

# Notes to the Financial Statements

## 1. PRINCIPAL ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with the applicable Statements of Standard Accounting Practice (“SSAP”) and Interpretations issued by the Hong Kong Society of Accountants (“HKSA”), accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance.

In the current year, the Company and its subsidiaries (the “Group”) adopted the revised SSAP 12 “Income taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003. The adoption of this revised SSAP does not have a material effect on the Group’s results or net assets.

The principal accounting policies adopted in the preparation of the 2003 financial statements are as follows:

### (b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost except that, as disclosed in the accounting policies below, certain investment properties and short-term investments are stated at fair values.

### (c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year. The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated income statement from the effective dates of acquisition or to the effective dates of disposal respectively, as appropriate.

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

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

### (d) Subsidiaries

Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (d) Subsidiaries (Cont'd)

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (e) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated income statement includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill on acquisition (net of accumulated amortisation).

### (f) Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

#### (i) *Jointly controlled entities*

The consolidated income statement includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill on acquisition (net of accumulated amortisation).

#### (ii) *Other investment in a joint venture*

Other investment in a joint venture is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided to write-off the investment cost of the joint venture less accumulated impairment losses over the joint venture period on a basis whereby the annual investment income less amortisation for the year would produce a constant periodic rate of return on the carrying amount of the investment in the joint venture. Provision is made when, in the opinion of the directors, there is an impairment in value of investment in a joint venture.

### (g) Goodwill or negative goodwill on consolidation

Goodwill or negative goodwill arising on consolidation represents the deficit or excess, respectively, of the fair value of the separable net assets of the subsidiaries, associated companies and jointly controlled entities at the respective acquisition dates over the value of the considerations paid.

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (g) Goodwill or negative goodwill on consolidation (Cont'd)

Goodwill on acquisitions occurred on or after 1st January 2001 is capitalised and amortised using the straight-line method over its estimated useful life.

Negative goodwill on acquisitions occurred on or after 1st January 2001 is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the income statement immediately.

Goodwill/negative goodwill on acquisitions that occurred prior to 1st January 2001 was directly eliminated against/taken to reserves and has not been restated.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill/negative goodwill relating to the entity disposed of or, for pre 1st January 2001 acquisitions, the related goodwill eliminated against/negative goodwill taken to reserves to the extent that it has not previously been realised in the income statement.

Where an indication of impairment exists, the carrying amount of goodwill, including goodwill previously eliminated against reserves, is assessed and written down immediately to its recoverable amount.

### (h) Properties

#### (i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (h) Properties (Cont'd)

#### (i) *Investment properties (Cont'd)*

Investment properties held on leases with unexpired periods greater than twenty years are valued at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by either independent professional valuers or professionally qualified executives of the Group. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Surpluses arising on revaluation are credited to the investment property revaluation reserve; deficits arising on revaluation are firstly set off against any previous revaluation surpluses on a portfolio basis and thereafter taken to the income statement. Any subsequent increases are credited to the income statement up to the amount previously debited.

Depreciation is provided for investment properties with unexpired lease terms of twenty years or less and is calculated to write-off the carrying value on a straight line basis over the remaining term of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the income statement.

#### (ii) *Leasehold land and buildings*

Leasehold land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses. Leasehold land is depreciated over the period of the lease while buildings are depreciated at a rate of 2% per annum.

#### (iii) *Properties under development for sale*

Properties under development for sale are included in current assets and stated at cost plus attributable profits taken to date, less provisions for any foreseeable losses and sales instalments received and receivable. Cost includes the cost of land, development expenditure, other attributable expenses and borrowing costs capitalised.

The accounting policy for recognition of revenue from sale of properties under development for sale is set out in note 1(v)(i)(1).

#### (iv) *Completed properties held for sale*

Completed properties held for sale are included as current assets and stated at the lower of cost and net realisable value. Net realisable value is determined by reference to estimated sales proceeds of the properties sold in the ordinary course of business less estimated selling expenses.

The accounting policy for recognition of revenue from sale of completed properties is set out in note 1(v)(i)(2).

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (i) Other tangible fixed assets

Other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated at rates sufficient to write-off their costs less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Machinery	16 $\frac{2}{3}$ %
Equipment and motor vehicles	20% – 33 $\frac{1}{3}$ %
Leasehold improvements	20% – 33 $\frac{1}{3}$ %
Furniture and fixtures	20% – 33 $\frac{1}{3}$ %

Major costs incurred in restoring other tangible fixed assets to their normal working condition to allow continued use of the overall assets are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

### (j) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in leasehold land and buildings and other tangible fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement.

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

### (k) Investments in securities

#### (i) *Investment securities*

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities should be reduced to its fair value. The amount of the reduction is recognised as an expense in the income statement.

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (k) Investments in securities (Cont'd)

#### (i) *Investment securities (Cont'd)*

Provision against the carrying amounts of individual investments should be written back to income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is evidence that the new circumstances and events will persist for the foreseeable future. The amount written back should not exceed the amount of the write-downs.

#### (ii) *Short-term investments*

Short-term investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of investments are recognised in the income statement. Profits or losses on disposal of short-term investments, representing the differences between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

### (l) Construction contracts in progress

Construction contracts in progress are stated at cost plus attributable profits less allowances for foreseeable losses and progress payments received and receivable. Contract costs comprise direct materials, direct labour, sub-contracting charges and an appropriate portion of construction overheads. Where progress billings received and receivable on construction contracts exceed contract costs incurred to date plus recognised profits less recognised losses, the net amount is treated as amounts due to contract customers. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings received and receivable on construction contracts, the net amount is treated as amounts due from contract customers.

The accounting policy for recognition of contract revenue is set out in note 1(v)(ii).

### (m) Assets under operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Rentals applicable to such operating leases, net of any incentives received from the lessors, are charged to the income statement on a straight-line basis over the lease term.

### (n) Accounts receivable

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

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (o) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and cash investments with a maturity of three months or less from date of investment.

### (p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. When the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### (q) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

### (r) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (r) **Deferred taxation (Cont'd)**

In prior years, deferred taxation was accounted for at the current tax rate in respect of timing differences between the profit as computed for taxation purposes and the profit as stated in the financial statements to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

The adoption of the revised SSAP 12 in this year does not have a material effect on the financial statements for the year ended 31st December 2003.

### (s) **Translation of foreign currencies**

Transactions in foreign currencies 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.

