative figures have been restated accordingly.

2. BASIC OF PREPARATION *(Continued)*

(b) GROUP ACCOUNTS

The Group accounts include the accounts of the Company and its subsidiaries made up to 31 December. The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated income statement. Minority interests represent the interests of outside shareholders in the operating results and net assets of the subsidiaries.

3. IMPACT ON REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAP")

In the current year, the Group has adopted, for the first time, SSAP 12 (Revised) "Income taxes" which is effective for accounting periods commencing on or after 1 January 2003:

SSAP 12 (Revised) prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

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

(i) deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;

(ii) the disclosure of related notes are now more extensive than previously required. The disclosures are presented in notes 14 and 36 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

The major effects on the Group's accounting policies and on the amounts disclosed in the financial statements of adopting this revised SSAP are summarised in note 4(r) and note 36 to the financial statements.

4. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants ("HKSA"), the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The financial statements are prepared under the historical cost convention. A summary of the principal accounting policies adopted by the Group is set out below.

(a) REVENUE RECOGNITION

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

(i) Proceeds from the sale of properties (except for the pre-sale of properties under development, the basis of recognition of which is detailed under the accounting policy for "Properties under development" below), investments and goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains no managerial involvement to the degree usually associated with ownership, and as effective control over the properties, investments and goods sold;

(ii) Toll bridge income, net of revenue tax, on a receipt basis;

(iii) Revenue from service rendered is recognised when the outcome of a transaction involving the rendering of services can be estimated reliably by reference to the stage of completion of transaction at the balance sheet date; and

(iv) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(b) BORROWING COSTS

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) GOODWILL

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

Goodwill arising from acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 5 to 20 years. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated income statement when the future losses and expenses are recognised.

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

In the case of associates, any goodwill not yet amortised/negative goodwill (not yet recognised in the consolidated income statement) is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) FIXED ASSETS

(i) Fixed assets

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

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

Land and buildings under medium term leases	Over the lease terms
Operating rights of a toll bridge	Over the joint venture period
Leasehold improvements	Over the lease terms
Plant and machinery	7% – 10%
Furniture and equipment	7% – 20%
Motor vehicles	10% – 25%

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

(ii) Construction in progress

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

(e) PROPERTIES UNDER DEVELOPMENT

Properties under development held for sale are included under current assets and stated at the lower of cost and net realisable value. Cost includes all costs attributable to the development, including finance and interest charges. Net realisable value is based on the estimated net sales proceeds less further costs expected to be incurred to completion and disposal.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) PROPERTIES UNDER DEVELOPMENT *(Continued)*

When a property under development is pre-sold, the attributable profit recognised on the pre-sold portion of the property is determined by the apportionment of the total estimated profit over the entire period of construction to reflect the progress of the development, which is calculated by reference to the proportion of construction costs incurred up to the accounting date to the estimated total construction costs to the completion, but is limited to the amount of sales deposits received and with due allowances for contingencies.

Deposits received on properties under development pre-sold prior to their completion, in excess of the attributable profit recognised are classified under current liabilities.

(f) PROPERTIES HELD FOR SALE

Properties held for sale are stated in the balance sheet at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and building costs of the development attributable to the unsold properties. Net realisable value is based on the estimated net sales proceeds by reference to prevailing market conditions less estimated selling expenses.

(g) ASSETS UNDER LEASES

Leases of assets under which the lease assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Finance leases

Where the Group acquires assets under finance leases, the amounts representing the fair value of the leased assets, or, if lower, the present value of the minimum lease payments, of such assets are included as fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, which it is likely the Company or the Group will obtain ownership of the asset, the life of the asset, as set out in note 4(d) to the financial statements. Impairment losses are accounted for in accordance with the accounting policy as set out in note 4(h) to the financial statements. Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) ASSETS UNDER LEASES *(Continued)*

(ii) Operating leases

Rentals payables under operating leases are accounted for in the income statement on a straight-line basis over the periods of the respective lease.

(h) IMPAIRMENT OF ASSETS

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversal of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) SUBSIDIARIES

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(j) JOINT VENTURES

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the ventures stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) JOINT VENTURES *(Continued)*

(c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long–term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of its jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in its jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

(k) ASSOCIATES

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 4(c) to the financial statements.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) ASSOCIATES *(Continued)*

In the Company's balance sheet, its investment in associates are stated at cost less impairment losses, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(l) LONG-TERM INVESTMENTS

Long-term investments are investments which are intended to be held for a continuing strategic or long-term purpose and are stated at cost less any impairment losses on an individual basis.

When impairments have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the income statement for the period in which they arise. When the circumstances and events which led to the impairments cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the income statement to the extent of the amounts previously charged.

(m) RELATED PARTIES

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

(n) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

(o) TRADE RECEIVABLE

Provision is made against trade receivable to the extent that they are considered to be doubtful. Trade receivable in the balance sheet is stated net of such provision.

(p) CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and not restricted as to use and which were generally within three months of maturity when acquired. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfil the above criteria.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) INCOME TAX

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

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

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) INCOME TAX *(Continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

(s) TRANSLATION OF FOREIGN CURRENCIES

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries, jointly-controlled entity and associates operating in Mainland China and overseas are translated into Hong Kong dollars using the net investment method. The income statements of overseas subsidiaries, jointly-controlled entity and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange equalisation reserve.

(t) EMPLOYEE BENEFITS

(i) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in independently administered funds. The Group's employer contributions vest fully with the employees when contributed to the Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) EMPLOYEE BENEFITS *(Continued)*

(i) Retirement benefits scheme *(Continued)*

The employees of the Group's certain subsidiaries which operate in Mainland China participate in local pension schemes (the "LPSs") operated by respective local municipal governments. The subsidiaries are required to contribute certain percentage of their payroll costs to the LPSs. The only obligation of the Group with respect to the LPSs is to pay the mandatory contributions under the LPSs. Contributions under the LPSs are charged to the income statement as they become payable in accordance with the rules of the LPSs.

(ii) Share option schemes

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

(u) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) SEGMENT REPORTING *(Continued)*

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

5. SEGMENT INFORMATION

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

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

(a) Continuing operations:

(i) The property development segment engages in the development and sale of properties in Mainland China;

(ii) The investment holding segment invests in high technology projects in Mainland China;

(iii) The resort operation segment engages in the operation of a resort hotel in Mainland China; and

(iv) The agricultural segment engages in the sale of agricultural products in Mainland China.

5. SEGMENT INFORMATION *(Continued)*

(b) Discontinuing operations:

(i) The toll bridge segment operated a toll bridge in Mainland China. This segment was discontinued upon the completion of the Disposal Transaction set out in note 7(a) to the financial statements;

(ii) The general trading segment purchased commodities and sold them to customers in Mainland China. This segment was discontinued upon the completion of the Disposal Transaction set out in note 7(a) to the financial statements; and

(iii) The skiing resort segment operates a skiing resort in Mainland China. This segment will be discontinued upon the completion of the disposal set out in note 7(b) to the financial statements.

