

Notes to the Financial Statements

For the year ended 31 December 2003

1. GENERAL

The Company is incorporated in Bermuda as an exempt company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Asia Pacific Promotion Limited, a private limited company incorporated in the British Virgin Islands (the "BVI").

The principal activities of the Group are property development and sale and distribution of liquefied petroleum gas and natural gas ("Gas fuel") and construction of gas pipelines. During 2002, it ceased its supply of electricity operation.

2. ADOPTION OF NEW AND REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

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 HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income taxes
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In the current year, the Group has adopted SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The adoption of this standard has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

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

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions on or after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet. Goodwill arising on the acquisition of an associate is included in the interests in associates in the balance sheet.

Negative goodwill

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

Negative goodwill arising on acquisitions is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to future losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

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

Recognition of revenue

Development properties

Income from properties developed for sale, where there are no pre-sales prior to completion of a development, is recognised on the execution of the sales and purchase agreement.

Income from properties pre-sold prior to completion of development is recognised over the period from the execution of the sales and purchase agreement to the completion of the development on the basis of development costs incurred to date as a proportion of estimated total development costs.

Income from outright sales of an entire property development project is recognised upon execution of the sale and purchase agreement.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Recognition of revenue *(continued)*

Sales of electricity supply

Revenue from electricity supply operations is recognised when electricity is supplied.

Gas pipelines construction revenue

Gas pipelines construction revenue is recognised when the outcome of a gas connection contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the period. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable.

Sales of goods

Sales of goods are recognised when goods are delivered and title has passed.

Income from decoration, interior design and related services

Income from decoration, interior design and related services is recognised using the percentage of completion method, measured by reference to the proportion that costs incurred to date to estimated total costs for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Income from property management services

Income from property management services is recognised on provision of services.

Interest income

Interest income is accrued on a time proportion basis on the principal outstanding and at the rate applicable.

Dividend income

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

Stock of properties

Stock of properties includes properties under development and properties held for sale.

The carrying value of properties under development comprises the land cost together with development expenditure, which includes construction costs, capitalised interest and ancillary borrowing costs, plus attributable profits taken to date, less progress payments received and foreseeable losses. Attributable profit on pre-sale of properties under development is recognised over the course of the development. Profit recognised on pre-sale of properties during an accounting period is calculated by reference to the proportion of construction costs incurred up to the accounting date to total estimated construction costs to completion, with due allowance for contingencies.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Stock of properties *(continued)*

Properties held for sale are classified under current assets and stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development cost attributable to the unsold properties. Net realisable value is the estimated price at which a property can be realised in the ordinary course of business less related selling expenses.

Investments in subsidiaries

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

A joint venture is treated as a subsidiary if, under the joint venture control, the Group had the power to govern the financial and operating policies of the joint venture so as to obtain benefits from its activities.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus goodwill on acquisition less any identified impairment loss.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

Investment securities

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

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

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

Property, plant and equipment

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

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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

Other plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives on a straight line basis, after taking into consideration of their estimated residual values. The principal annual rates used are as follows:

Leasehold land	Over the unexpired term of lease or over the term of the equity joint venture contract, whichever is shorter
Buildings	3% to 10%
Plant and machinery	6% to 30%
Furniture, fixtures and equipment	18% to 40%
Motor vehicles	6% to 30%
Gas pipelines	3%

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Construction in progress

Construction in progress, which includes all development expenditure and other direct costs, including interest expenses attributable to such projects, is stated at cost. Costs on completed construction work are transferred to property, plant and equipment.

Impairment

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

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment *(continued)*

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

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on the translation of foreign currency borrowings used to finance net investments in overseas operations/subsidiaries are taken directly to reserves. Other profits and losses arising on exchange are dealt with in the income statement.