The balance sheets of subsidiaries, associated companies and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. Exchange differences arising therefrom are dealt with as a movement in reserves.

### (t) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

### (u) **Pensions and retirement benefits**

Following the adoption of the Mandatory Provident Fund ("MPF") Scheme in December 2000, all staff of the Group employed in Hong Kong joined the MPF Scheme. Under this scheme, employees and the Group are required to make contributions to the scheme calculated at 5% of the individual employee's monthly basic salaries, subject to a cap of HK\$1,000. The Group's contributions to this scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in independently administered funds.

The Group also contributes to employee pension schemes established by municipal government in respect of certain subsidiaries in the China Mainland. The municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group.

Contributions to these schemes are charged to the income statement as incurred.

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (v) Revenue recognition

Revenue is recognised when it is probable that economic benefits associated with the transactions during the year will flow to the Group and these benefits can be measured reliably on the following bases.

#### (i) *Sale of properties*

##### (1) *Properties under development for sale*

When a development property is sold in advance of completion, recognition of profit commences when a legally binding sale and purchase agreement has been executed. The profit recognised in a year is computed as a proportion of the total estimated profit to completion and such proportion is taken to be the percentage of construction costs incurred at the end of the year to the estimated total construction costs on completion, with due allowance for contingencies. The profit so recognised is restricted to the amount of instalments received.

##### (2) *Completed properties held for sale*

Revenue from sale of completed properties held for sale is recognised upon completion of the sale and purchase contracts.

#### (ii) *Construction contracts*

Revenue from construction contracts is recognised based on the stage of completion of the contracts when the outcome of the contracts can be ascertained with reasonable certainty. The stage of completion of a contract is established by reference to the gross billing value of contracting work to date as certified by qualified architects and/or engineers as compared to the total sum under the contract.

#### (iii) *Rental income*

Rental income is recognised on a straight line basis over the terms of the respective leases.

#### (iv) *Income from other investment in a joint venture*

Income from other investment in a joint venture is recognised when the right to receive investment income is established.

#### (v) *Commission income*

Commission income from agency services is recognised when the terms of the agency contracts are fulfilled upon provision of services.

#### (vi) *Interest income*

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

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (v) Revenue recognition (Cont'd)

#### (vii) Dividend income

Dividend income is recognised when the right to receive payment is established.

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in property investment and development, building construction, infrastructure investment and provision of ship trading and supplying services. Turnover and revenues recognised during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sale of properties	217,134	178,397
Building construction	601,589	312,076
Rental income	54,852	56,860
Income from other investment in a joint venture	22,839	19,730
Commission income	41,749	15,350
Building management fee income	1,517	1,095
	<b>939,680</b>	583,508
Other revenues		
Interest income	3,829	5,636
Dividend income from listed investment securities	1,105	1,836
	<b>4,934</b>	7,472
Total revenues	<b>944,614</b>	590,980

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

### Primary reporting format — business segments

The Group is organised into five main business segments:

Property development	—	development of properties in Hong Kong and the China Mainland
Building construction	—	construction of buildings
Infrastructure investment	—	investment in a power plant project
Property investment	—	holding of properties for rental purpose
Ship trading	—	trading of vessels, marine equipment and bareboat charter business

Other operations of the Group comprise mainly holding of investment securities and provision of building management services, neither of which are of a sufficient size to be reported separately.

There are no transactions between business segments.

### Secondary reporting format — geographical segments

The Group's business segments operated in Hong Kong and the China Mainland are as follows:

Hong Kong	—	all of the Group's business segments except for infrastructure investment
China Mainland	—	property development and investment and infrastructure investment

There are no transactions between geographical segments.

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

### Primary reporting format — business segments

	Property development 2003 HK\$'000	Building construction 2003 HK\$'000	Property investment 2003 HK\$'000	Infrastructure investment 2003 HK\$'000	Ship trading 2003 HK\$'000	Other operations 2003 HK\$'000	Group 2003 HK\$'000
Segment turnover	217,134	601,589	54,852	22,839	41,749	1,517	939,680
Segment results	13,851	(69,368)	(28,309)	42	20,471	3,360	(59,953)
Unallocated corporate expenses, net of income							(13,933)
Operating loss							(73,886)
Finance costs							(25,556)
Share of results of jointly controlled entities	9,880	-	-	-	-	-	9,880
Loss before taxation							(89,562)
Taxation							(18,525)
Loss after taxation							(108,087)
Minority interests							(8,619)
Loss attributable to shareholders							(116,706)

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

### Primary reporting format — business segments (Cont'd)

	Property development 2003 HK\$'000	Building construction 2003 HK\$'000	Property investment 2003 HK\$'000	Infrastructure investment 2003 HK\$'000	Ship trading 2003 HK\$'000	Other operations 2003 HK\$'000	Group 2003 HK\$'000
Segment assets	443,985	208,817	1,098,761	84,240	103,024	–	1,938,827
Associated companies	–	2,784	–	–	–	–	2,784
Jointly controlled entity	206,900	–	–	–	–	–	206,900
Investment securities	–	–	–	–	–	45,976	45,976
Unallocated assets							164,581
Total assets							2,359,068
Segment liabilities	53,781	544,409	726,483	92	33,544	–	1,358,309
Taxation							16,610
Unallocated liabilities							9,818
Total liabilities							1,384,737
The segment results have been arrived at after charging:							
Depreciation and amortisation	479	2,232	16,625	21,378	2,736	–	43,450
Deficit on revaluation of investment properties	–	–	70,966	–	–	–	70,966
Impairment loss on fixed assets	–	2,855	–	–	–	–	2,855
Provision for diminution in value of investment security	–	–	–	–	–	8,893	8,893
Provision for claims on certain construction contracts	–	27,899	–	–	–	–	27,899
Legal costs in respect of litigation on certain construction projects	–	14,530	–	–	–	–	14,530
Provision for completed properties held for sale	11,271	–	–	–	–	–	11,271
Capital expenditure	925	636	–	–	576	–	2,137

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

### Primary reporting format — business segments (Cont'd)

	Property development 2002 HK\$'000	Building construction 2002 HK\$'000	Property investment 2002 HK\$'000	Infrastructure investment 2002 HK\$'000	Ship trading 2002 HK\$'000	Other operations 2002 HK\$'000	Group 2002 HK\$'000
Segment turnover	178,397	312,076	56,860	19,730	15,350	1,095	583,508
Segment results	(7,122)	(102,427)	(224,549)	(143,493)	4,612	(16,865)	(489,844)
Unallocated corporate expenses, net of income							(17,993)
Operating loss							(507,837)
Finance costs							(32,442)
Share of results of associated companies	–	1,947	–	–	–	–	1,947
Share of results of jointly controlled entities	9,594	–	–	–	–	(2,352)	7,242
Loss before taxation							(531,090)
Taxation							(14,311)
Loss after taxation							(545,401)
Minority interests							7,345
Loss attributable to shareholders							(538,056)