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

There were no intersegment sales and transfers during the year.

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments

The following tables present revenue, loss and certain assets, liabilities and expenditure information for the Group's business segments.

GROUP

	Continuing operations										Discontinuing operations								Consolidated	
	Property development		Investment holding*		Resort Operation		Agricultural Operation		Sub-total		Toll bridge		General trading		Skiing resort		Sub-total			
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)
Segment revenue:																				
Sales to external customers	**202,286**	3,219	**-**	15	**566**	-	**969**	-	**203,821**	3,234	**435**	3,450	**749**	2,546	**78**	-	**1,262**	5,996	**205,083**	9,230
Other revenue	**10**	38	**-**	4	**7**	-	**-**	-	**17**	42	**-**	-	**-**	-	**-**	-	**-**	-	**17**	42
Total	**202,296**	3,257	**-**	19	**573**	-	**969**	-	**203,838**	3,276	**435**	3,450	**749**	2,546	**78**	-	**1,262**	5,996	**205,100**	9,272
Segment results	**55,441**	(14,547)	**(30,579)**	(60,038)	**(1,104)**	-	**524**	-	**24,282**	(74,585)	**(43)**	(381)	**(348)**	(1,048)	**(8,052)**	(7,790)	**(8,443)**	(9,219)	**15,839**	(83,804)
Interest income																			**170**	34
Profit/(loss) from operating activities																			**16,009**	(83,770)
Gain on disposal of subsidiaries																			**11,083**	-
Finance costs																			**(2,957)**	(13,020)
Share of profits and losses of associates																			**215**	(1,447)
Profit/(loss) before tax																			**24,350**	(98,237)
Tax																			**(19,783)**	2,246
Profit/(loss) before minority interests																			**4,567**	(95,991)
Minority interests																			**(124)**	70
Net profit/(loss) from ordinary attributable to shareholders																			**4,443**	(95,921)

* Investment holding is one of the Group's segments and, accordingly, the Group's long-term investments, and the corresponding income/expenses, were included in the segment assets and segment results, respectively.

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

GROUP

	Continuing operations										Discontinuing operations								Consolidated	
	Property development		Investment holding*		Resort Operation		Agricultural operation		Sub-total		Toll bridge		General trading		Skiing resort		Sub-total			
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		(Restated)								(Restated)						(Restated)		(Restated)		(Restated)
Segment assets	**250,088**	288,309	**4,936**	8,979	**23,682**	-	**7,558**	-	**286,264**	297,288	**-**	19,331	**-**	6,122	**36,125**	46,825	**36,125**	72,278	**322,389**	369,566
Interest in associates	**-**	-	**66,090**	71,497	**-**	-	**-**	-	**66,090**	71,497	**-**	-	**-**	-	**-**	-	**-**	-	**66,090**	71,497
Total assets																			**388,479**	441,063
Segment liabilities	**(164,077)**	(190,177)	**(21,544)**	(31,490)	**(84)**	-	**(55)**	-	**(185,760)**	(221,667)	**-**	(5,599)	**-**	(3,994)	**(15,412)**	(16,078)	**(15,412)**	(25,671)	**(201,172)**	(247,338)
Unallocated liabilities																			**(33,871)**	(95,064)
Total liabilities																			**(235,043)**	(342,402)
Other segment information:																				
Depreciation and amortisation	**62**	93	**4,226**	4,591	**1,021**	-	**172**	-	**5,481**	4,684	**171**	1,070	**55**	54	**8,352**	6,948	**8,578**	8,072	**14,059**	12,756
Impairment losses recognised in the income statement	**-**	13,078	**56**	-	**-**	-	**-**	-	**56**	13,078	**-**	-	**-**	-	**-**	-	**-**	-	**56**	13,078
Other non-cash expenses	**1,698**	15,208	**7,093**	17,997	**-**	-	**4**	-	**8,795**	33,205	**-**	682	**-**	993	**-**	-	**-**	1,675	**8,795**	34,880
Capital expenditure	**1,040**	104	**1,853**	1,410	**24**	-	**83**	-	**3,000**	1,514	**-**	-	**-**	327	**2,733**	-	**2,733**	327	**5,733**	1,841

* Investment holding is one of the Group's segments and, accordingly, the Group's long term investments, and the corresponding income/expenses, were included in the segment assets and segment results, respectively.

5. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following tables present revenue, loss and certain assets, liabilities and expenditure information for the Group's geographical segments.

	Hong Kong		Mainland China		Other		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
				(Restated)				(Restated)
Segment revenue:								
Sales to external customers	**–**	15	**205,083**	9,215	**–**	–	**205,083**	9,230
Other revenue	**–**	4	**17**	38	**–**	–	**17**	42
	–	19	**205,100**	9,253	**–**	–	**205,100**	9,272
Segment results	**(30,579)**	(47,515)	**46,418**	(36,289)	**–**	–	**15,839**	(83,804)
Other segment information:								
Segment assets	**71,026**	79,471	**317,453**	360,828	**–**	764	**388,479**	441,063
Capital expenditure	**1,854**	1,410	**3,879**	431	**–**	–	**5,733**	1,841

6. TURNOVER AND REVENUE

Turnover represents the aggregate of net proceeds from the sale of properties (in the case of the pre-sale of properties, such proceeds are adjusted to reflect the progress of development), from the sale of goods, toll bridge income, service income from resort operations and the operation of a skiing resort, sale of agricultural products after elimination of all significant intra-group transactions.

During the year, the Group had revenue and gains arising from the following activities:

	2003	2002
	HK$'000	HK$'000
Sale of properties	**214,062**	3,219
Resort operations	**566**	–
Sales of agricultural products	**969**	–
Sale of goods	**749**	2,546
Toll bridge operations	**435**	3,450
Skiing operations	**78**	–
Others	**–**	15
	216,859	9,230
Sales tax and government surcharges	**(11,776)**	–
Turnover	**205,083**	9,230
Exchange gain, net	**–**	5
Interest income	**170**	34
Others	**17**	37
Other revenue	**187**	76
Total revenue	**205,270**	9,306

7. DISCONTINUING OPERATIONS

(a) Disposal of the General Trading and Toll Bridge Operations

As stated in note 1 to the financial statements, the Group completed the disposals of the General Trading and Toll Bridge Operations on 6 March 2003. Details of the financial information relating to the discontinuing operations were as follows:

	Toll bridge Operations		General trading operations	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Total assets	**19,090**	19,331	**9,180**	10,010
Total liabilities	**(17,959)**	(17,530)	**(9,730)**	(9,843)
Turnover	**435**	3,450	**749**	2,546
Cost of sales	**(47)**	(405)	**(611)**	(1,871)
	388	3,045	**138**	675
Other revenue	**–**	3	**–**	5
Selling and distribution expenses	**–**	–	**(84)**	(475)
Administrative expenses	**(431)**	(2,763)	**(393)**	(254)
Other operating expenses	**–**	(681)	**(9)**	(1,726)
Loss from operating activities	**(43)**	(396)	**(348)**	(1,775)
Finance costs	**(41)**	(320)	**(11)**	(91)
Loss before tax	**(84)**	(716)	**(359)**	(1,866)
Tax	**–**	–	**–**	–
Net loss for the year	**(84)**	(716)	**(359)**	(1,866)

The directors are unable to estimate the amounts of net cash flows attributable to the discontinued operations.