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

Exclusive operating right for city pipeline network

Exclusive operating right for city pipeline network is stated at cost less accumulated amortisation and any identified impairment loss. The cost incurred for the acquisition of exclusive operating right is capitalised and amortised on a straight-line basis over the estimated useful life of 20 years. The amortisation period and amortisation method are reviewed annually at each financial year and for appropriateness.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Decoration work in progress comprises direct material and labour cost plus attributable profits taken to date less deposits received and provision for any foreseeable losses.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction contracts

When the outcome of a construction contract can be estimated reliably and the stage of contract completion at the balance sheet date can be measured reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue is recognised.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contracts costs will exceed contract revenue, the expected loss is recognised an expense immediately.

Convertible note

A convertible note is regarded as a liability until conversion occurs and the finance costs recognised in the income statement in respect of the convertible note are calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible note for each accounting period.

Capitalisation of borrowing costs

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

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rental receivable or payable in respect of operating leases are credited or charged respectively to the income statement on a straight line basis over the terms of the respective leases.

Retirement benefits scheme

The retirement benefit costs charged in the income statement represents the contributions payable in respect of the current year to the Group's defined contribution scheme and Mandatory Provident Fund Scheme ("MPF Scheme") in Hong Kong and the state – sponsored retirement plan for its employees in the PRC.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

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.

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 profits will be available to allow all or part of the asset to be recovered.

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.

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.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(A) Business segments

For management purposes, the Group is currently organised into three operating divisions – property development, gas fuel business and others. These divisions are the basis on which the Group reports its primary segment information. Principal activities are as follows:

Property development	–	sales of completed properties/development properties
Gas fuel business	–	wholesaling and retailing of gas fuel and the construction of gas pipelines
Others	–	decoration, interior design work and property management services

In prior years, the Group was also involved in the electricity supply. That operation was discontinued from 6 May 2002 (see note 10).

Notes to the Financial Statements

For the year ended 31 December 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(A) Business segments (continued)

- (i) Segment information about these businesses for the year ended 31 December 2003 is presented below:

INCOME STATEMENT

	Continuing operations			Discontinuing operation	Eliminations	Consolidated
	Property development	Gas fuel business	Others	Electricity supply		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER						
External sales	330,979	1,457,632	26,745	-	-	1,815,356
Inter-segment sales	-	-	9,542	-	(9,542)	-
	<u>330,979</u>	<u>1,457,632</u>	<u>36,287</u>	<u>-</u>	<u>(9,542)</u>	<u>1,815,356</u>
Inter-segment sales are charged at prevailing market prices.						
RESULT						
Segment result	<u>26,625</u>	<u>291,848</u>	<u>5,549</u>	-	-	<u>324,022</u>
Other operating income						25,511
Unallocated corporate expenses						<u>(43,616)</u>
Profit from operations						305,917
Finance costs						(10,630)
Gain on disposal of subsidiaries	(94)	532,015	(12,687)	-	-	519,234
Release of deferred gain on disposal of a subsidiary	-	-	-	77,000	-	77,000
Gain on disposal of associates	-	-	133,209	-	-	133,209
Gain on partial disposal of an associate	-	-	2,677	-	-	2,677
Amortisation of goodwill of an associate	-	-	(2,724)	-	-	(2,724)
Share of results of associates	-	-	5,981	-	-	5,981
Profit before taxation						1,030,664
Taxation						<u>(48,654)</u>
Profit before minority interests						982,010
Minority interests						<u>(203,960)</u>
Net profit for the year						<u><u>778,050</u></u>

Notes to the Financial Statements

For the year ended 31 December 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(A) Business segments (continued)

BALANCE SHEET

	Continuing operations			Consolidated HK\$'000
	Property development HK\$'000	Gas fuel business HK\$'000	Others HK\$'000	
ASSETS				
Segment assets	1,993,050	2,103,802	92,762	4,189,614
Interest in associates			184,990	184,990
Unallocated corporate assets				380,100
Consolidated total assets				<u>4,754,704</u>
LIABILITIES				
Segment liabilities	166,766	151,185	5,820	323,771
Unallocated corporate liabilities				1,392,654
Consolidated total liabilities				<u>1,716,425</u>

OTHER INFORMATION

	Continuing operations			Consolidated HK\$'000
	Property development HK\$'000	Gas fuel business HK\$'000	Others HK\$'000	
Capital additions	15,478	273,359	59	288,896
Intangible asset additions	–	10,035	–	10,035
Goodwill additions	–	63,108	–	63,108
Depreciation and amortisation	<u>12,071</u>	<u>23,142</u>	<u>3,133</u>	<u>38,346</u>