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

### Primary reporting format — business segments (Cont'd)

	Property development 2002 HK\$'000	Building construction 2002 HK\$'000	Property investment 2002 HK\$'000	Infrastructure investment 2002 HK\$'000	Ship trading 2002 HK\$'000	Other operations 2002 HK\$'000	Group 2002 HK\$'000
Segment assets	474,975	220,217	1,105,567	100,339	93,163	–	1,994,261
Associated companies	–	2,784	–	–	–	–	2,784
Jointly controlled entities	262,744	–	–	–	–	–	262,744
Investment securities	–	–	–	–	–	62,645	62,645
Unallocated assets							<u>190,120</u>
Total assets							<u><u>2,512,554</u></u>
Segment liabilities	127,544	507,471	792,820	42	18,443	–	1,446,320
Taxation							5,622
Unallocated liabilities							<u>8,324</u>
Total liabilities							<u><u>1,460,266</u></u>
The segment results have been arrived at after charging:							
Depreciation and amortisation	2,689	2,843	21,016	19,335	1,464	–	47,347
Deficit on revaluation of investment properties	–	–	45,900	–	–	–	45,900
Impairment loss on a leasehold land and building	–	–	207,000	–	–	–	207,000
Impairment loss on other investment in a joint venture	–	–	–	140,798	–	–	140,798
Provision for diminution in value of investment securities	–	–	–	–	–	13,650	13,650
Provision for claims and foreseeable losses on certain construction contracts	–	87,729	–	–	–	–	87,729
Provision for completed properties held for sale	43,966	–	–	–	–	–	<u>43,966</u>
Capital expenditure	1,166	1,426	–	–	470	–	<u><u>3,062</u></u>

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

### Secondary reporting format — geographical segments

	Turnover 2003 HK\$'000	Segment results 2003 HK\$'000	Total assets 2003 HK\$'000	Capital expenditure 2003 HK\$'000
Hong Kong	685,773	(102,354)	1,486,940	1,999
China Mainland	253,907	42,401	451,887	138
	<u>939,680</u>	<u>(59,953)</u>	<u>1,938,827</u>	<u>2,137</u>
Unallocated corporate expenses, net of income		<u>(13,933)</u>		
Operating loss		<u>(73,886)</u>		
Associated companies			2,784	
Jointly controlled entity			206,900	
Investment securities			45,976	
Unallocated assets			<u>164,581</u>	
Total assets			<u>2,359,068</u>	

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

### Secondary reporting format — geographical segments (Cont'd)

	Turnover	Segment	Total assets	Capital
	2002	results	2002	expenditure
	HK\$'000	2002	HK\$'000	2002
		HK\$'000		HK\$'000
Hong Kong	381,436	(379,157)	1,556,878	2,919
China Mainland	202,072	(110,687)	437,383	143
	<u>583,508</u>	(489,844)	1,994,261	<u>3,062</u>
Unallocated corporate expenses, net of income		<u>(17,993)</u>		
Operating loss		<u>(507,837)</u>		
Associated companies			2,784	
Jointly controlled entities			262,744	
Investment securities			62,645	
Unallocated assets			<u>190,120</u>	
Total assets			<u>2,512,554</u>	

### 3. OPERATING LOSS

Operating loss is stated after crediting/(charging) the following:

	2003 HK\$'000	2002 HK\$'000
Net rental income (note (a))	53,192	55,267
Gain on disposal of jointly controlled entities	12,467	–
Net realised and unrealised gains on investments in securities	1,220	6,689
Gain on disposal/write-off of fixed assets	499	207
Depreciation (note (c))	(20,038)	(26,995)
Operating lease rental expense (note (d))	(1,194)	(800)
Auditors' remuneration	(950)	(950)
Amortisation of goodwill (note 9)	(2,034)	(1,017)
Amortisation of the cost of other investment in a joint venture (note 14)	(21,378)	(19,335)
Staff costs, including directors' emoluments (note (e))	(37,855)	(37,684)
Provision for doubtful debts	–	(12,861)
Other charges		
Deficit on revaluation of investment properties	(70,966)	(45,900)
Impairment loss on a leasehold land and building	–	(207,000)
Impairment loss on other investment in a joint venture	–	(140,798)
Impairment loss on fixed assets	(2,855)	–
Provision for diminution in value of investment securities	(8,893)	(13,650)
Provision for claims and foreseeable losses on certain construction projects	(27,899)	(87,729)
Legal costs in respect of litigation on certain construction projects	(14,530)	–
Provision for completed properties held for sale	(11,271)	(43,966)
	<b>(136,414)</b>	<b>(539,043)</b>

### 3. OPERATING LOSS (Cont'd)

#### (a) Net rental income

	2003 HK\$'000	2002 HK\$'000
Rental income from		
Investment properties	21,681	21,327
Other properties	33,171	35,533
	54,852	56,860
Outgoings	(1,660)	(1,593)
	<b>53,192</b>	55,267

#### (b) Future minimum rental payments receivable

The future minimum rental receivable under non-cancellable leases is as follows:

	2003 HK\$'000	2002 HK\$'000
In the first year	32,887	54,193
In the second to third year inclusive	54,564	10,623
	<b>87,451</b>	64,816

The Group's operating leases are for terms ranging from one to three years.

### 3. OPERATING LOSS (Cont'd)

#### (c) Depreciation

	2003 HK\$'000	2002 HK\$'000
Charge for the year	21,824	28,614
Capitalised in construction contracts in progress	(1,786)	(1,619)
	<b>20,038</b>	<b>26,995</b>

#### (d) Operating lease rental expense

	2003 HK\$'000	2002 HK\$'000
Land and buildings	1,194	800
Plant and machinery	281	898
Capitalised in construction contracts in progress	1,475 (281)	1,698 (898)
	<b>1,194</b>	<b>800</b>

#### (e) Staff costs, including directors' emoluments

	2003 HK\$'000	2002 HK\$'000
Wages and salaries	56,870	57,099
Pension costs — defined contribution scheme	902	843
Staff costs, including directors' emoluments	57,772	57,942
Capitalised in construction contracts in progress	(19,917)	(20,258)
	<b>37,855</b>	<b>37,684</b>

### 3. OPERATING LOSS (Cont'd)

#### (e) Staff costs, including directors' emoluments (Cont'd)

As at 31st December 2003, there are 44,800,000 share options which are exercisable at HK\$0.57 per share granted to employees and directors by the Company. The share options were granted on 26th November 2003 and are exercisable at any time between 23rd December 2003 and 22nd December 2008. No share options were exercised during the year.