7. DISCONTINUING OPERATIONS *(Continued)*

(b) Disposal of the Group's entire interest in the Skiing Operations

On 4 September 2002, the Group entered into a conditional agreement with an independent third party purchaser for the disposal of the Group's Skiing Operations, for a total consideration of RMB56 million (equivalent to HK$52.7 million) (the "Original Disposal"). However, the conditions as stipulated in the conditional agreement were not fulfilled and the Original Disposal was not completed. On 13 August 2003, a cancellation agreement was entered to terminate the Original Disposal.

On the same date, the Company entered into a new sales and purchase agreement (the "New Agreement") to dispose of the entire issued capital of HLJ Industry for a total consideration of RMB38.2 million (equivalent to HK$36 million). Under the terms of the New Agreement, the independent purchaser shall purchase 20% of the issued capital of HLJ Industry for a consideration of RMB9 million (equivalent to HK$8.5 million) (the "Initial Disposal"). The purchaser has an option to purchase the remaining 80% of the issued capital for a consideration of RMB29.2 million (equivalent to HK$27.5 million) within a one-year period expiring on 12 August 2004. If the purchaser does not exercise the option to purchase the remaining 80% of the issued capital of HLJ Industry, the purchaser shall return the 20% of the issued capital of HLJ Industry acquired under the Initial Disposal to the Company and the Company shall return the consideration of RMB9 million to the purchaser. Details of the transactions are set out in the circular issued by the Company on 2 September 2003.

7. DISCONTINUING OPERATIONS *(Continued)*

b) Disposal of the Group's entire interest in the Skiing Operations *(Continued)*

Details of the financial information relating to HLJ Industry were as follows:

	2003 **HK$'000**	2002 HK$'000
Turnover	**78**	–
Cost of sales	**(8)**	–
Gross profit	**70**	–
Administrative expenses	**(8,232)**	(7,790)
Other operating expenses, net	**110**	–
Loss before tax	**(8,052)**	(7,790)
Tax	**–**	–
Net loss for the year	**(8,052)**	(7,790)
Total assets	**36,125**	46,825
Total liabilities	**(25,126)**	(27,774)

The directors are unable to estimate the amounts of net cash flows attributable to the Skiing Operations.

8. OTHER OPERATING EXPENSES, NET

	2003 **HK$'000**	2002 HK$'000
Provision against sundry deposits	**–**	9,546
Provision for inventories	**2,400**	2,123
(Reversal of)/provision for impairment of properties under development *(note 18)*	**(6,107)**	13,078
(Written back)/provision for doubtful debts	**(103)**	4,842
Provision for amount due from a former director	**–**	519
Legal claims *(Note)*	**8,491**	–
Loss on disposal of fixed assets, net	**4**	663
Loss on write off of an associate	**1,161**	–
Impairment on goodwill arising on acquisition of subsidiaries	**56**	–
Amortisation of goodwill attributable to an associate *(note 21)*	**3,532**	3,662
Provision for other receivable	**–**	604
Provision for a legal claim *(note 34)*	**1,698**	–
	11,132	35,037

(Note): On 1 August 2003, the Company and a wholly-owned subsidiary of the Group entered into a settlement agreement with a former landlord of the Group to settle the judgement claims of RMB11.6 million to release the Ski Assets by payment of penalty of RMB9 million (equivalent to HK$8,491,000).

9. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2003 HK$'000	2002 HK$'000
Cost of services rendered	**204**	405
Cost of inventories sold	**803**	1,871
Cost of properties sold	**133,491**	10,070
Auditors' remuneration		
– current year	**680**	700
– underprovision in prior year	**160**	–
Depreciation		
– owned assets	**10,365**	8,972
– assets under finance leases	**162**	122
Operating lease rentals in respect of land and buildings	**1,579**	1,501
Staff costs (excluding directors' remuneration *(note 12)*:		
– wages and salaries	**5,043**	7,979
– retirement benefits scheme contributions	**101**	201

10. GAIN ON DISPOSAL OF AN ASSOCIATE

On 10 December 2003, the Group disposed of its entire interest in an associate namely Well Known Technology Limited ("Well Known") for a consideration of HK$156. The principal asset of Well Known was ownership of a 90% interest in Shenzhen Yuan Tang Baye Fingerprint Recognition Technology Co, Limited, a company established in Shenzhen, Mainland China and was engaged in design and development of fingerprint recognition technology. As the Group had previously fully written off its investment in Well Known, the Group recorded a gain of HK$156 on the disposal.

11. FINANCE COSTS

	2003 HK$'000	2002 HK$'000
Interest on bank loans and other loans wholly repayable:		
Within five years	**2,890**	12,863
Over five years	**–**	91
Interest on finance leases	**67**	66
	2,957	13,020

12. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance, is as follows:

	2003 **HK$'000**	2002 HK$'000
Fees	**176**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**2,176**	11,749
Retirement benefits scheme contributions	**35**	110
Less: Director's remuneration waived	**(1,699)**	–
	688	11,859

One independent non-executive director received fees of HK$88,000 for his services rendered to the Group during the year (2002: HK$nil).

During the year, 4 ex-directors and 1 existing director have agreed to waive their remuneration for past services of HK$1,699,499.

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

	Number of directors	
	2003	2002
Nil – HK$1,000,000	**12**	19
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**–**	2
HK$2,000,001 – HK$2,500,000	**–**	1

13. FIVE HIGHEST PAID EMPLOYEES

Three of the directors are among the five highest paid employees during the year (2002: Five directors). Details of whose remuneration are set out in note 12 to the financial statements.

