

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

1. GENERAL

The Company was incorporated in the Cayman Islands on 10 August 1998 with limited liability. The Company's shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of introduction on 24 May 2000.

The principal activity of the Company is investment holding and those of its subsidiaries are the property development and investment in the People's Republic of China ("PRC").

Particulars of the subsidiaries are as follows:

Name	Legal form	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
				Directly	Indirectly	
Beijing New Rank Real Estate Development Co., Limited ("BJNR")	Sino-foreign equity joint venture	PRC	US\$9,200,000 Registered	—	99%	Property development and investment
Beijing Zhong Zheng Real Estate Development Co., Limited ("BJCSB")	Sino-foreign co-operative joint venture	PRC	US\$25,000,000 Registered	—	51% (see note 41(c))	Property development
NR (BVI) Holdings Limited	Limited liability company	British Virgin Islands	US\$47,001 Ordinary	100%	—	Investment holding
New Rank (BVI 1) Limited	Limited liability company	British Virgin Islands	US\$11,000 Ordinary	—	100%	Investment holding
New Rank (BVI 2) Limited	Limited liability company	British Virgin Islands	US\$36,000 Ordinary	—	100%	Investment holding
New Rank International Limited	Limited liability company	Hong Kong	HK\$2 Ordinary HK\$5,000,000 Non-voting deferred (note 1)	—	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

1. GENERAL (Continued)

Name	Legal form	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
				Directly	Indirectly	
New Rank Services Limited	Limited liability company	Hong Kong	HK\$2 Ordinary	—	100%	General management
Polywell Finance Corporation	Limited liability company	British Virgin Islands	US\$1 Ordinary	100%	—	Inactive
Precise Assets Limited	Limited liability company	British Virgin Islands	US\$1 Ordinary	—	100%	Inactive
Sherford Company Limited	Limited liability company	Cayman Islands	US\$3 Ordinary	—	100%	Investment holding
Team Success Management Limited	Limited liability company	British Virgin Islands	US\$1 Ordinary	—	100%	Investment holding
Tong Sun Limited	Limited liability company	Western Samoa	US\$49 Class A Ordinary US\$51 Class B Ordinary	—	51%	Investment holding
Treasure Star International Limited	Limited liability company	Hong Kong	HK\$2 Ordinary	—	100%	General management
Very Best Investments Limited	Limited liability company	British Virgin Islands	US\$1 Ordinary	—	100%	Inactive

Notes:

- 1) The non-voting deferred shares, which are not held by the Group, carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up.
- 2) Other than the two PRC subsidiaries, whose place of operations are in the PRC, the place of operation of other subsidiaries are basically in Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

2. BASIS OF PRESENTATION

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its deficiency of shareholders' funds of approximately HK\$281.8 million as at 31 December 2003.

The Group is dependent upon the continued support of its bankers and creditors. As explained in note 25, the Group has defaulted in respect of the repayment of certain bank loans totalling approximately HK\$92million (2002: HK\$92 million) and such amounts have become repayable on demand. Also, certain creditors of the Group have taken legal action to recover overdue balances which amounted to approximately HK\$137 million. Certain of these bankers and creditors have applied to the court in Beijing to freeze certain land and buildings and investment properties of the Group.

The Group's principal project is the development of a site in Beijing, the PRC, on which an office complex will be developed and which is included in the balance sheet at 31 December 2003 as property under development for sale of HK\$744,400,000 (2002: HK\$710,307,000). A portion of the property under construction was frozen by the court on the applications of creditors and bankers in 2002.

During the year, the shareholders of the Company approved the disposal of 49% interest in a wholly-owned subsidiary, Tong Sun Limited which holds indirectly the above property under development. The sale transaction includes, among other things, the subscription for 49 new shares at US\$49, granting an interest free loan to Tong Sun Limited by the purchaser and granting an interest bearing loan of HK\$45 million from the holding company of the purchaser. In connection with the above disposal, the subsidiary in the PRC (the "PRC Subsidiary") holding the property under development also entered into a master standstill agreement with its creditors in respect of, among other things, the settlement of the disputes between the PRC Subsidiary and its creditors and other parties, withholding of legal action against the PRC Subsidiary by its creditor, the provision of further finance by a bank of the Group for the completion of the property under development and the arrangement for ultimate repayment of loans and amounts due from the PRC Subsidiary to its creditors. Consequently, the freeze of the property under development was released. The construction work recommenced in October 2003 after the adoption of a new development plan.

In December 2003, the Group entered into a conditional agreement with China Network Communications Group Corporation ("CNC"), an independent third party in relation to certain financial and construction arrangements for the property under development. Pursuant to the agreement, the Group has agreed, subject to satisfaction of certain conditions precedent, to dispose to CNC the property under development upon completion for an aggregate consideration of approximately HK\$1,875.8 million. The consideration will be settled by a cash consideration of approximately HK\$1,455 million payable in eight separate instalments in 2004 and 2005 and properties at an agreed value of approximately HK\$420.8 million. The instalments are to be used to solely finance the development of the property. The conditions precedent to the completion of the sale include, among other things, the passing of the examinations of the completed property by relevant government authorities and the satisfaction of certain quality standards as required by the purchaser. The directors consider that the instalment payments to be received by the Group will be sufficient to enable the Group to complete the project and to satisfy the conditions precedent to the sale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

2. BASIS OF PRESENTATION (Continued)

Against this background, the Group is negotiating with its bankers for the rescheduling or extension of the existing loan facilities which are currently in default and plans also to seek to initiate negotiations with creditors for the restructuring of amounts due to them. On the basis that the disposal of the property under development will be successfully completed and that the completion of the project will as described above be self-financing out of the instalment payments, and provided that the negotiations with the bankers and creditors can be satisfactorily concluded, the directors consider that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

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

SSAP 12 (Revised)	Income taxes
-------------------	--------------

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly.