Notes to the Financial Statements

For the year ended 31 December 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(A) Business segments (continued)

(ii) Segment information about these businesses for the year ended 31 December 2002 is presented below:

INCOME STATEMENT

	Continuing operations			Discontinuing operation	Eliminations HK\$'000	Consolidated HK\$'000
	Property development HK\$'000	Gas fuel business HK\$'000	Others HK\$'000	Electricity supply HK\$'000		
TURNOVER						
External sales	311,997	1,150,322	22,613	40,474	–	1,525,406
Inter-segment sales	–	–	9,542	–	(9,542)	–
	<u>311,997</u>	<u>1,150,322</u>	<u>32,155</u>	<u>40,474</u>	<u>(9,542)</u>	<u>1,525,406</u>

Inter-segment sales are charged at prevailing market prices.

RESULT

Segment result	<u>31,556</u>	<u>184,129</u>	<u>4,998</u>	<u>2,180</u>	–	222,863
Other operating income						20,924
Unallocated corporate expenses						<u>(21,301)</u>
Profit from operations						222,486
Finance costs						(4,350)
Gain on disposal of subsidiaries	–	111,860	–	84,048	–	195,908
Loss on disposal of an associate	(234)	–	–	–	–	(234)
Amortisation of goodwill of an associate	–	–	(1,816)	–	–	(1,816)
Share of results of associates	2,306	–	(25,055)	–	–	<u>(22,749)</u>
Profit before taxation						389,245
Taxation						<u>(16,068)</u>
Profit before minority interests						373,177
Minority interests						<u>(78,748)</u>
Net profit for the year						<u>294,429</u>

Notes to the Financial Statements

For the year ended 31 December 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(A) Business segments (continued)

BALANCE SHEET

	Continuing operations			Discontinuing operation	Consolidated HK\$'000
	Property development HK\$'000	Gas fuel business HK\$'000	Others HK\$'000	Electricity supply HK\$'000	
ASSETS					
Segment assets	1,876,227	735,540	316,133	–	2,927,900
Interest in associates	36,303	–	93,579		129,882
Unallocated corporate assets					307,264
Consolidated total assets					<u>3,365,046</u>
LIABILITIES					
Segment liabilities	187,671	136,900	10,203	–	334,774
Unallocated corporate liabilities					996,322
Consolidated total liabilities					<u>1,331,096</u>

OTHER INFORMATION

	Continuing operations			Discontinuing operation	Consolidated HK\$'000
	Property development HK\$'000	Gas fuel business HK\$'000	Others HK\$'000	Electricity supply HK\$'000	
Capital additions	5,264	175,842	9,391	82,800	273,297
Goodwill additions	–	2,461	54,482	–	56,943
Depreciation and amortisation	<u>9,520</u>	<u>19,914</u>	<u>3,752</u>	<u>1,577</u>	<u>34,763</u>

(B) Geographical segments

As over 90% of the consolidated turnover, trading results and assets for the year is derived from or located in the PRC, an analysis of the consolidated turnover, trading results and assets by geographical location is not presented.

Notes to the Financial Statements

For the year ended 31 December 2003

5. OTHER OPERATING INCOME

	2003 HK\$'000	2002 HK\$'000
Interest on bank deposits	13,372	11,336
Dividend income	647	360
Gain on disposal of investment in securities	–	592
Net exchange gain	1,162	918
Release of negative goodwill	2,244	1,855
Rental income under operating leases	2,608	2,195
Unrealised holding gain on investment in securities	–	623
Sundry	5,478	3,074
	<u>25,511</u>	<u>20,953</u>

6. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations is arrived at after charging:		
Auditors' remuneration		
Provided for the year	2,170	2,040
Under(over)provision in prior year	175	(332)
	<u>2,345</u>	<u>1,708</u>
Depreciation	34,033	31,730
Operating lease rentals	9,543	5,397
Loss on disposal of property, plant and equipment	10,033	2,203
Unrealised holding loss on investments in securities	36	–
Realised holding loss on investments in securities	2,307	29
Staff costs including directors' remuneration	82,863	78,986
Amortisation of intangible asset		
(included in administrative expenses)	373	–
Amortisation of goodwill (included in administrative expenses)	1,216	1,217
	<u>1,216</u>	<u>1,217</u>

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7. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

Details of the emoluments paid by the Group to the directors are as follows:

	2003 HK\$'000	2002 HK\$'000
Fees	300	238
Salaries and other emoluments	8,303	8,417
Contributions to retirement benefits scheme	125	125
Discretionary bonuses	900	700
	<u>9,628</u>	<u>9,480</u>

The amounts disclosed above include directors' fees of HK\$300,000 (2002: HK\$237,500) payable to independent non-executive directors. No other emoluments were payable to independent non-executive directors.

The emoluments of the directors were within the following bands:

	Number of individuals	
	2003	2002
Emolument band (Hong Kong Dollars)		
\$Nil – \$1,000,000	4	4
\$1,000,001 – \$1,500,000	1	–
\$1,500,001 – \$2,000,000	1	3
\$2,000,001 – \$2,500,000	1	–
\$4,000,001 – \$4,500,000	1	1
	<u>1</u>	<u>1</u>

Of the five individuals with the highest emoluments in the Group, four (2002: four) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining individual were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and allowances	707	1,171
Contributions to retirement benefits scheme	19	–
	<u>726</u>	<u>1,171</u>

His emoluments were within the emolument band from HK\$nil to HK\$1,000,000 (2002: from HK\$1,000,001 to HK\$1,500,000).

Notes to the Financial Statements

For the year ended 31 December 2003

8. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on		
Bank loans and other borrowing wholly repayable within five years	37,790	41,522
Convertible bonds	5,408	–
Convertible notes	484	1,248
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Total borrowing cost	43,682	42,770
Less: Amount capitalised to properties under development for sale	(33,327)	(38,949)
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	10,355	3,821
Bank charges	275	244
Handling charge	–	285
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	10,630	4,350
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Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.8% (2002: 5.6%) to expenditure on qualifying assets.

9. GAIN ON DISPOSAL OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Gain on partial disposal of interests in subsidiaries	532,803	111,860
(Loss) gain on disposal of subsidiaries (see note 31)	(13,569)	84,048
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	519,234	195,908
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Gain on partial disposal of interests in subsidiaries represented the gain arising on disposal of shares of Chenzhou Pan River Gas Industry Co., Ltd. and Panva Gas Holdings Limited respectively to third parties.

Notes to the Financial Statements

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10. DISCONTINUING OPERATIONS

On 8 March 2002, the Group entered into a sales agreement to dispose of Sinolink Industrial Limited ("Sinolink Industrial"), which carried out all of the Group's electricity supply operations. The disposal was completed on 6 May 2002, on which date control of Sinolink Industrial was passed to the acquirer.

The results of the electricity supply operations for the period from 1 January 2002 to 6 May 2002, which have been included in the consolidated financial statements were as follows:

	Period ended 6.5.2002 HK\$'000
Turnover	40,474
Cost of sales	(35,241)
Other operating income	179
Other operating expenses	(3,053)
Finance costs	(1,144)
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Profit before taxation	1,215
Tax Credit	3
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Profit after taxation	<u>1,218</u>

During 2002, Sinolink Industrial paid HK\$35,213,000 to the Group's net operating cash flows, paid HK\$85,542,000 in respect of investing activities and contributed HK\$113,991,000 in respect of financing activities.

The carrying amounts of the assets and liabilities of Sinolink Industrial at the date of disposal is disclosed as follows:

	6.5.2002 HK\$'000
Total assets	<u>397,133</u>
Total liabilities	<u>(398,263)</u>

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For the year ended 31 December 2003

10. DISCONTINUING OPERATIONS *(continued)*

A gain of HK\$84 million during 2002 arose on the disposal of Sinolink Industrial, being the proceeds of disposal less the carrying amount of the subsidiary's net assets and attributable goodwill (see note 31). No tax charge or credit arose from the transaction.