The details of the remuneration of the other two non-director highest paid employees during the year ended 31 December 2003 are as follows:

	2003 **HK$'000**	2002 HK$'000
Salaries, allowances and benefits in kind	**881**	–
Retirement benefits scheme contributions	**24**	–
	905	–

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

	Number of employees	
	2003	2002
Nil – HK$1,000,000	**2**	–

14. TAXATION

No provision for Hong Kong profits tax has been made for the year as the Group did not generate any assessable profits arising in Hong Kong during the year (2002: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the respective jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2003	2002
	HK$'000	HK$'000
Current taxation		
Mainland China Enterprise income tax		
Provided for the year	**–**	9
Under provision in previous year	**–**	1,531
Hong Kong profits tax		
Under provision in previous years	**465**	–
	465	1,540
Deferred taxation		
Origination and reversal of temporary differences	**19,318**	(3,786)
	19,783	(2,246)

A reconciliation between tax expense and accounting profit at applicable tax rate is as follows:

	2003	2002
	HK$'000	HK$'000
Profit/(loss) before tax	**24,350**	(98,237)
Loss of the Company and subsidiaries	**34,189**	86,792
Profit/(loss) subject to income tax	**58,539**	(11,445)
Tax at tax rate of 33%	**19,318**	(3,777)
Under provision in previous years	**465**	1,531
	19,783	(2,246)

15. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The loss of the Company for the year ended 31 December 2003 dealt with in the consolidated income statement amounted to approximately HK$15,019,000 (2002: HK$97,403,000).

16. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders of approximately HK$4,443,000 (2002: loss of approximately HK$95,921,000) and on the weighted average of 2,840,520,093 (2002: 2,479,799,545) ordinary shares in issue during the year.

Diluted earnings/ (loss) per share for the year ended 31 December 2003 and 2002 have not been disclosed as there is no dilutive effect.

17. FIXED ASSETS

Group

	Land and buildings HK$'000	Operating rights of a toll bridge HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:								
At 1 January 2003	24,254	56,811	1,047	713	67,219	3,633	4,327	158,004
Additions	90	–	1,478	–	1,030	859	2,276	5,733
Acquisition of a subsidiary	20,754	–	–	–	3,631	–	–	24,385
Inclusion of a subsidiary previously omitted	6,171	–	–	–	697	–	–	6,868
Reclassification	1,835	–	–	–	–	–	(1,835)	–
Disposal of subsidiaries	(2,298)	(56,811)	(1,047)	–	(349)	(795)	–	(61,300)
Reversal of accrued costs	(5,034)	–	–	–	–	–	–	(5,034)
Disposals	–	–	–	–	(21)	–	–	(21)
At 31 December 2003	45,772	–	1,478	713	72,207	3,697	4,768	128,635
Accumulated depreciation and impairment:								
At 1 January 2003	4,884	37,852	16	713	41,957	1,187	–	86,609
Provided during the year	1,188	111	332	–	8,607	289	–	10,527
Inclusion of a subsidiary previously omitted	894	–	–	–	476	–	–	1,370
Disposal of subsidiaries	(797)	(37,963)	(20)	–	(228)	(513)	–	(39,521)
Disposals	–	–	–	–	(17)	–	–	(17)
At 31 December 2003	6,169	–	328	713	50,795	963	–	58,968
Net book value:								
At 31 December 2003	39,603	–	1,150	–	21,412	2,734	4,768	69,667
At 31 December 2002	19,370	18,959	1,031	–	25,262	2,446	4,327	71,395

The net book value of motor vehicles includes an amount of approximately HK$1,280,000 (2002: HK$1,442,000) in respect of assets held under finance leases.

17. FIXED ASSETS *(Continued)*

As 31 December 2002, certain furniture and equipment with a net book value of HK$23,833,000 have been pledged to secure other loans granted to the Group (note 35).

As at December 2002, certain land and buildings with a net book value of approximately HK$1,574,000 have been pledged to secure certain banking facilities granted to the Group (note 33).

All land and buildings and properties included under Construction in Progress are situated in Mainland China and are held under medium-term leases.

18. PROPERTIES UNDER DEVELOPMENT

	Group	
	2003	2002
	HK$'000	HK$'000
At cost:		
At beginning of year	**227,360**	425,463
Additions	**176,363**	21,994
Transferred to properties held for sale	**–**	(9,733)
Recognised in income statement	**(133,491)**	–
Reversal of impairment loss	**6,107**	–
Disposal of subsidiaries	**(50,944)**	–
Exchange adjustments	**–**	677
	225,395	438,401
Less: Accumulated impairment	**–**	(211,041)
	225,395	227,360
Portion classified as current assets	**(225,395)**	–
Non-current assets	**–**	227,360

All of the properties under development are situated in Mainland China and are held under medium-term leases.

18. PROPERTIES UNDER DEVELOPMENT *(Continued)*

For the year ended 31 December 2002, an impairment loss of HK$13,078,000 was made due to the less than favorable condition in the property market in certain areas in Mainland China. The amount was determined based on the directors' estimates of market values of these properties under development with reference to professional valuation. During the year, the property market in Shanghai, Mainland China became more active and the professional valuation made as at 31 December 2003 indicated that the carrying value of the properties was at market value. Therefore, the impairment loss made in prior year was reversed.

Certain properties under development amounting to HK$31,401,000 (2002: HK$24,528,000) held by the Group have been pledged to secure banking facilities granted to the Group (note 29).

Certain properties under development amounting to HK$nil (2002: HK$176,416,000) held by the Group have been pledged to secure banking facilities granted to an independent third party.

19. INTEREST IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	HK$'000
Unlisted investments, at cost	**633,132**	633,132
Due from subsidiaries	**478,911**	445,245
Due to subsidiaries	**(235,525)**	(210,608)
	876,518	867,769
Less: Provisions for impairment	**(746,499)**	(746,449)
	130,019	121,320

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

19. INTEREST IN SUBSIDIARIES *(Continued)*

The following is a list of the principal subsidiaries as at 31 December 2003:

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid ordinary share capital/ registered capital	Percentage of interest attributable to the Company 2003	2002	Principal activities
Dynamic Global Development Limited ("DGDL")	Hong Kong	HK$4 *(note (a))*	**100**	100	Investment holding
Fairyoung Port Investments (Holdings) Limited	British Virgin Islands	US$299	**100**	100	Investment holding
Fairyoung (Shanghai) Properties Limited #	Mainland China	US$12,000,000 *(note (b))*	**100**	100	Property development
Gover Limited	British Virgin Islands	US$1	**100**	100	Investment holding
Fairyoung (Heilongjiang) Industry Co., Ltd. #	Mainland China	RMB50,000,000 *(note (b))*	**100**	100	Operation of a skiing resort
Binzhou Huifeng Sanwei Co., Ltd.##	Mainland China	US$1,250,000 *(note (b))*	**51**	51	Sales of agricultural products

19. INTEREST IN SUBSIDIARIES *(Continued)*

The following is a list of the principal subsidiaries as at 31 December 2003:

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid ordinary share capital/ registered capital	Percentage of interest attributable to the Company 2003	2002	Principal activities
Harbin Dynamic Global Property Co., Ltd. @	Mainland China	RMB15,000,000 *(note (b))*	**70**	–	Property development
南漳水鏡湖度假村酒店有限責任公司 #	Mainland China	HK$4,000,000 *(note (b))*	**100**	–	Resort operation
Liberal Supply Limited	British Virgin Islands	US$1	**100**	100	Investment holding
Softech Limited	British Virgin Islands	US$1	**100**	100	Investment holding
Fortune Target Limited	British Virgin Islands	US$100	**100**	100	Investment holding
Fortune House Worldwide Holdings Limited	British Virgin Islands	US$1	**100**	100	Investment holding

Wholly foreign-owned enterprise registered in Mainland China

Sino-foreign equity joint venture registered in the Mainland China

@ Limited company established in the Mainland China

19. INTEREST IN SUBSIDIARIES *(Continued)*

Liberal Supply Limited, Softech Limited, Fortune Target Limited and Fortune House Worldwide Holdings Limited are held directly by the Company. All other principal subsidiaries are held indirectly by the Company.