As a result of this change in policy, the balance of accumulated losses at 1 January 2002 has been increased by HK\$26,410,000, representing the cumulative effect of the change in policy on the results for periods prior to 1 January 2002. The balance on the Group's investment property revaluation reserve and property revaluation reserve at 1 January 2002 has been decreased by HK\$35,727,000 and HK\$20,911,000 respectively, representing the deferred tax liability recognised in respect of the revaluation surplus on the Group's properties at that date. The change has resulted in an increase in the loss and a decrease in property revaluation reserve of HK\$407,000 and HK\$3,819,000 respectively for the year ended 31 December 2003 (2002: a decrease of HK\$34,283,000 and an increase of HK\$5,358,000) respectively. The change has also resulted in an increase in the investment property revaluation reserve HK\$31,618,000 for the year ended 31 December 2002.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

4. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties.

The financial statements 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 31 December each year.

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

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Investments in subsidiaries

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

Revenue recognition

Revenue is recognised on the following bases:

- (i) Sales of properties

Revenue and income arising from sale of completed properties held for sale is recognised upon completion of sale when title passes to the purchaser.

Revenue arising from pre-sale of completed properties under development is based on percentage of completion method. Income arising from the pre-sale of properties under development is recognised when legally binding unconditional sales contracts are signed, provided that the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined and on the basis that the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit recognised on the properties pre-sold during the accounting year is calculated by reference to the proportion of construction costs incurred up to the end of the period to the estimated total construction costs to completion, limited to the amount of sales deposits received with due allowances for contingencies. Receivables for sales transactions financed by the Group are recorded as instalment contract receivables.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(ii) Rental income

Rental income under operating leases is recognised on the accruals basis over the term of the respective leases.

(iii) Interest income

Interest income from deposits placed with banks and other financial institutions is recognised on the accruals basis by reference to the principal outstanding and at the interest rate applicable.

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

(iv) Investment income

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

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and accumulated impairment loss.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation. Any revaluation increase arising on revaluation of land and buildings is credited to the property 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 charged to the income statement to the extent that it exceeds the balance, if any, on the property 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 retained profits.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives after taking into consideration a residual value of up to 10%, using the straight line method, at the following rates per annum:

Land and buildings	2.5%
Furniture, fixtures and equipment	20% to 33.3%
Motor vehicles	20%

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)***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 valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

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 on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property under development

Property under development for sale is included in current assets at the lower of cost or net realisable value.

Cost of property under development comprises land costs, fees for land use rights and development costs including interest charges and other costs directly attributable to such properties. Net realisable value is based on estimated selling prices in the ordinary course of business as determined by management with reference to prevailing market conditions, less further costs expected to be incurred to completion and direct selling expenses.

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 loss is 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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 SSAP.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Assets held under finance leases

Assets held under finance leases are capitalised at their fair value on the date of acquisition. The principal portion of the corresponding commitments is shown as obligations of the Group. Finance costs, which represent the difference between the total commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases or contracts so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Operating leases

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

Borrowing costs

Interest is expensed as incurred, except for the interest directly attributable to the construction or acquisition of the property under development which is capitalised as part of the cost of that property. Interest is capitalised at the actual interest incurred on the related borrowings up to the date of completion of that property.

All other borrowing costs are charged to income 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 at the balance sheet date are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of overseas subsidiaries are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rate for the year. All exchange differences arising on consolidation are dealt with in reserves.

Taxation

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

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 items that are never taxable or deductible.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

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

Staff retirement benefits

Cost of staff retirement benefits are charged to the income statement and property under development in the relevant periods in which they are incurred.

5. TURNOVER

Turnover represents rental income less business tax.

Business tax

The Group is subject to business tax at 5% on its turnover and other revenue.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Segment information about these businesses is presented below.

2003

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue	<u>—</u>	<u>2,609</u>	<u>2,609</u>
Results			
Segment results	<u>(3,598)</u>	<u>(12,081)</u>	(15,679)
Other operating income			1,608
Unallocated corporate expenses			<u>(23,838)</u>
Loss from operations			(37,909)
Finance costs			<u>(27,241)</u>
Loss before taxation			(65,150)
Taxation charge			<u>(407)</u>
Loss after taxation			<u>(65,557)</u>
ASSETS			
Segment assets	<u>769,660</u>	<u>161,633</u>	931,293
Unallocated corporate assets			<u>213,578</u>
Consolidated total assets			<u>1,144,871</u>
LIABILITIES			
Segment liabilities	<u>468,608</u>	<u>154,775</u>	623,383
Unallocated corporate liabilities			<u>622,007</u>
Consolidated total liabilities			<u>1,245,390</u>
OTHER INFORMATION			
Capital additions	94	—	
Depreciation	<u>168</u>	<u>—</u>	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2002

	Property development HK\$'000	Property investment HK\$'000	Consolidated HK\$'000 (restated)
Revenue	—	2,658	2,658
Results			
Segment results	(22,680)	(57,511)	(80,191)
Other operating income			1,247
Allowance for loan receivable			(5,000)
Unallocated corporate expenses			(26,657)
Loss from operations			(110,601)
Finance costs			(26,739)
Loss before taxation			(137,340)
Taxation credit			34,283
Loss after taxation			(103,057)
ASSETS			
Segment assets	736,264	157,867	894,131
Unallocated corporate assets			163,681
Consolidated total assets			1,057,812
LIABILITIES			
Segment liabilities	655,604	98,716	754,320
Unallocated corporate liabilities			340,649
Consolidated total liabilities			1,094,969
OTHER INFORMATION			
Capital additions	114	—	
Depreciation	185	—	
Allowance for accounts receivable	4,190	—	
Deficit arising from revaluation of investment properties	—	55,745	