### 4. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on bank loans wholly repayable within five years	25,242	36,151
Other borrowing costs	4,888	1,967
	<b>30,130</b>	38,118
Capitalised in construction contracts in progress	(1,101)	(290)
Capitalised in properties under development for sale	(3,473)	(5,386)
	<b>25,556</b>	32,442

### 5. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the Hong Kong government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

China Mainland taxation has been calculated on the estimated assessable profit derived from the Group's operations in China Mainland for the year at the rates of taxation prevailing in the China Mainland.

## 5. TAXATION (Cont'd)

The amount of taxation charged for the year to the consolidated income statement represents:

	2003 HK\$'000	2002 HK\$'000
The Company and subsidiaries:		
— Hong Kong profits tax	2,928	367
— China Mainland taxation	9,549	8,815
	12,477	9,182
Share of taxation of jointly controlled entities	6,048	5,129
Taxation charges	<b>18,525</b>	14,311

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the profits tax rate of Hong Kong where the Company operates and the difference is set out below:

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	(89,562)	(531,090)
Calculated at a tax rate of 17.5% (2002: 16%)	(15,673)	(84,974)
Effect of different taxation rate in China Mainland	8,931	8,633
Income not subject to taxation	(9,340)	(9,822)
Expenses not deductible for taxation purposes	17,608	86,700
Tax losses not recognised	20,828	15,463
Utilisation of previously unrecognised tax losses	(3,829)	(1,689)
Taxation charge	<b>18,525</b>	14,311

## 6. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of a loss of HK\$116,514,000 (2002: HK\$468,528,000).

## 7. LOSS PER SHARE

The calculation of loss per share is based on the Group's loss attributable to shareholders of HK\$116,706,000 (2002: HK\$538,056,000) and the 1,394,389,291 (2002: 1,394,389,291) ordinary shares in issue during the year.

No diluted loss per share is presented for 2003 as the effect of the potential shares would have been anti-dilutive. There was no potential dilutive shares in issue in 2002.

## 8. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

### (a) Directors' emoluments

Details of the emoluments paid and payable to the directors of the Company are as follows:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Fees	<b>445</b>	345
Salaries and other emoluments	<b>2,985</b>	6,784
	<b>3,430</b>	7,129

Emoluments paid and payable to non-executive directors of the Company amounted to HK\$445,000 (2002: HK\$345,000) during the year.

## 8. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Cont'd)

### (a) Directors' emoluments (Cont'd)

The emoluments of the directors of the Company fell within the following bands:

Emolument bands	Number of directors	
	2003	2002
HK\$Nil – HK\$1,000,000	12	10
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$3,000,001 – HK\$3,500,000	–	1
	<b>13</b>	<b>13</b>

The above analysis includes one (2002: three) director whose emoluments is among the five highest in the Group.

As at 31st December 2003, eleven directors of the Company had 16,800,000 share options which are exercisable at HK\$0.57 per share granted by the Company. The share options were granted on 26th November 2003 and are exercisable at any time between 23rd December 2003 and 22nd December 2008. No share options were exercised during the year.

As at 31st December 2003, nine directors of the Company had 6,850,000 share options which are exercisable at HK\$9.54 per share granted by COSCO Pacific Limited ("COSCO Pacific"), a fellow subsidiary, under COSCO Pacific's Share Option Scheme. The share options were granted during the period from 28th October 2003 to 6th November 2003 and are exercisable for ten years from their respective date of acceptance of the share options. No share options were exercised during the year.

## 8. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Cont'd)

### (b) Senior management's emoluments

Details of the emoluments paid to the remaining four (2002: two) individuals whose emoluments were among the five highest in the Group and have not been included in the directors' emoluments mentioned above, are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other emoluments	<b>4,580</b>	2,820

The emoluments of the individuals fell within the following bands:

Emolument bands	Number of individuals	
	2003	2002
HK\$1,000,001 – HK\$1,500,000	4	1
HK\$1,500,001 – HK\$2,000,000	–	1
	<b>4</b>	2

## 9. GOODWILL

	2003 HK\$'000	2002 HK\$'000
At 1st January	<b>39,658</b>	–
Acquisition of a subsidiary	–	40,675
Amortisation charge	<b>(2,034)</b>	(1,017)
At 31st December	<b>37,624</b>	39,658

## 10. FIXED ASSETS

### Group

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Machinery, equipment and motor vehicles HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
<b>Cost or valuation</b>						
At 1st January 2003	340,100	1,059,525	51,774	11,371	6,909	1,469,679
Additions	-	-	1,131	205	801	2,137
Revaluation	(70,966)	-	-	-	-	(70,966)
Disposals/write-off	-	-	(925)	-	(73)	(998)
<b>At 31st December 2003</b>	<b>269,134</b>	<b>1,059,525</b>	<b>51,980</b>	<b>11,576</b>	<b>7,637</b>	<b>1,399,852</b>
<b>Accumulated depreciation and impairment</b>						
At 1st January 2003	-	308,983	41,643	10,841	6,472	367,939
Charge for the year	-	16,625	4,538	370	291	21,824
Impairment loss	-	-	2,520	79	256	2,855
Disposals/ write-off	-	-	(696)	-	(39)	(735)
<b>At 31st December 2003</b>	<b>-</b>	<b>325,608</b>	<b>48,005</b>	<b>11,290</b>	<b>6,980</b>	<b>391,883</b>
<b>Net book value</b>						
<b>At 31st December 2003</b>	<b>269,134</b>	<b>733,917</b>	<b>3,975</b>	<b>286</b>	<b>657</b>	<b>1,007,969</b>
At 31st December 2002	340,100	750,542	10,131	530	437	1,101,740

## 10. FIXED ASSETS (Cont'd)

### Group (Cont'd)

The analysis of the cost or valuation at 31st December 2003 of the above assets are as follows:

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Machinery, equipment and motor vehicles HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
At cost	-	1,059,525	51,980	11,576	7,637	1,130,718
At professional valuation	269,134	-	-	-	-	269,134
At 31st December 2003	269,134	1,059,525	51,980	11,576	7,637	1,399,852

The analysis of the cost or valuation at 31st December 2002 of the above assets were as follows:

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Machinery, equipment and motor vehicles HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
At cost	-	1,059,525	51,774	11,371	6,909	1,129,579
At professional valuation	340,100	-	-	-	-	340,100
At 31st December 2002	340,100	1,059,525	51,774	11,371	6,909	1,469,679

As at 31st December 2003, the cost and accumulated depreciation and impairment of land and buildings that are leased to an intermediate holding company and certain fellow subsidiaries amounted to HK\$809,862,000 (2002: HK\$809,862,000) and HK\$248,639,000 (2002: HK\$235,986,000) respectively.