Notes:

(a) The issued share capital of DGDL comprises two voting ordinary shares of HK$1 each and two non-voting deferred shares of HK$1 each.

(b) The amount represents the registered capital in Mainland China.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20. INTEREST IN A JOINT VENTURE

	2003	2002
	HK$'000	HK$'000
Share of net assets of a jointly-controlled entity	**–**	–
Due from a jointly-controlled entity	**1,941**	1,941
	1,941	1,941
Provision for amount due from a jointly-controlled entity	**(1,941)**	(1,941)
	–	–

The amount due from a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

20. INTEREST IN A JOINT VENTURE *(Continued)*

Particulars of the jointly-controlled entity, which is a corporate entity, are as follows:

Name	Nominal value of issued and paid-up registered capital/ country of registration and operations	Percentage of attributable equity interest held by the Group		Principal activity
		2003	2002	
Shanghai Huiyang Real Estate Development Co., Ltd. ("SH Huiyang")	US$5,000,000/ Mainland China	60	60	Property development

The operating results and financial position of SH Huiyang are summarised as follows:

	2003 **HK$'000**	2002 HK$'000
Operating results:		
Turnover	–	2,892
Loss after tax	**(475)**	(867)
Financial position:		
Non-current assets	**18**	24
Current assets*	**27,423**	27,824
Current liabilities	**(31,249)**	(31,181)
Net liabilities	**(3,808)**	(3,333)

* Included in the current assets were certain properties held for sale in Mainland China with a carrying amount of HK$25,962,000 as at 31 December 2003 (2002: HK$24,511,000) which were foreclosed by a court in Mainland China for the repayment of certain indebtedness of SH Huiyang.

21. INTEREST IN ASSOCIATES

	Group	
		(Restated)
	2003	2002
	HK$'000	HK$'000
Share of net assets	**345**	1,287
Goodwill arising on acquisition	**85,766**	118,013
Due from associates	**2,793**	3,904
	88,904	123,204
Provision for impairment	**(22,814)**	(51,529)
Provision for amount due from an associate	**–**	(178)
	66,090	71,497

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

All the associates of the Group are corporate entities.

The movements of the goodwill capitalised as an asset in the consolidated balance sheet were as follows:

	2003	2002
	HK$'000	HK$'000
Cost		
At 1 January	**127,018**	113,620
Disposal of an associate	**(31,043)**	–
Arising from additional acquisition of 10% of an associate	**–**	13,398
At 31 December	**95,975**	127,018
Accumulated amortisation and impairment		
At 1 January	**60,534**	56,872
Amortisation provided during the year	**3,532**	3,662
Disposal of an associate	**(31,043)**	–
At 31 December	**33,023**	60,534
Net book value		
At 31 December	**62,952**	66,484

21. INTEREST IN ASSOCIATES *(Continued)*

Details of the principal associates at the balance sheet date were as follows:

Name	Country of registration and operations	Percentage of interest attributable to the Group 2003	2002	Principal activities
Beijing Zotn Digital Technologies, Inc. ("Beijing Zotn")#	Mainland China	**27.3**	27.3	Application service provider
Golden Yield Enterprises Limited ("Golden Yield")	British Virgin Islands	**39**	39	Investment holding

Beijing Zotn is a 70%-owned subsidiary of Golden Yield.

22. LONG–TERM INVESTMENTS

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted investments, at cost	**34,500**	34,500	**29,500**	29,500
Less: Provision for impairment	**(34,500)**	(34,500)	**(29,500)**	(29,500)
	–	–	**–**	–

23. PROPERTIES HELD FOR SALE

As at 31 December 2002, the carrying amount of properties held for sale carried at net realisable value was HK$50,393,000.

24. INVENTORIES

	Group	
	2003	2002
	HK$'000	HK$'000
Consumables	**344**	–
Merchandise	**–**	5,429
Provision	**–**	(2,123)
	344	3,306

All the inventories are stated at cost.

25. TRADE RECEIVABLES

Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended to two to three months. Credit limits were set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management. An aged analysis of the trade receivables is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Within 3 months	**61**	52
More than 3 months but less than 6 months	**–**	11
Over 1 year	**–**	70
	61	133

26. CASH AND CASH EQUIVALENTS AND PLEDGED/RESTRICTED BANK BALANCES

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Total cash and bank balances	**17,994**	6,422	**27**	1
Less: Pledged bank balances				
– for short term bank loans	**–**	(67)	**–**	–
– for securing mortgage loans of certain purchasers of the Group's properties under development	**(982)**	(1,957)	**–**	–
Restricted bank balances for repairs and maintenance of the Group's properties held for sale	**–**	(1,193)	**–**	–
	(982)	(3,217)	**–**	–
Cash and cash equivalents as at 31 December	**17,012**	3,205	**27**	1

27. TRADE PAYABLES

An aged analysis of trade payables is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Within 3 months	**15,988**	–
More than 3 months but less than 6 months	**–**	2,362
More than 6 months but less than 1 year	**–**	23
More than 1 year	**7,744**	49,059
	23,732	51,444

28. DUE TO A DIRECTOR/FORMER DIRECTORS

The amounts due to a director/former directors were unsecured, interest free and without pre-determined terms of repayment.

29. SHORT-TERM BANK LOANS

	2003 HK$'000	(Restated) 2002 HK$'000
Secured	**11,330**	47,642
Unsecured	**3,412**	3,408
	14,742	51,050

The unsecured bank loans were overdue as at 31 December 2003. The secured bank loans as at 31 December 2003 were secured by properties under development with carrying value of approximately HK$31,401,000.

The bank loans as at 31 December 2002 were secured by the following:

(i) operating rights of the Toll Bridge Operations with net book value of approximately HK$18,959,000,

(ii) revenue generated from the Toll Bridge Operations,

(iii) a bank balance of approximately HK$67,000, and

(iv) properties under development with carrying value of approximately HK$24,528,000.