No geographical segment information of the Group is shown as the operating business of the Group is solely carried out in Beijing, the PRC and the Group's assets are substantially located in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

7. OTHER OPERATING INCOME

	2003 HK\$'000	2002 HK\$'000
Interest income	62	1,247
Other income	1,546	1,324
	<u>1,608</u>	<u>2,571</u>

8. LOSS FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Loss from operations has been arrived at after charging:		
Auditors' remuneration	823	1,126
Depreciation of property, plant and equipment		
Owned assets	2,372	3,128
Leased assets	137	136
Exchange loss	153	22
Loss on disposal of property, plant and equipment	—	1,480
Operating lease rental of premises	1,908	2,777
Management fee paid	3,310	—
Staff costs including directors' emoluments (note 10 below)	11,395	12,175
Retirement benefit scheme contributions, including those included in directors' emoluments (note 10 below)	167	154
Total staff costs	<u>11,562</u>	<u>12,329</u>
and after crediting:		
Net rental income less negligible outgoings	<u>2,609</u>	<u>2,658</u>

In addition, the loss on disposal of the 49% interest in a subsidiary as described in note 18 to the financial statements amounted to HK\$382.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

9. FINANCE COSTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest on:		
— Bank loans and overdrafts wholly repayable within five years	23,961	27,800
— Other loans wholly repayable within five years	1,405	—
— Payable overdue	4,243	—
— Finance leases	34	29
	<hr/>	<hr/>
Total borrowing costs	29,643	27,829
Less: Amounts capitalised	(2,402)	(1,090)
	<hr/>	<hr/>
	27,241	26,739
	<hr/> <hr/>	<hr/> <hr/>

Borrowing costs capitalized during the year are calculated by application of a capitalization rate of 6.5% (2002: 6.5%) to expenditure on qualifying assets.

10. DIRECTORS' EMOLUMENTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Directors' fees		
Executive	—	—
Non-executive	—	26
Independent Non-executive	216	188
	<hr/>	<hr/>
	216	214
	<hr/>	<hr/>
Other emoluments (Executive Directors)		
Salaries and other benefits	2,962	5,393
Retirement benefit scheme contributions	10	13
	<hr/>	<hr/>
	2,972	5,406
	<hr/>	<hr/>
Total emoluments	3,188	5,620
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

10. DIRECTORS' EMOLUMENTS (Continued)

Emoluments of Directors were within the following bands:

	2003 No. of Directors	2002 No. of Directors
Nil to HK\$1,000,000	4	7
HK\$1,000,001 to HK\$1,500,000	—	1
HK\$2,000,001 to HK\$2,500,000	1	—
HK\$2,500,001 to HK\$3,000,000	—	1
	5	9

No director waived any emoluments in the year ended 31 December 2003 (2002: Nil).

Note:

The directors' salaries and other benefits include the operating lease rentals amounting to HK\$nil (2002: HK\$711,000) in respect of rented premises provided to directors. The amounts were also included in the minimum lease payments paid in respect of rented premises under note 8 above.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2002: four) were the directors of the Company whose emoluments are set out in note 10 above. The emoluments of the remaining three (2002: one) employees were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	1,445	600
Retirement benefit scheme contributions	24	12
	1,469	612

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

11. EMPLOYEES' EMOLUMENTS *(Continued)*

Their emoluments were within the following bands:

	2003 No. of employees	2002 No. of employees
Nil to HK\$1,000,000	<u>3</u>	<u>1</u>

12. TAXATION

	2003 HK\$'000	2002 HK\$'000 <i>(restated)</i>
Deferred tax — (charge)/credit	<u>(407)</u>	<u>34,283</u>

Income tax

The group companies operating in Hong Kong are subject to profits tax at the rate of 17.5% (2002: 16%) on estimated assessable profit arising in or derived from Hong Kong. No provision for Hong Kong Profits Tax has been made as the Group has no assessable income for Hong Kong Profits Tax for the years ended 31 December 2003 and 2002.

The group companies operating in the PRC are subject to enterprise income tax at a rate of 33% (2002: 33%). No provision for PRC enterprise income tax has been made as the Group has no assessable income for PRC tax for the years ended 31 December 2003 and 2002.

Land appreciation tax

Land appreciation tax is levied at progressive rates ranging from 30% to 60% on the balance of the proceeds received on transfer of real properties after deducting certain items including consideration paid for acquisition of land use rights, land development costs incurred, construction costs and taxes paid in relation to the transfer of real properties.

Details of deferred taxation are set out in note 34.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

12. TAXATION (Continued)

The charge for the year is reconciled to loss per the consolidated income statement as follows:

	2003		2002	
	HK\$'000	%	HK\$'000 (restated)	%
Loss before taxation	<u>(65,150)</u>		<u>(137,340)</u>	
Tax at the PRC income tax rate of 33% (2002: 33%)	(21,500)	(33.0)	(45,322)	(33.0)
Tax effect of expenses not deductible for tax purpose	—	—	20,063	14.6
Tax effect of tax losses not recognised	18,585	28.5	21,025	15.3
Tax effect of revaluation of properties	407	0.6	(34,283)	(25.0)
Effect of different tax rates of subsidiaries operating in other jurisdictions	2,946	4.5	4,661	3.4
Others	<u>(31)</u>	—	<u>(427)</u>	<u>(0.3)</u>
Tax effect and effective tax rate for the year	<u>407</u>	<u>0.6</u>	<u>(34,283)</u>	<u>(25.0)</u>

13. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

Loss for the year	<u>2003</u> <u>HK\$'000</u> <u>65,494</u>	2002 HK\$'000 (restated) <u>102,826</u>
Number of shares	<u>2003</u>	2002
Number of shares for the purposes of basic earnings per share	<u>271,758,000</u>	<u>271,758,000</u>

No diluted loss per share for 2003 and 2002 has been presented as the exercise of the Company's outstanding options would result in decrease in loss per share.