## 10. FIXED ASSETS (Cont'd)

### Group (Cont'd)

The Group's interests in investment properties and other properties at their cost or valuation are analysed as follows:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
In Hong Kong, held on leases of between 10 and 50 years	<b>1,297,999</b>	1,368,965
Outside Hong Kong, held on leases of between 10 and 50 years	<b>3,560</b>	3,560
Outside Hong Kong, held on leases of over 50 years	<b>27,100</b>	27,100
	<b>1,328,659</b>	1,399,625

The investment properties are revalued at 31st December 2003 on the basis of their open market value by an independent firm of Chartered Surveyors, DTZ Debenham Tie Leung Limited.

As at 31st December 2003, investment properties in Hong Kong of HK\$242,034,000 (2002: HK\$313,000,000) and other properties in Hong Kong with net book value of HK\$722,549,000 (2002: HK\$738,806,000) are pledged as securities to a bank in respect of certain banking facilities granted to the Group.

## 10. FIXED ASSETS (Cont'd)

### Company

	Machinery, equipment and motor vehicles HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
<b>Cost</b>				
At 1st January 2003	3,174	7,344	1,128	11,646
Additions	24	–	–	24
At 31st December 2003	3,198	7,344	1,128	11,670
<b>Accumulated depreciation</b>				
At 1st January 2003	2,458	7,127	1,092	10,677
Charge for the year	354	108	22	484
At 31st December 2003	2,812	7,235	1,114	11,161
<b>Net book value</b>				
At 31st December 2003	386	109	14	509
At 31st December 2002	716	217	36	969

## 11. SUBSIDIARIES

	<b>Company</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	–	–
Amounts due from	<b>3,409,651</b>	3,539,640
Amounts due to	<b>(178,753)</b>	(153,402)
	<b>3,230,898</b>	3,386,238
Provision for diminution in value	<b>(1,695,964)</b>	(1,572,171)
	<b>1,534,934</b>	1,814,067

Particulars of the principal subsidiaries which, in the opinion of the directors, principally affect the results and/or assets of the Group at 31st December 2003 are set out in note 32 to the financial statements.

## 12. ASSOCIATED COMPANIES

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b>8,490</b>	8,490
Amounts due to associated companies	<b>(5,706)</b>	(5,706)
	<b>2,784</b>	2,784

### 13. JOINTLY CONTROLLED ENTITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	206,900	55,083
Amounts due from jointly controlled entities, less provision	–	207,661
	<b>206,900</b>	<b>262,744</b>

Particulars of the jointly controlled entity of the Group at 31st December 2003 are set out as follows:

Name	Place of incorporation and kind of legal entity	Principal activity	Percentage of interest held
COSCO Real Estate Development Company Limited (“CRED”)	The People’s Republic of China (“PRC”), equity joint venture	Property development in China Mainland	20

### 14. OTHER INVESTMENT IN A JOINT VENTURE

	Group	
	2003 HK\$'000	2002 HK\$'000
Cost		
At 1st January	634,454	634,454
Accumulated amortisation and impairment		
At 1st January	(556,586)	(396,453)
Charge for the year	(21,378)	(19,335)
Impairment charge	–	(140,798)
At 31st December	(577,964)	(556,586)
Net book value as at 31st December	<b>56,490</b>	<b>77,868</b>

## 15. INVESTMENT SECURITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Listed equity securities in Hong Kong, at cost	492,397	492,397
Unlisted equity securities outside Hong Kong at cost	4,922	12,698
	<b>497,319</b>	505,095
Provision for diminution in value	(451,343)	(442,450)
	<b>45,976</b>	62,645
	<b>46,674</b>	29,847

## 16. PROPERTIES UNDER DEVELOPMENT FOR SALE

	Group	
	2003 HK\$'000	2002 HK\$'000
Cost incurred plus attributable profits	864,838	617,603
Sales instalments received	(742,282)	(452,403)
	<b>122,556</b>	165,200

## 17. COMPLETED PROPERTIES HELD FOR SALE

At 31st December 2003, the carrying amount of completed properties held for sale that are carried at net realisable value amounted to HK\$56,943,000 (2002: HK\$68,614,000).

## 18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Net amounts due from customers for contract work (note 19)	<b>13,163</b>	15,204	–	–
Trade receivables	<b>117,462</b>	74,118	–	–
Retention receivables	<b>69,171</b>	46,531	–	–
Deposits, prepayments and other receivables	<b>58,098</b>	45,864	<b>3,984</b>	4,005
Amounts due from fellow subsidiaries	<b>4,367</b>	100	<b>33</b>	33
	<b>262,261</b>	181,817	<b>4,017</b>	4,038

The Group's revenue from building construction contracts is billed according to certified progress billings, revenue from sales of properties and other operating revenues are billed according to terms of the relevant contracts governing the transactions. All invoices billed are repayable upon presentation of invoices.

As at 31st December 2003, the ageing analysis of trade receivables is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current – 90 days	<b>103,280</b>	56,864
91 – 180 days	–	5,821
Over 180 days	<b>14,182</b>	11,433
	<b>117,462</b>	74,118

## 19. CONSTRUCTION CONTRACTS IN PROGRESS

	Group	
	2003 HK\$'000	2002 HK\$'000
Contract costs incurred plus attributable profits less foreseeable losses to date	6,150,890	5,712,252
Progress billings received and receivable	(6,329,771)	(5,825,284)
	<b>(178,881)</b>	<b>(113,032)</b>
Representing:		
Net amounts due from customers for contract work included in trade and other receivables (note 18)	13,163	15,204
Net amounts due to customers for contract work included in trade and other payables (note 22)	(192,044)	(128,236)
	<b>(178,881)</b>	<b>(113,032)</b>

## 20. SHORT-TERM INVESTMENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Market value of Hong Kong listed equity securities	243	9,238	-	33

## 21. CASH AND CASH BALANCES

	Group	
	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	559,322	540,246
Restricted bank deposits included in non-current assets	(4,392)	(54,129)
	<b>554,930</b>	<b>486,117</b>

The Group's bank deposits of HK\$4,392,000 (2002: HK\$54,129,000) is restricted for the purpose of long-term banking facilities granted to the Group (note 26).