30. DUE TO A MAJOR SHAREHOLDER

	Group		Company	
	2003 HK$'000	2002 HK$'000	**2003 HK$'000**	2002 HK$'000
Loans	**2,487**	19,012	**2,487**	10,692
Accrued interest	**–**	35	**–**	35
Current account	**–**	600	**–**	600
	2,487	19,647	**2,487**	11,327

The loans are unsecured and repayable within one year. On 30 June 2003, the major shareholder ceased to charge interest on the loans which was previously at 5% per annum.

31. DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to a minority shareholder of a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

32. FINANCE LEASE PAYABLE

	Minimum lease payments		Present value of minimum lease payments	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases				
Within one year	**298**	385	**249**	319
In the second to fifth years inclusive	**707**	1,008	**656**	908
	1,005	1,393	**905**	1,227
Less: Future finance charges	**(100)**	(166)	**N/A**	N/A
Present value of lease obligations	**905**	1,227	**905**	1,227
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(249)**	(319)
Non-current portion			**656**	908

Interest on finance lease is charged on the outstanding balance at 6% to 11% (2002: 6% to 11%) per annum.

33. LONG-TERM BANK LOANS

	Group	
	2003	2002
	HK$'000	HK$'000
Bank loans, secured		
Wholly repayable within five years	**–**	–
Not wholly repayable within five years	**–**	1,254
	–	1,254
The maturity of the bank loans are as follows:		
Within one year or on demand	**–**	140
In the second year	**–**	150
In the third to fifth years, inclusive	**–**	518
Over five years	**–**	446
	–	1,254
Portion classified under current liabilities	**–**	(140)
Non-current portion	**–**	1,114

As at 31 December 2002, the bank loans were secured by certain of the Group's land and buildings with net book value of HK$1,574,000.

34. PROVISION FOR LEGAL CLAIMS

The movement of the provision, which was included in other payables and accruals, is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
At 1 January	**10,361**	10,361
Provision for the year (i)	**1,698**	–
Disposal of a subsidiary (ii)	**(10,361)**	–
At 31 December	**1,698**	10,361

34. PROVISION FOR LEGAL CLAIMS *(Continued)*

(i) During the year, a contractor filed a claim against a subsidiary. The contractor claimed that the subsidiary had not refunded a contracting deposit of RMB2,000,000 paid by the contractor in conjunction with tendering construction project. At present, the Group is negotiating for a settlement with the contractor. The directors expect that the claim will be settled by payment of not more than RMB1.8 million. Therefore, a provision of RMB1.8 million was made in the financial statements.

(ii) In 1999, Xiamen Real Estate entered into an agreement to acquire a company from a third party at a consideration of RMB13,000,000. A deposit of RMB2,000,000 had been made. However, Xiamen Real Estate had not completed the transaction and the third party took legal action against Xiamen Real Estate claiming the remaining balance of RMB11,000,000 (equivalent to HK$10,361,000). Therefore, a provision of approximately HK$10,361,000 was made by the Group during the year ended 31 December 2001. During the year, Xiamen Real Estate was disposed of as set out in note 1 to the financial statements and the provision was therefore released.

35. OTHER SHORT-TERM LOANS

	Group		**Company**	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unsecured	**13,200**	8,383	**13,200**	552
Secured	**–**	12,931	**–**	10,000
	13,200	21,314	**13,200**	10,552

The unsecured other loans bear interest at approximately 14.4% (2002: prime rate plus 2% to 7.6%) per annum and are repayable within one year.

As at 31 December 2002, the secured other loans were bearing interest at rates ranging from 7% to 30% per annum and were repayable within one year. The secured loans were secured by the following:

(i) certain of the Group's fixed assets with net book value of approximately HK$23,833,000;

(ii) the Group's entire interest in HLJ Industry; and

(iii) a debenture incorporating first floating charge over the undertaking, property and assets of the Company.

36. DEFERRED TAX LIABILITIES

At the balance sheet date, the components of deferred tax liabilities provided at a tax rate of 33% (2002: 33%) were as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Deferred tax liabilities:		
Profit from property development recognised during the year, but not taken up in the statutory accounts of the subsidiary in Mainland China	**(16,068)**	–
Deferred tax assets:		
Cost and expenses not deductible until taken up in the statutory accounts of the subsidiary in Mainland China	**536**	536
Impairment loss of property under development but not taken up in the statutory accounts of the subsidiary in Mainland China	**–**	3,250
Net deferred tax (liabilities)/assets	**(15,532)**	3,786

The Group has tax losses arising in Hong Kong and Mainland China of approximately HK$175,136,000 (2002: HK$159,268,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as these companies have been loss-making for some years.

The adoption of SSAP 12 (Revised) constituted a change of accounting policy which has been applied retrospectively. Prior year adjustments have been made and comparative figures have been restated. As a result, the consolidated net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 has been decreased by HK$3,786,000. The accumulated losses of the Group as at 1 January 2003 has also been decreased by HK$3,786,000.

37. SHARE CAPITAL

	Note	2003 No. of shares	2003 Amounts HK$'000	2002 No. of shares	2002 Amounts HK$'000
Authorized:					
Ordinary shares of HK$0.1 each		**4,000,000,000**	**400,000**	4,000,000,000	400,000
Issued and fully paid:					
At 1 January		**2,620,410,504**	**262,041**	2,189,410,504	218,941
Shares issued for					
– acquisitions of subsidiaries	(i)	**390,000,000**	**39,000**	–	–
– additional shares of an associate	(ii)(a)	**–**	**–**	231,000,000	23,100
Issue of shares by placements	(ii)(b)	**–**	**–**	200,000,000	20,000
At 31 December		**3,010,410,504**	**301,041**	2,620,410,504	262,041

(i) Pursuant to an agreement dated 9 May 2003, the Company acquired the entire issued share capital of Easy Carry, Turbo Jet and Profit Guard for a total consideration of HK$39,000,000. Easy Carry, Turbo Jet and Profit Guard collectively held 100% registered capital of 南漳水鏡湖度假村酒店有限責任公司 which was operating a resort hotel in Mainland China. On 9 June 2003, the consideration was satisfied by the allotment and issue of 390,000,000 new ordinary shares of the Company credited as fully paid at a fair value of HK$0.063 each.

(ii) During the year ended 31 December 2002, the Company issued a total of 431,000,000 ordinary shares, the details are as follows:

(a) Pursuant to an agreement dated 4 March 2002 entered into between a wholly-owned subsidiary, namely Fairyoung Net Association Limited and Modern World Enterprise Co., Ltd., the Group acquired additional 1,000 ordinary shares of US$1.00 each in Golden Yield, representing 10% of its entire issued capital. On 25 March 2002, the consideration was satisfied by the allotment and issue of 231,000,000 new ordinary shares of the Company credited as fully paid at a fair value of HK$0.058 each. As a result of the transaction, the Group obtained in aggregate 39% of the entire issued share capital of Golden Yield.