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31 December 2003***13. LOSS PER SHARE** *(Continued)*

The adjustment to comparative basic per share, arising from the change in accounting policy as described in note 3 above, is as follows:

	2002 <i>HK cents</i>
Reported figure before adjustment	(50.5)
Adjustments arising from the adoption of SSAP 12 (Revised)	<u>12.7</u>
Restated	<u><u>(37.8)</u></u>

14. INVESTMENT PROPERTIES

	THE GROUP <i>HK\$'000</i>
At 1 January 2003	156,852
Revaluation increase	<u>662</u>
At 31 December 2003	<u><u>157,514</u></u>

Investment properties were revalued at their open market value at 31 December 2003 by Messrs. RHL Appraisal Limited, an independent valuer, on an open market value basis. This valuation gave rise to a revaluation increase of HK\$662,000 which has been credited to the income statement (2002: revaluation decrease of HK\$114,687,000 out of which HK\$58,942,000 was dealt with in the investment property revaluation reserve and minority interests and the remaining balance of HK\$55,745,000, being the excess of the deficit over the balance on the attributable investment property revaluation reserve was charged to the income statement).

The investment properties are located in Beijing, the PRC and held under medium term lease.

HK\$39,753,000 (2002: HK\$41,583,000) of the Group's investment properties are rented out under operating leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP				
COST OR VALUATION				
At 1 January 2003	82,175	3,177	5,038	90,390
Currency realignment	18	2	2	22
Additions	—	124	—	124
Disposals	—	(61)	—	(61)
Revaluation increase	4,218	—	—	4,218
	<u>86,411</u>	<u>3,242</u>	<u>5,040</u>	<u>94,693</u>
At 31 December 2003	<u>86,411</u>	<u>3,242</u>	<u>5,040</u>	<u>94,693</u>
Comprising:				
At cost	—	3,242	5,040	8,282
At valuation — 2003	86,411	—	—	86,411
	<u>86,411</u>	<u>3,242</u>	<u>5,040</u>	<u>94,693</u>
DEPRECIATION				
At 1 January 2003	—	2,213	4,443	6,656
Currency realignment	—	1	1	2
Provided for the year	2,054	256	199	2,509
Eliminated on disposals	—	(45)	—	(45)
Eliminated on revaluation	(2,054)	—	—	(2,054)
	<u>—</u>	<u>2,425</u>	<u>4,643</u>	<u>7,068</u>
At 31 December 2003	<u>—</u>	<u>2,425</u>	<u>4,643</u>	<u>7,068</u>
NET BOOK VALUES				
At 31 December 2003	<u>86,411</u>	<u>817</u>	<u>397</u>	<u>87,625</u>
At 31 December 2002	<u>82,175</u>	<u>964</u>	<u>595</u>	<u>83,734</u>

The land and buildings are located in Beijing, the PRC and held under medium term lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group's land and buildings have been revalued by Messrs. RHL Appraisal Limited, an independent valuer, on an open market value basis as at 31 December 2003 at a total value of HK\$86,411,000 (2002: HK\$82,175,000). The directors resolved to adopt the valuation in the financial statements for the year ended 31 December 2003.

The net book value of property, plant and equipment included an amount of HK\$125,000 (2002: HK\$262,000) in respect of assets held under finance leases.

Had the land and buildings not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation at HK\$33,068,000 (2002: HK\$35,043,000).

16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	306,695	306,695
Impairment losses recognised	(283,000)	(283,000)
	<u>23,695</u>	<u>23,695</u>

Details of the subsidiaries are set out in note 1.

The investment costs in certain subsidiaries have been impaired as these subsidiaries were loss-making.

17. RESTRICTED CASH

As at 31 December 2003, pursuant to the terms of certain guarantee agreements, cash of approximately HK\$118,000 (2002: HK\$521,000) were designated as guarantee against mortgage facilities provided by the bank to the buyers of the Group's properties. Accordingly, the use of the cash balances is restricted.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

18. PROPERTY UNDER DEVELOPMENT FOR SALE

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
At cost	744,400	710,307

The property under development for sale represents a property development project in Beijing, the PRC.

A portion of the property under development was frozen by the court on the application of creditors and bankers in 2002.

During the year, the shareholders of the Company approved the disposal of 49% interest in a wholly-owned subsidiary, Tong Sun Limited which holds indirectly the above property under development. The sale transaction includes, among other things, the subscription for 49 new shares at US\$49, granting an interest free loan to Tong Sun Limited by the purchaser and granting an interest bearing loan of HK\$45 million from the holding company of the purchaser to the Company. Details of the transaction has been disclosed in the circular to the shareholders on 3 June 2003. In connection with the above disposal, the subsidiary in the PRC (the "PRC Subsidiary") holding the property under development also entered into a master standstill agreement with its creditors in respect of, among other things, the settlement of the disputes between the PRC Subsidiary and its creditors and other parties, withholding of legal action against the PRC Subsidiary by its creditor, the provision of further finance by a bank of the Group for the completion of the property under development and the arrangement for ultimate repayment of loans and monies due from the PRC Subsidiary to its creditors. Consequently, the freeze of the property was released. The construction work was recommenced in October 2003 after the adoption of a new development plan.