## 22. TRADE AND OTHER PAYABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Net amounts due to customers for contract work (note 19)	192,044	128,236	–	–
Trade payables	75,827	91,908	–	–
Retention payables	86,523	73,993	–	–
Accrued liabilities and other payables	58,875	46,378	3,036	5,699
Amounts due to fellow subsidiaries	3,562	7,848	–	–
Amount due to the ultimate holding company	16,176	–	–	–
	<b>433,007</b>	<b>348,363</b>	<b>3,036</b>	<b>5,699</b>

## 22. TRADE AND OTHER PAYABLES (Cont'd)

As at 31st December 2003, the ageing analysis of trade payables is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current – 90 days	61,850	54,955
91 – 180 days	–	4,082
Over 180 days	13,977	32,871
	<b>75,827</b>	<b>91,908</b>

## 23. BANK LOANS — UNSECURED

As at 31st December 2003, bank loan of HK\$107,000,000 (2002: HK\$25,000,000) is guaranteed by COSCO (Hong Kong) Group Limited (“COSCO Hong Kong”), an intermediate holding company of the Group. Besides, bank loan of HK\$18,790,000 (2002: Nil) is guaranteed by a minority shareholder of a subsidiary.

## 24. SHARE CAPITAL

	2003		2002	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised:				
Shares of HK\$0.10 each	<b>3,000,000,000</b>	<b>300,000</b>	3,000,000,000	300,000
Issued and fully paid:				
Shares of HK\$0.10 each	<b>1,394,389,291</b>	<b>139,439</b>	1,394,389,291	139,439

On 17th May 2002, a share options scheme was approved at an Annual General Meeting of the Company under which the directors may, at their discretion, invite directors and employees of the Group to subscribe for shares of the Company.

## 24. SHARE CAPITAL (Cont'd)

On 26th November 2003, the directors and employees of the Group were granted a total of 44,800,000 share options at a price of HK\$0.57 per share. In addition, 34,200,000 share options were granted to employees of China Ocean Shipping (Group) Company ("COSCO") and its subsidiaries and associated companies (other than the Group). The options are exercisable at any time from 23rd December 2003 to 22nd December 2008.

The movements of share options granted pursuant to the Company's share option schemes are as follows:

	Number of share options	
	2003	2002
At the beginning of the year	-	14,620,000
Granted	<b>79,000,000</b>	-
Exercised	-	-
Lapsed	-	(14,620,000)
At the end of the year	<b>79,000,000</b>	-

## 25. RESERVES

### Group

	Share premium account HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
	note (d)				
At 1st January 2003	2,356,553	60,020	(2,043)	(1,549,684)	864,846
Exchange differences	–	–	(507)	–	(507)
Transferred to capital reserve	–	3,131	–	(3,131)	–
Loss for the year (note (a))	–	–	–	(116,706)	(116,706)
At 31st December 2003	2,356,553	63,151	(2,550)	(1,669,521)	747,633
Company and subsidiaries	2,356,553	63,151	(2,550)	(1,663,766)	753,388
Associated companies	–	–	–	(7,009)	(7,009)
Jointly controlled entities	–	–	–	1,254	1,254
	2,356,553	63,151	(2,550)	(1,669,521)	747,633
At 1st January 2002	2,356,553	56,683	(2,027)	(1,008,291)	1,402,918
Exchange differences	–	–	(16)	–	(16)
Transferred to capital reserve	–	3,337	–	(3,337)	–
Loss for the year (note (a))	–	–	–	(538,056)	(538,056)
At 31st December 2002	2,356,553	60,020	(2,043)	(1,549,684)	864,846
Company and subsidiaries	2,356,553	60,020	(2,043)	(1,540,097)	874,433
Associated companies	–	–	–	(7,009)	(7,009)
Jointly controlled entities	–	–	–	(2,578)	(2,578)
	2,356,553	60,020	(2,043)	(1,549,684)	864,846

## 25. RESERVES (Cont'd)

### Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January 2003	2,356,553	83,770	(1,563,821)	876,502
Loss for the year	–	–	(116,514)	(116,514)
At 31st December 2003	<b>2,356,553</b>	<b>83,770</b>	<b>(1,680,335)</b>	<b>759,988</b>
At 1st January 2002	2,356,553	83,770	(1,095,293)	1,345,030
Loss for the year	–	–	(468,528)	(468,528)
At 31st December 2002	<b>2,356,553</b>	<b>83,770</b>	<b>(1,563,821)</b>	<b>876,502</b>

- (a) Loss for the year of HK\$116,706,000 (2002: HK\$538,056,000) includes a net profit of HK\$3,832,000 attributable to jointly controlled entities (2002: HK\$4,060,000 attributable to associated companies and jointly controlled entities).
- (b) The contributed surplus of the Company arose in 1992 when the Company issued shares in exchange for the shares of companies being acquired, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the companies acquired.
- (c) Under the Companies Act of Bermuda, the Company's contributed surplus is currently not distributable. Accordingly, the Company had no reserves available for distribution at 31st December 2003 (2002: Nil).
- (d) Included in the capital reserve is an amount of HK\$6,468,000 (2002: HK\$3,337,000) which represents the Group's share of the statutory reserves of certain PRC subsidiaries.

## 26. LONG-TERM BANK LOANS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans				
Secured	<b>697,130</b>	853,281	<b>697,130</b>	780,000
Unsecured	<b>80,000</b>	188,000	<b>80,000</b>	188,000
	<b>777,130</b>	1,041,281	<b>777,130</b>	968,000
Amount repayable within one year included in current liabilities	<b>(99,230)</b>	(90,000)	<b>(99,230)</b>	(90,000)
	<b>677,900</b>	951,281	<b>677,900</b>	878,000
The bank loans are repayable as follows:				
Within one year	<b>99,230</b>	90,000	<b>99,230</b>	90,000
In the second year	<b>19,230</b>	171,281	<b>19,230</b>	98,000
In the third to fifth year	<b>658,670</b>	780,000	<b>658,670</b>	780,000
	<b>777,130</b>	1,041,281	<b>777,130</b>	968,000

In addition to the pledge of certain of the Group's properties as securities to long-term bank loans, the Group's long-term bank loans of HK\$777,130,000 are guaranteed by COSCO Hong Kong (2002: HK\$73,281,000 and HK\$968,000,000 were guaranteed by COSCO and COSCO Hong Kong respectively).