(b) During the period from April to July 2002, an aggregate of 200,000,000 new ordinary shares by way of placing at par value of HK$0.1 each were issued for cash consideration.

38. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors and other employees of the Group. The Scheme became effective on 28 June 2000 and, unless otherwise cancelled or amended, will remain in force for 3 years from that date. During the year, the Scheme expired and there was no new scheme adopted by the Group since then.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. There is no limit on the maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period. No eligible participant shall be granted options exceeds 25% of the total share options permitted to be granted under the scheme.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, with no consideration being payable by the grantee. The vesting period and exercise period of the share options granted would be determined by the directors and the exercise period ends on a date which is not later than ten years from the date of the offer of the share options.

The exercise price of the share options would be determined by the directors, but may not be less than the higher of (i) the nominal value of the shares; and (ii) not less than 80% of the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

Under the Scheme, the directors of the Company are authorised at their absolute discretion, to invite employee, including any executive director of the Company or any of its subsidiaries, to take up options to subscribe for shares in the Company. The subscription price will be determined by the directors at the higher of the nominal value of the shares or not less than 80% of the average of the closing price per share on the Stock Exchange for the five trading days immediately preceding the date on which the relevant option is granted to the employee.

During the year, there was no option granted by the Company and the Company had no options outstanding as at 31 December 2003.

39. RESERVES

GROUP

	Share premium account HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Exchange equalisation reserve HK$'000	Legal reserve *(Note (a))* HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2002							
– As previously reported	87,660	207,194	52	12,975	1,060	(368,703)	(59,762)
– Share of net assets of an associate (i)	–	–	–	–	–	1,042	1,042
– As restated	87,660	207,194	52	12,975	1,060	(367,661)	(58,720)
Discount on issue of new shares	(9,702)	–	–	–	–	–	(9,702)
Net loss for the year	–	–	–	–	–	(95,921)	(95,921)
Exchange adjustments	–	–	–	248	–	–	248
At 31 December 2002	77,958	207,194	52	13,223	1,060	(463,582)	(164,095)
At 1 January 2003							
– As previously reported	77,958	207,194	52	13,223	1,060	(466,854)	(167,367)
– Share of net assets of an associate (i)	–	–	–	–	–	328	328
– Effect on change on accounting policy (ii)	–	–	–	–	–	3,786	3,786
Restatement of the result of a subsidiary (iii)	–	–	–	–	–	(842)	(842)
– As restated	77,958	207,194	52	13,223	1,060	(463,582)	(164,095)
Discount on issue of new shares	(14,430)	–	–	–	–	–	(14,430)
Disposal of subsidiary	–	–	–	(5,318)	(1,060)	6,378	–
Release on disposal of subsidiary	–	15,000	–	–	–	–	15,000
Profit for the year	–	–	–	–	–	4,443	4,443
Inclusion of a subsidiary previously omitted	–	–	–	–	–	3,559	3,559
At 31 December 2003	63,528	222,194	52	7,905	–	(449,202)	(155,523)

39. RESERVES *(Continued)*

Notes:

(i) During the year ended 31 December 2002, the Group had not equity accounted for the results of an associate as the financial statements were not available. During the year, the Group obtained such financial statements and therefore the comparative figures have been restated accordingly.

(ii) In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probabilities to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. The adoption of SSAP 12 (Revised) constituted a change of accounting policy which has been applied retrospectively. Therefore, prior year adjustments have been made to restate the comparative figures.

(iii) The financial statements for the year ended 31 December 2002 of a subsidiary, namely Fairyoung Heilongjiang Industry Co., Limited ("HLJ Industry"), were not available as the investment in HLJ Industry was frozen by a court in Mainland China. During the year, the Group obtained a release from the court and the financial statements of HLJ Industry for the year ended 31 December 2002 became available. Therefore, the comparative figures have been restated accordingly.

39. RESERVES *(Continued)*

COMPANY

	Share premium account HK$'000	Contributed surplus *(note (b))* HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2002	87,660	337,613	52	(485,587)	(60,262)
Discount on issue of new shares	(9,702)	–	–	–	(9,702)
Net loss for the year	–	–	–	(97,403)	(97,403)
At 31 December 2002 and at 1 January 2003	77,958	337,613	52	(582,990)	(167,367)
Discount on issue of new shares	(14,430)	–	–	–	(14,430)
Net loss for the year	–	–	–	(15,019)	(15,019)
At 31 December 2003	63,528	337,613	52	(598,009)	(196,816)

	Group 2003 HK$'000	Group 2002 HK$'000
Losses accumulated in:		
Company and subsidiaries	**(422,164)**	(436,001)
Jointly-controlled entity	**(24,073)**	(24,073)
Associates	**(2,965)**	(3,508)
	(449,202)	(463,582)

Notes:

(a) The legal reserve is a statutory reserve of foreign investment enterprises in Mainland China. The transfers to this reserve are governed by the relevant laws and regulations in the Mainland China.

(b) The contributed surplus arose in 1989 as a result of the Group's reorganisation and represented the difference between the nominal value of the Company's shares allotted under the reorganisation scheme and the then consolidated net asset value of the acquired subsidiaries. According to the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) from operating activities to net cash generated from/(used in) operations

	2003 HK$'000	(Restated) 2002 HK$'000
Profit/(loss) from operating activities	**16,009**	(83,770)
Interest income	**(170)**	(34)
Depreciation	**10,527**	9,094
Loss on disposal of fixed assets, net	**4**	663
(Reversal of)/provision for impairment of properties under development	**(6,107)**	13,078
Impairment of goodwill arising from acquisition of subsidiaries	**56**	–
Amortisation of goodwill attributable to associates	**3,532**	3,662
Provision against sundry deposits	**–**	9,546
Provision for inventories	**2,400**	2,123
Provision for legal claim	**1,698**	–
Loss on write off of an associate	**1,161**	–
(Write back)/provision for doubtful debts	**(103)**	4,842
Provision for amount due from a former director	**–**	519
Operating profit/(loss) before working capital changes	**29,007**	(40,277)
Increase in properties under development	**(42,872)**	(21,994)
(Increase)/decrease in properties held for sale	**(1,098)**	10,070
Increase in inventories	**(215)**	(4,120)
Increase in other receivable, deposits and prepayments	**(8,177)**	(13,305)
Increase in amount due from a former director	**–**	(519)
Increase in other payables and accruals	**44,004**	44,841
(Decrease)/increase in amount due to directors	**(960)**	960
Decrease in trade receivables	**250**	821
Decrease in trade payables	**(27,712)**	(6,383)
Increase in deposits received	**14,998**	28,865
Net cash generated from (used in) operations	**7,225**	(1,041)

40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Acquisition of subsidiaries

	2003 HK$'000	2002 HK$'000
Net assets acquired of:		
Fixed assets	**24,385**	–
Inventories	**67**	–
Debtors, deposits and prepayments	**272**	–
Cash and bank balances	**152**	–
Creditors, accruals and other payables	**(362)**	–
	24,514	–
Goodwill arising on acquisition	**56**	–
	24,570	–
Satisfied by:		
Allotment of new shares	**39,000**	–
Discount on allotment of new shares	**(14,430)**	–
	24,570	–

Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries.