In December 2003, the Group entered into an agreement with CNC in relation to certain financial and construction arrangements for the property under development. Pursuant to the agreement, the Group has agreed, subject to satisfaction of certain conditions precedent, to dispose of the property under development upon completion and its ancillary facilities, together with the relevant land use rights for an aggregate consideration of approximately HK\$1,875.8 million to CNC. The completion of the proposed disposal is subject to the signing of a formal "sales and purchase agreement for commercial houses" and satisfaction of certain conditions precedent, among other things, including the passing of the examinations stipulated by the relevant government authorities and the satisfaction of certain quality standards as required by the CNC. The proposed consideration will be settled by a cash consideration of approximately HK\$1,455 million payable in eight different instalments in 2004 and 2005 and properties at an agreed value of approximately HK\$420.8 million.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

19. PREPAYMENTS AND OTHER RECEIVABLES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Interest bearing loan less allowance of HK\$5,000,000 (note)	—	37,623
Interest free loan (note)	37,623	—
Amount due from Guozheng Economic Development Company Limited ("Guozheng") (see note 41(c))	4,695	3,954
Temporary advances	7,034	7,968
Prepaid expenses, deposits and others	7,687	4,552
	<u>57,039</u>	<u>54,097</u>

Note:

The above interest bearing loan represented the loan to a borrower in 2002 carrying interest at a short term loan interest rate as announced by the People's Bank of China from time to time and due for repayment on 30 June 2003. During the year, the Group entered into a triparty agreement with the borrower and another enterprise in the PRC. Under the agreement, the interest bearing loan of HK\$37,623,000 receivable was assigned to the PRC enterprise and the loan becomes non-interest bearing and is repayable on or before 30 June 2004.

20. AMOUNT DUE FROM A FORMER DIRECTOR

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Mr. Leung Kwo	<u>3,761</u>	<u>986</u>	<u>2,460</u>	<u>986</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

21. AMOUNTS DUE FROM FORMER RELATED COMPANIES

Name of company	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Beijing Profit Mark Property Management Company Limited ("PMP")		
Interest bearing loan	6,426	7,665
Less: Amount due to PMP (non-interest bearing)	—	(703)
	6,426	6,962
北京世源光華房地產開發有限公司, Beijing Shiyuan Guanghua Real Estate Development Limited ("Beijing Shiyuan")		
	47	47
	6,473	7,009

PMP provides building management services to the Group. The interest bearing loan and the amount due to PMP are unsecured and with no fixed term of repayment.

The amount due from Beijing Shiyuan is unsecured and non-interest bearing with no fixed term of repayment.

The above companies were controlled by former directors of the Company.

22. ACCOUNTS RECEIVABLE

The terms of payment in respect of the Group's sales of properties are in accordance with the terms of respective sales contracts.

The aged analysis of accounts receivable as at the balance sheet date is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within 3 months	233	—
Over 1 year	18,527	18,993
	18,760	18,993

The directors reviewed the accounts receivable and consider that the recoverability of certain accounts receivable in 2002 was remote. Accordingly, an allowance of HK\$4,190,000 was made in the 2002 financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

23. RESTRICTED BANK BALANCES

As at 31 December 2002, the bank balances were frozen by the court in the PRC following the legal action taken by a creditor.

During the year, the litigation in relation to the frozen bank balances was settled. The bank balances were released.

24. ACCOUNTS PAYABLE

The aged analysis of accounts payable as at the balance sheet date is as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Within 3 months	9,534	20,464
4 – 6 months	—	8,562
7 – 9 months	—	2,827
10 – 12 months	5,189	10,586
Over 1 year	192,891	158,680
	207,614	201,119

Certain creditors have taken legal action to recover the amounts due by the Group and certain properties of the Group are frozen by the court in the PRC following their actions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

25. BANK BORROWINGS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Bank loans	<u>371,995</u>	<u>337,597</u>
Secured	280,374	245,961
Unsecured	<u>91,621</u>	<u>91,636</u>
	<u>371,995</u>	<u>337,597</u>
The maturity of the above loans is as follows:		
On demand or within one year	91,621	337,496
More than one year, but not exceeding two years	<u>280,374</u>	<u>101</u>
	<u>371,995</u>	<u>337,597</u>
Less: Amounts due within one year shown under current liabilities	<u>(91,621)</u>	<u>(337,496)</u>
Amounts due after one year	<u>280,374</u>	<u>101</u>

Note:

The repayment term of certain bank loans amounting to HK\$91,621,000 (2002: HK\$91,535,000) have matured before the year end date. Certain banks have taken legal actions to recover the loans granted. Certain properties of the Group were frozen by the court in the PRC following their actions. As described in note 2, the directors are of the opinion that the Group can obtain the support from the bankers to renew those loans for a further period of time.

26. AMOUNT DUE TO A FORMER RELATED COMPANY

Amount due to a former related party as at the balance sheet date is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Beijing Tian Sha Building Decoration Engineering Co., Ltd.	<u>179</u>	<u>179</u>

The above amount is unsecured and non-interest bearing with no fixed terms of repayment. The above company was controlled by former directors of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

27. LAND DEVELOPMENT COST PAYABLE

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Amounts repayable within one year	<u>204,140</u>	<u>277,107</u>

The land development cost payable of approximately HK\$204,140,000 (2002: HK\$228,811,000) was jointly guaranteed by a joint venture partner of a subsidiary and BJNR.

28. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP Minimum lease payments		THE GROUP Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable under finance leases				
Within one year	131	131	100	100
In the second to fifth year inclusive	<u>120</u>	<u>263</u>	<u>92</u>	<u>200</u>
Less: Future finance charges	251 <u>(59)</u>	394 <u>(94)</u>	192 <u>—</u>	300 <u>—</u>
	<u>192</u>	<u>300</u>	<u>192</u>	<u>300</u>
Less: Amounts due within one year shown under current liabilities			<u>(100)</u>	<u>(100)</u>
Amounts due after one year			<u>92</u>	<u>200</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

29. OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Interest free (Note 2)	142,000	—	—	—
Interest bearing (Note 3)	45,000	—	45,000	—
	<u>187,000</u>	<u>—</u>	<u>45,000</u>	<u>—</u>

Notes:

- (1) The above loans represent the loans to the Group pursuant to the sale agreement of Tong Sun Limited (Note 18) and are secured on the shares in the Company held by a director and a former director (Note 41(d)). The repayment of the loans is in priority to the preferred dividend payment by Tong Sun Limited to the Group.
- (2) The loan is interest free and for a term of 2 years from June 2003 repayable on maturity and will be applied exclusively to finance the working capital requirement of the property under development for sale.
- (3) The loan is for a term of 2 years from June 2003 and bears interest at the rate of 6% per annum and is repayable in one lump sum upon maturity and will be applied to finance the general working capital and settlement of accounts payable of the Group.

30. LONG-TERM PAYABLE

In October 1999, the joint venture partners of BJCSB entered into an agreement, pursuant to which Guozheng will give up all its interest in BJCSB in exchange for a fixed return as defined in the agreement. After completion of the transaction, BJCSB became a wholly-owned subsidiary of Tong Sun Limited. Accordingly, capital investment of HK\$46,642,000 (2002: HK\$46,642,000) made by Guozheng was reclassified as a long-term payable.

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31 December 2003***31. SHARE CAPITAL**

	<i>No. of shares</i>	<i>HK\$'000</i>
Shares of HK\$0.001 each		
Authorised		
Balance as at 1 January 2002, 31 December 2002 and 31 December 2003	<u>500,000,000</u>	<u>500</u>
Issued and fully paid		
Balance as at 1 January 2002, 31 December 2002 and 31 December 2003	<u>271,758,000</u>	<u>272</u>

32. SHARE OPTIONS

Pursuant to a shareholders' resolution passed on 14 June 2002, the share option scheme of the Company ("2000 share option scheme"), which was approved by its shareholders on 25 January 2000 enabling the directors to grant options to eligible employees, including directors of the Company and/or its subsidiaries to subscribe for shares in the Company was terminated.

A new share option scheme (the "New Share Option Scheme") was approved and adopted on 14 June 2002. The New Share Option Scheme is valid and effective for a period of 10 years after the date of adoption. Outstanding options granted pursuant to the 2000 share option scheme shall continue to be subject to the provisions of the 2000 share option scheme and the adoption of the New Share Option Scheme will not in any event affect the terms of the grant of such outstanding options.

The New Share Option Scheme was adopted for the purpose of attracting, retaining and motivating any full-time employees and directors (including non-executive directors and independent non-executive directors) of the Group, part time employees working with weekly working hours of 10 hours and above of the Group and the Group's advisors, consultants, provider of goods and/or services and other person who has contributed to the Group or their trustee (the "Participants") to perform their best in achieving the goals of the Group and at the same time allow them to enjoy the results of the Company attained through their effect and contributions. Under the New Share Option Scheme, the board of directors of the Company may grant options to the Participants to subscribe for shares of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

32. SHARE OPTIONS *(Continued)*

Subject to the terms of the New Share Option Scheme, the total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other schemes should not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the New Share Option Scheme unless approval from the Company's shareholders is obtained to renew such limit. Notwithstanding the above, the maximum number of shares in respect of which options may be granted under the New Share Option Scheme together with any options outstanding and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not exceed 30% (or such higher percentage as may be allowed under the Rules Governing the Listing of Securities on the Stock Exchange) of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to each Participant in aggregate in any 12-month period shall not exceed 1% of the total number of shares in issue, any further grant to that particular Participant shall be subject to approval of shareholders of the Company in general meeting with such participant and his or her associates abstaining from voting.

Options granted pursuant to the New Share Option Scheme must be accepted within 28 days of the date of option offered, upon payment of HK\$1 by way of consideration. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price per share will be determined by the board of directors of the Company, but in any event shall not be less than the highest of (i) the average closing price of the shares as quoted in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the option offered, (ii) the closing price of the shares as quoted in the Stock Exchange's daily quotations sheet on the date of the option offered, and (iii) the nominal value of the shares.

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

As at 31 December 2003, the number of shares in respect of which options had been granted and remaining outstanding under the 2000 share option scheme was 6,000,000 (2002: 7,450,000), representing 2.2% (2002: 2.7%) of the shares of the Company in issue at that date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

32. SHARE OPTIONS (Continued)

The following table discloses details of the Company's share options held by employees (including directors) and movements in such holdings during the year:

2003

Option type	Outstanding at 1 January 2003	Lapsed during the year	Outstanding at 31 December 2003
2000	1,450,000	(1,450,000)	—
2001B	5,000,000	—	5,000,000
2001C	1,000,000	—	1,000,000
	<u>7,450,000</u>	<u>(1,450,000)</u>	<u>6,000,000</u>

2002

Option type	Outstanding at 1 January 2002	Lapsed during the year	Outstanding at 31 December 2002
2000	1,450,000	—	1,450,000
2001A	2,792,000	(2,792,000)	—
2001B	5,000,000	—	5,000,000
2001C	1,000,000	—	1,000,000
	<u>10,242,000</u>	<u>(2,792,000)</u>	<u>7,450,000</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

32. SHARE OPTIONS (Continued)

Details of the share options held by the directors and chief executive officer included in the above table are as follows:

Option type	Outstanding at 1 January 2002 and 1 January 2003	Lapsed during the year	Outstanding at 31 December 2003
2000	1,450,000	(1,450,000)	—
2001B	<u>5,000,000</u>	<u>—</u>	<u>5,000,000</u>
Total	<u><u>6,450,000</u></u>	<u><u>(1,450,000)</u></u>	<u><u>5,000,000</u></u>

Details of specific categories of options are as follows:

	Date of grant	Exercise period	Closing price immediately before the dates of grant	Exercise price
2000	27 July 2000	27 July 2000 to 26 July 2003	1.33	1.04
2001A	13 February 2001	13 February 2001 to 12 February 2004	0.78	0.64
2001B	15 February 2001	15 February 2001 to 14 February 2004	1.11	0.69
2001C	21 February 2001	21 February 2001 to 20 February 2004	1.2	0.96

Note:

No charge was recognised in the income statement in respect of the value of options granted.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

33. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Property revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE GROUP							
At 1 January 2002							
— as originally stated	20,773	4,755	63,367	58,093	1,664	(151,267)	(2,615)
— prior period adjustment (note 3)	—	—	(20,911)	(35,727)	—	(26,410)	(83,048)
— as restated	20,773	4,755	42,456	22,366	1,664	(177,677)	(85,663)
Deferred tax liability arising on reclassification	—	—	2,205	(4,109)	—	—	(1,904)
Net deficit on revaluation of properties	—	—	(9,554)	(58,093)	—	—	(67,647)
Deferred tax liability arising on revaluation of properties	—	—	3,153	35,727	—	—	38,880
Net loss for the year	—	—	—	—	—	(102,826)	(102,826)
Reclassification	—	—	(6,681)	6,681	—	—	—
At 31 December 2002	20,773	4,755	31,579	2,572	1,664	(280,503)	(219,160)
Exchange difference on translation of overseas operations	—	—	—	—	147	—	147
Net surplus on revaluation of properties	—	—	6,209	—	—	—	6,209
Deferred tax liability arising on revaluation of properties	—	—	(3,819)	—	—	—	(3,819)
Net loss for the year	—	—	—	—	—	(65,494)	(65,494)
At 31 December 2003	<u>20,773</u>	<u>4,755</u>	<u>33,969</u>	<u>2,572</u>	<u>1,811</u>	<u>(345,997)</u>	<u>(282,117)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

33. RESERVES (Continued)

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1 January 2002	20,773	306,450	(87,056)	240,167
Loss for the year	—	—	(242,359)	(242,359)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	20,773	306,450	(329,415)	(2,192)
Loss for the year	—	—	(49,655)	(49,655)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	<u>20,773</u>	<u>306,450</u>	<u>(379,070)</u>	<u>(51,847)</u>

The contributed surplus of the Company represents the difference between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal value of the share capital issued by the Company at the time of the corporate reorganisation prior to the listing of the Company's shares in 2000.

The contributed surplus of the Group represents the difference between the nominal value of shares of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of the corporate reorganisation.

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31 December 2003***34. DEFERRED TAXATION**

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior reporting periods:

	Revaluation of properties <i>HK\$'000</i>
THE GROUP	
At 1 January 2002	
— as originally stated	—
— adjustment on adoption of SSAP 12 (Revised)	83,048
	<hr/>
— as restated	83,048
Credit to income for the year	(34,283)
Credit to equity for the year	(36,976)
	<hr/>
At 1 January 2003	11,789
Charge to income for the year	407
Charge to equity for the year	3,819
	<hr/>
At 31 December 2003	<u>16,015</u>

At the balance sheet date, the Group had unused tax losses of HK\$63,324,000 (2002: HK\$33,707,000) available for offset against future profits. No deferred tax assets have been recognised in respect of the amounts due to unpredictability of future profit streams.

At the balance sheet date, the Company did not have any unused tax losses and deductible temporary differences.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

35. CONTINGENT LIABILITIES

- (a) During the year, a purchaser of an unit of the Group's property development for sale in the PRC took legal action to cancel the sale and purchase agreement of the aforesaid unit and to claim the refund of the deposits of approximately RMB15 million paid together with interest. The directors of the Group, based on the opinion of the legal advisers, considered that the claim made by the purchaser is not valid and are of the opinion that the claim will not cause any material loss to the Group. No provision for the loss in the financial statements is necessary.
- (b) In October 2002, one of the creditors of the Group filed a notice of arbitration against the PRC subsidiary holding the property for development for sale for a total amount of approximately RMB290 million, which relates to certain land development cost for the property of approximately RMB222 million and interest penalty of approximately RMB68 million. A court order against the PRC subsidiary was issued on 22 October 2002 either to freeze its bank deposits or to attach its assets for an amount up to RMB50 million. The Group was then at the final stage of finalizing the terms of the settlement and rescheduling of the outstanding amounts payable to the creditor, which terms would form part of the master standstill agreement as mentioned under note (18) above. The directors were confident that the creditor would sign the agreement. Under the agreement, the Group was not liable to pay the aforesaid interest penalty of approximately RMB68 million. Accordingly, the aforesaid sum was not provided in the financial statements for the year ended 31 December 2002.

During the year, the Group entered into the master standstill agreement with its creditor and bankers under which the aforesaid interest penalty was waived. The waiver is subject to the condition that the Group is able to repay the land development cost in accordance with agreed repayment schedule. Should the Group be unable to comply with repayment schedule, the interest penalty will be become payable. The directors consider that the Group has sufficient funds to comply with the repayment and accordingly no provision for the penalty is necessary.