## 27. DEFERRED TAXATION

Deferred income tax assets are recognised for tax losses to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of approximately HK\$856,572,000 (2002: approximately HK\$780,301,000) to carry forward against future taxable income.

## 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of operating loss to net cash generated from operating activities

	2003 HK\$'000	2002 HK\$'000
Operating loss	(73,886)	(507,837)
Impairment loss on a leasehold land and building	–	207,000
Impairment loss on other investment in a joint venture	–	140,798
Provision for diminution in value of investment securities	8,893	13,650
Provision for claims and foreseeable losses on certain construction contracts	27,899	87,729
Provision for completed properties held for sale	11,271	43,966
Deficit on revaluation of investment properties	70,966	45,900
Interest income	(3,829)	(5,636)
Depreciation of fixed assets, net of amount capitalised	20,038	26,995
Amortisation of cost of other investment in a joint venture	21,378	19,335
Amortisation of goodwill	2,034	1,017
Gain on disposal/write-off of fixed assets	(499)	(207)
Gain on disposal of jointly controlled entities	(12,467)	–
Impairment loss on fixed assets	2,855	–
Dividend income	(1,105)	(1,836)
Income from other investment in a joint venture	(22,839)	(19,730)
<b>Operating profit before working capital changes</b>	<b>50,709</b>	<b>51,144</b>
Decrease in properties under development for sale	46,117	87,106
Decrease in completed properties held for sales	400	2,204
Decrease/(increase) in construction contracts in progress	40,837	(10,388)
(Increase)/decrease in trade receivables, retention receivables, deposits, prepayments and other receivables	(72,843)	372,066
Decrease/(increase) in short-term investments	8,995	(2,317)
Increase/(decrease) in trade payables, accrued liabilities and other payables	8,946	(87,639)
(Increase)/decrease in amounts due from fellow subsidiaries	(4,267)	541
(Decrease)/increase in amounts due to fellow subsidiaries	(4,286)	7,274
Increase in amount due to the ultimate holding company	16,176	–
<b>Net cash inflow generated from operations</b>	<b>90,784</b>	<b>419,991</b>

## 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

### (b) Analysis of changes in financing during the year

	Share capital and premium HK\$'000	Bank loans HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January 2002	2,495,992	1,467,357	46,701	4,010,050
Net cash outflow from financing activities	–	(361,076)	(4,338)	(365,414)
Acquisition of a subsidiary	–	–	12,985	12,985
Minority's share of loss of subsidiaries for the year	–	–	(7,345)	(7,345)
At 31st December 2002	2,495,992	1,106,281	48,003	3,650,276
<b>At 1st January 2003</b>	<b>2,495,992</b>	<b>1,106,281</b>	<b>48,003</b>	<b>3,650,276</b>
<b>Net cash (outflow)/inflow from financing activities</b>	<b>–</b>	<b>(171,161)</b>	<b>30,637</b>	<b>(140,524)</b>
<b>Minority's share of profit of subsidiaries for the year</b>	<b>–</b>	<b>–</b>	<b>8,619</b>	<b>8,619</b>
<b>At 31st December 2003</b>	<b>2,495,992</b>	<b>935,120</b>	<b>87,259</b>	<b>3,518,371</b>

## 29. COMMITMENTS

### (a) Investment commitments

At 31st December 2003, the Group had committed to provide a shareholders' loan of RMB51,000,000 (approximately HK\$47,910,000) to a 51% owned subsidiary engaging in property development in the China Mainland.

## 29. COMMITMENTS (Cont'd)

### (b) Operating leases commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	362	279	3,149	4,480
In the second to fifth year inclusive	-	7	6,035	-
	<b>362</b>	286	<b>9,184</b>	4,480

The Company entered into non-cancellable operating leases with a subsidiary of the Group, such lease commitments are eliminated upon consolidation.

### 30. CONTINGENCIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees for banking facilities granted to subsidiaries	–	–	<b>40,000</b>	40,000
Claims for liquidated damages and cost of rectification works in respect of a completed construction contract	–	42,500	–	–
Performance bonds in respect of performance and completion of construction contracts	<b>10,271</b>	10,271	–	–
Guarantee and counter-indemnity to bank guarantees in respect of due performance of management and remedial cost of a property undertaken by the Group	<b>43,000</b>	43,000	<b>35,000</b>	35,000
Guarantees to mortgage loans in respect of a property development project (Note)	<b>213,517</b>	80,327	–	–

Note: The Group provides guarantees to the mortgage loans granted by certain banks to buyers of a property development project in China Mainland. Pursuant to the terms of the guarantees, upon default in loan payments by the buyers, the Group is responsible to repay the outstanding loan principals together with accrued interest and penalty owed by the defaulted buyers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The directors of the Group consider that in case of default, the net realisable value of the related properties can cover the repayment of outstanding loan principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements of the Group for the guarantees.

### 31. RELATED PARTY TRANSACTIONS

- (a) The following is a summary of the significant related party transactions carried out in the normal course of the Group's business during the year.

	Note	Group	
		2003 HK\$'000	2002 HK\$'000
Rental income received from			
An intermediate holding company	(i)	2,051	2,073
Fellow subsidiaries	(i)	28,512	30,687
Commission income for provision of agency services	(ii)	40,834	15,350

Notes:

- (i) Eleven tenancy agreements were entered into between certain subsidiaries of the Company as landlords, and COSCO Hong Kong or its subsidiaries as tenants, for the leasing of certain properties of the Group at COSCO Tower at monthly rentals ranging from HK\$23 to HK\$28 (2002: HK\$33) per square feet.
- (ii) Certain subsidiaries of the Company act as the agent of COSCO and its subsidiaries (other than the Group) in respect of (a) sale and purchase of new and second hand vessels, (b) bareboat charter businesses, and (c) sale and purchase of marine equipment for new ship-building projects. According to the terms of the relevant engagement/commission agreements, the Group received commission income from vendors, ship-owners and equipment makers with respect to the transactions mentioned above.
- (b) On 24th January 2003, the Group entered into the Share Transfer and Capital Injection Agreement and the Joint Venture Agreement for the acquisition from COSCO of a 23.4% equity interest in CRED, a former 50% owned company of COSCO for a cash consideration of RMB191,750,000, and the participation in the capital injection by the Group for an aggregate amount of RMB26,510,000. Upon completion of the transactions in July 2003, the Group holds 20% of the enlarged registered capital in CRED.
- (c) On 24th January 2003, a Sale and Purchase Agreement was also signed for the sale of the Group's entire 49% equity interest in Beijing Tian Lin Property Development Co. Ltd. ("Tian Lin"), a jointly controlled entity, to CRED for a cash consideration of RMB62,630,000 and for the repayment by Tian Lin of the outstanding shareholder's loan advanced by the Group of RMB226,760,000. The transactions were completed in September 2003 and the Group derived a gain on disposal of HK\$3,214,000.