	2003 HK$'000	2002 HK$'000
Cash and cash equivalents acquired with subsidiaries	**152**	–
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**152**	–

40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Disposals of subsidiaries

	2003 HK$'000	2002 HK$'000
Net assets disposed of:		
Fixed assets	21,779	–
Properties under development	50,944	–
Pledged bank balances	1,086	–
Restricted bank balances	1,193	–
Properties held for sales	51,491	–
Inventories	922	–
Due from associates	1,188	–
Debtors, deposits and prepayments	8,349	–
Pledged bank deposits	67	–
Cash and bank balances	617	–
Creditors, accruals and other payables	(101,499)	–
Due to a minority shareholder of a subsidiary	(4,933)	–
Short-term bank loans	(47,782)	–
Other short-term loan	(7,830)	–
Long-term bank loans	(1,089)	–
Minority interests	(586)	–
	(26,083)	–
Negative goodwill released on disposals	15,000	–
Gain on disposals	11,083	–
	–	–
Satisfied by:		
Cash	–	–

The total consideration for the disposal was RMB4.

Analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries.

40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Disposals of subsidiaries *(Continued)*

	2003	2002
	HK$'000	HK$'000
Cash consideration of RMB4 received	**–**	–
Cash and cash equivalents disposed of with subsidiaries	**617**	–
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	**617**	–

(d) Major non-cash transactions

During the year, the Group had the following major non-cash transactions.

On 9 June 2003, 390,000,000 new ordinary shares of HK$0.10 each in the Company were allotted and issued at a fair value of HK$0.063 per share, credited as fully paid, for acquisition of subsidiaries.

In prior year, the Group had the following major non-cash transactions:

On 25 March 2002, 231,000,000 new ordinary shares of HK$0.10 each in the Company were allotted and issued at a fair value of HK$0.058 per share, credited as fully paid, for acquisition of additional 10% interest in an associate. The Group entered into finance lease agreements in respect of the acquisition of motor vehicles with a total capital value at the inception of the leases of approximately HK$1,222,000.

41. CONTINGENT LIABILITIES

(a) Guarantees

	Group		**Company**	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given for banking/other loan facilities granted to subsidiaries	**–**	–	**–**	10,759
Guarantees given to banks in respect of mortgage loans made to the purchasers of the Group's properties under development	**154,118**	61,365	**–**	–
	154,118	61,365	**–**	10,759

41. CONTINGENT LIABILITIES *(Continued)*

(b) At the balance sheet date, the Group's share of guarantees given to banks in respect of mortgage loans made to the purchasers of the properties of its jointly-controlled entity totalled HK$nil (2002: HK$6,251,000).

42. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease terms ranging from one to three years.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2003	2002
	HK$'000	HK$'000
Within one year	**979**	2,163
In the second to fifth years, inclusive	**1,090**	586
	2,069	2,749

The Company did not have significant operating lease arrangements at the balance sheet date.

43. LITIGATION

On 20 January 2004, the Company received a claim from an ex-director for loss of office under a service contract for a total sum of approximately HK$1,999,000. The Company has filed a defence on 24 February 2004. Taking into account the legal advice, the directors believe that the Company has valid defence against the claim and therefore no provision is necessary.

On 6 March 2003, the Group completed the disposal of 4 subsidiaries (the Subsidiaries), the details of which are set out in note 1 to the financial statements. In December 2003, the buyer of the Subsidiaries made a claim against the Company and alleged that based on a guarantee issued by a former director of the Company at the time that the Subsidiaries were disposed of, the Company would be liable to compensate the buyer at 50% of the net liabilities of the Subsidiaries exceeding RMB20 million, up to a maximum of RMB5 million. The Company filed a defence against the claim on 26 March 2004. On the basis that the sales and purchase agreement did not contain any term for such compensation and the Company had not entered into any legally binding contract agreeing to such compensation, the directors believe that no provision for the claim is necessary.

44. COMMITMENTS

At the balance sheet date, the Group had the following capital commitments not provided for in the financial statements:

	2003 HK$'000	2002 HK$'000
Fixed assets and construction in progress:		
Authorised, but not contracted for	–	29,871
Properties under development:		
Authorised and contracted for	45,267	77,445
Authorised, but not contracted for	25,979	177,024
	71,246	254,469
Others:		
Authorised and contracted for	–	142,811
Total commitments	71,246	427,151

The Company did not have significant commitments at the balance sheet date.

The directors considered that the pre-sale of properties under development will generate sufficient cash to meet the capital commitments.

45. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with related parties:

		2003 HK$'000	2002 HK$'000
(i)	Management fee paid to the major shareholder	420	600
(ii)	Loan interest expenses paid to the major shareholder	219	35
(iii)	Fee for managing property development paid to a fellow subsidiary of the major shareholder	302	–

45. RELATED PARTY TRANSACTIONS *(Continued)*

(i) On 2 November 2002, the Company entered into an agreement with the major shareholder whereby the shareholder shall assist the Company to second staff members to manage and advise on the Company's development. The maximum secondment fee shall be HK$350,000 per month. During the year, a total of HK$420,000 were paid. (2002: HK$600,000).

(ii) On 1 November 2002, the Company issued a promissory note to the major shareholder for HK$980,000. The note is unsecured, bearing interest at prime rate in Hong Kong and without fixed repayment terms.

On 18 November 2002, the Company entered into a loan agreement with the major shareholder. Under the terms of the loan agreement, the major shareholder shall grant the Company loan facilities up to a maximum of HK$9,000,000 for a period of 12 months. The loans are unsecured and bearing interest at 5% per annum.

On 6 December 2002, the Company entered into a supplemental loan agreement with the major shareholder. Under the terms of the supplemental loan agreement, the major shareholder shall grant the Company loan facilities up to a maximum of HK$25,020,000 for a period of 12 months. The loans are unsecured and bearing interest at 5% per annum.

During the year, total loans of approximately HK$24,681,000 were drawn down under the loan agreements. (2002: HK$19,012,000).

(iii) During the year, the Group engaged a fellow subsidiary of the major shareholder to manage the property development project in Shanghai, Mainland China. The fee was determined after arm's length negotiation between the parties concerned.