- (c) During the year ended 31 December 2002, a purchaser of an unit of the Group's property under development for sale in the PRC took legal action to cancel the sale and purchase agreement of the aforesaid unit and to claim the refund of the deposits of RMB30 million paid together with interest and applied to freeze the bank balances or equivalent assets of the Group to the extent of RMB30 million. On 8 January 2003, the PRC court ordered that the Group is liable to refund the deposits together with interest to the purchaser. On 31 March 2003, the Group appealed to the court to object the decision based on the fact that the evidence provided by the purchaser are not valid. The directors of the Group, based on the opinion of the independent legal advisers, considered that the claim from the purchaser will be overruled and no provision for the loss in the financial statements is necessary.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

36. DISPOSAL OF A SUBSIDIARY

	2003 HK\$'000	2002 HK\$'000
Amount due to immediate holding company	—	(39,823)
Net liabilities disposed of	—	(39,823)
Assignment of intercompany accounts	—	39,363
Waiver of intercompany accounts	—	460
Results on disposal of a subsidiary	—	—
Total consideration	<u>—</u>	<u>—</u>
Satisfied by		
Cash consideration	<u>—</u>	<u>—</u>
Net cash inflow on disposal		
Cash consideration	<u>—</u>	<u>—</u>

The subsidiary disposed in 2002 did not contribute to the Group's turnover and incurred a loss HK\$5,457,000 attributable to the Group.

37. LEASE COMMITMENTS

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases, in respect of premises, which fall due as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	2,264	1,973
In the second to fifth year inclusive	—	1,590
	<u>2,264</u>	<u>3,563</u>

Operating lease payments represent rentals payable by the Group for certain of office properties. Leases are negotiated for an average term of one year (2002: two years).

At 31 December 2003, the Company had no commitments under non-cancellable leases (2002: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

37. LEASE COMMITMENTS (Continued)

The Group as lessor

Property rental income earned during the year was HK\$2,609,000 (2002: HK\$2,658,000). The investments properties are expected to generate rental yields of 1.7% (2002: 1.7%) on an ongoing basis. Most of the properties leased have no contracted commitments.

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	609	1,043
In the second to fifth year inclusive	—	199
	<u>609</u>	<u>1,242</u>

38. CAPITAL AND CONSTRUCTION COMMITMENTS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
At the balance sheet date, the Group had the following capital and construction commitments:		
Capital expenditure in relation to the property, plant and equipment contracted but not provided for	—	2,390
Expenditure in relation to the property under development contracted but not provided for	49,025	20,059
Expenditure in relation to the property under development authorised but not contracted for	654,890	567,079
	<u>703,915</u>	<u>589,528</u>

At the balance sheet date, the Company did not have any capital commitments.

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31 December 2003***39. RETIREMENT AND PENSION PLANS**

The group companies operating in the PRC participate in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. All PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. These group companies are required to make specific contributions to the retirement schemes at a rate of 20% (2002: 19%) of the basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions paid for the year ended 31 December 2003 amounted to approximately HK\$74,000 (2002: HK\$67,000).

The Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all its non-PRC employees in 2000. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the MPF Scheme. The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the MPF Scheme. During the year, the Group made retirement benefit scheme contributions arising from the MPF Scheme amounting to HK\$93,000 (2002: HK\$87,000).

40. PLEDGE OF ASSETS

At 31 December 2003, the Group had pledged its properties under development with an aggregate net book value of approximately HK\$744,400,000 (2002: HK\$710,307,000) to secure bank loans granted and amounts payable in respect of land development cost totalling approximately HK\$522,718,000 (2002: HK\$523,068,000). Certain investment properties and land and buildings have been frozen by the court in the PRC following the legal action taken by creditors of the Group.

41. RELATED PARTY TRANSACTIONS

- (a) 13,587,900 and 54,351,600 shares in the Company held directly or indirectly by a director and a former director respectively have been charged to secure loans granted to the Group. No commission or charges have been paid to the director and the former director in respect of the charges.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

41. RELATED PARTY TRANSACTIONS (Continued)

- (b) The Group had the following significant transactions with related parties conducted on terms arrived at by reference to market prices during the year:

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Estate management service fee to a company controlled by a former director	194	305
Rental income from a company controlled by a former director	325	325
	<u>325</u>	<u>325</u>

- (c) In October 1999, the joint venture partners of BJCSB entered into an agreement, pursuant to which Guozheng will give up all its interest in BJCSB in exchange for a fixed return as defined in the agreement. After completion of the transaction, BJCSB became a wholly-owned subsidiary of Tong Sun Limited. Accordingly, the amount due from Guozheng of HK\$3,954,000 in 2002 was included in prepayments and other receivable and the previous capital investment of HK\$46,642,000 (2002: HK\$46,642,000) made by Guozheng was classified as a long-term payable.

Guozheng has jointly guaranteed the land development cost payable by and bank loans to the Group totalling approximately HK\$204,140,000 and RMB100,000,000 as at 31 December 2003 (2002: HK\$228,811,000 and RMB100,000,000) respectively.

- (d) During the year ended 31 December 2002, the Group entered into an unsecured loan agreement with PMP which provides building management services to the Group to the extent of RMB10,000,000 with interest at a short term loan interest rate as announced by People's Bank of China from time to time. The loan agreement entered into was a consequence of the Group's satisfaction of a guarantee executed in 2001 in favour of a banker for its banking facilities granted to PMP to the extent of RMB10 million. Interest income recognised during the year amounted to HK\$nil (2002: HK\$297,000).
- (e) During the year ended 31 December 2002, the Group maintained accounts with companies controlled by former directors. Details of their balances as at 31 December 2003 are set out in notes 21 and 26 above.
- (f) During the year ended 31 December 2002, the Group acquired a 49% interest in a company from a former director, Mr. Leung Kwo. Details of transaction has been disclosed in the circular dated 31 December 2001 to the shareholders of the Company. The transaction was reversed due to the failure of the company to obtain approval from the relevant department in the PRC.