### 31. RELATED PARTY TRANSACTIONS (Cont'd)

- (d) On 14th August and 25th November 2003, the Group entered into conditional share transfer agreements for the acquisition of an aggregate of 63.07% equity interest in two companies in China Mainland engaging in paint manufacturing business in the China Mainland from subsidiaries of COSCO. Further details are set out in note 33.
- (e) On 14th May 2003, the Group disposed of its 0.9% interest in COSCO Network Limited to COSCO Information Technology Limited, a wholly-owned subsidiary of COSCO Hong Kong, for a consideration of HK\$7,775,000.

### 32. PRINCIPAL SUBSIDIARIES

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
<b>Operated in Hong Kong</b>				
99 Prove Finance Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Property holding
Capital Properties Limited <sup>#</sup>	Hong Kong	2 Ordinary shares of HK\$1 each	100	Provision of nominee services
Cash in Hand Inc	British Virgin Islands	1 Ordinary share of US\$1	100	Property investment
Century Metro Development Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	100	Property development
Cosmart Company Limited	Hong Kong	2 Ordinary shares of HK\$1 each	60	Provision of agency services on ship trading business
COSCO International Infrastructure Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding

## 32. PRINCIPAL SUBSIDIARIES (Cont'd)

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
<b>Operated in Hong Kong (Cont'd)</b>				
COSCO International Land Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
COSCO International Ship Trading Company Limited	Hong Kong	500,000 Ordinary shares of HK\$1 each	60	Provision of agency services on ship trading business
COSCO International Trade Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
COSCO Project Management Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
Gwee Brothers Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Property investment
Malayan Corporations Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Property investment
Mission Success Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
Selwin Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100	Building construction

## 32. PRINCIPAL SUBSIDIARIES (Cont'd)

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
<b>Operated in Hong Kong (Cont'd)</b>				
Shun Shing Construction & Engineering Company, Limited	Hong Kong	2,742,000 ordinary shares of HK\$100 each and 120,000 non-voting deferred shares of HK\$100 each	100	Building construction
Success Gate Investment Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
Tian Lee Property Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Property holding
Velu Exports Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Property holding
Waily Development Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
Wealth Nice Investment Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Property development
Wing Thye Holdings Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Property holding
Year Of The Rat Corp.	British Virgin Islands	1 Ordinary share of US\$1	100	Property holding

## 32. PRINCIPAL SUBSIDIARIES (Cont'd)

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
<b>Operated in British Virgin Islands</b>				
Cash Rich Enterprises Limited	British Virgin Islands	10,000 Ordinary shares of US\$1 each	85.85	Investment holding
COSCO (B.V.I.) Holdings Limited <sup>#</sup>	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
COSCO International Construction Limited	British Virgin Islands	100 Ordinary shares of US\$1 each	100	Investment holding
COSCO International Infrastructure (BVI) Holdings Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
COSCO International Land (B.V.I.) Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Graceful Nice Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Mega Precise Profit Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Modern Capital Investment Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Monoland Assets Limited	British Virgin Islands	2 Ordinary shares of US\$1 each	100	Investment holding

## 32. PRINCIPAL SUBSIDIARIES (Cont'd)

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
<b>Operated in British Virgin Islands (Cont'd)</b>				
Raycle Match Development Ltd.	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Top Elegant Investment Ltd.	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Trinity Developments Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Uppermost Corporation <sup>#</sup>	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
<b>Operated in the PRC</b>				
New Central International Enterprises Co., Ltd.	Hong Kong	1,000,000 Ordinary shares of HK\$1 each	90	Investment holding
Shanghai COSCO Honour Property Development Limited	PRC, equity joint venture	RMB232,238,926	85	Property development
Xiang Li Yuan (Shanghai) Property Management Company Limited	PRC, wholly foreign-owned enterprise	US\$500,000	100	Property management services
Wellbase Holdings Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Property investment
COSCO Ship Beijing Company Limited	PRC, wholly foreign-owned enterprise	US\$500,000	60	Provision of agency services on ship trading business

### 32. PRINCIPAL SUBSIDIARIES (Cont'd)

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
<b>Operated in the PRC (Cont'd)</b>				
Shenyang COSCO Yihe Property Development Company Limited	PRC, equity joint venture	RMB100,000,000	51	Property development

# Shares held directly by the Company

### 33. SUBSEQUENT EVENTS

- (a) On 14th August and 25th November 2003, the Group entered into conditional share transfer agreements for the acquisition of 34.19% and 28.88% respectively, 63.07% in aggregate, equity interest in Shanghai COSCO Kansai Paint & Chemical Co. Ltd. and Tianjin COSCO Kansai Paint & Chemicals Co. Ltd. from subsidiaries of COSCO for a total consideration of RMB116,831,000 (approximately HK\$109,763,000) in cash. The acquisitions were completed in January 2004 when the conditions precedent were fulfilled.
- (b) On 14th August 2003, the Group entered into conditional sales and purchase agreement with COSCO Industry Company, a wholly-owned subsidiary of COSCO, for the acquisition of 10% equity interest of International Paint of Shanghai Co., Ltd.. The acquisition will be completed in the midst of 2004 when the conditions precedent are fulfilled.
- (c) On 16th April 2004, the Board announces to put forward to the shareholders a proposal to apply part of the amount standing to the credit of the share premium account of the Company to offset the entire accumulated losses as at 31st December 2003 of HK\$1,680,335,000 and transfer the remaining credit of the share premium account to contributed surplus.

### 34. ULTIMATE HOLDING COMPANY

The directors regard China Ocean Shipping (Group) Company, a state-owned enterprise established in the PRC, as being the ultimate holding company.

### 35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 16th April 2004.