According to the sales agreement, the Group guaranteed the acquirer approximately RMB135,000,000 profit in respect of a subsidiary of Sinolink Industrial, Fuhuade for the two years ending 31 December 2003. Since the profit guarantee was met and the deferred gain of HK\$77 million on the disposal of Sinolink Industrial was released during the year.

11. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in nor derived from Hong Kong.

The tax rate applicable for all other PRC subsidiaries ranges from 15% to 33%.

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. The reduced tax rate for the relief period ranges from 12% to 16.5%. PRC enterprise income tax for the year has been provided for after taking these tax incentives into account.

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For the year ended 31 December 2003

11. TAXATION (continued)

The charge for the year can be reconciled to the profit in the consolidated income statement as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation (excluding share of results of associates)	<u>1,024,683</u>	<u>411,994</u>
Tax at the applicable tax rate of 33% (2002: 33%)	338,145	135,958
Tax effect of tax losses not recognised	5,392	2,248
Tax effect of expenses not deductible for tax purpose	9,344	91,038
Tax effect of income that is exempted from PRC enterprise income tax and other regions outside Hong Kong in determining taxable profit	(256,120)	(194,922)
Effect of different tax rates of subsidiaries entitled to a 50% reduction in PRC enterprise income tax rates and operating in different provinces	(51,106)	(18,388)
Share of taxation of associates	45,655 2,999	15,934 134
Tax expenses	<u>48,654</u>	<u>16,068</u>

At the balance sheet date, the Group has unused tax losses of HK\$46,070,000 (2002: HK\$29,796,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Out of the unrecognised losses, HK\$1,400,000 (2002: Nil) has been expired. Included in unrecognised losses are losses of HK\$43,304,000 (2002: HK\$28,430,000) will be carried forward for five years from date of origination. Other losses may be carried forward indefinitely.

Notes to the Financial Statements

For the year ended 31 December 2003

12. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Ordinary shares:		
Interim, paid – HK\$0.03 per share (2002: HK\$0.03)	57,276	55,483
Final, proposed – HK\$0.03 per share (2002: Nil)	57,460	–
	114,736	55,483

Pursuant to a resolution passed at a meeting of board of directors held on 21 April 2004, the directors of the Company recommended a bonus issue of new shares of HK\$0.10 each to shareholders of the Company on the basis of two shares for every ten shares held. The bonus issue of shares is subject to shareholders approval at the forthcoming annual general meeting of the Company to be held on 25 May 2004.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2003 HK\$'000	2002 HK\$'000
Earnings for the purposes of basic earnings per share	778,050	294,429
Effect of dilutive potential shares:		
Interest on convertible note	489	824
Earnings for the purposes of diluted earnings per share	778,539	295,253
Weighted average number of shares for the purposes of basic earnings per share	1,865,048,000	1,820,292,000
Effect of dilutive potential ordinary shares:		
Options	4,133,000	15,133,000
Convertible note	38,564,000	81,450,000
Weighted average number of shares for the purposes of diluted earnings per share	1,907,745,000	1,916,875,000

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share warrants as the exercise price of those warrants is higher than the average market price for the Company's shares for both 2002 and 2003.

The computation of diluted earnings per share does not assume the conversion of the outstanding convertible bonds issued by Panva Gas as the conversion of those convertible bonds is anti-dilutive.

Notes to the Financial Statements

For the year ended 31 December 2003

14. PROPERTY, PLANT AND EQUIPMENT

	Medium term leasehold land and buildings in the PRC HK\$'000	Construction in progress HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Gas pipelines HK\$'000	Total HK\$'000
THE GROUP							
COST OR VALUATION							
At 1 January 2003	140,320	12,239	147,309	29,592	32,333	157,011	518,804
Acquisition of subsidiaries	5,988	46,518	1,376	245	200	28,527	82,854
Disposal of subsidiaries	(1,130)	–	(925)	(267)	(242)	–	(2,564)
Additions	12,620	30,317	4,696	13,139	8,761	136,509	206,042
Disposals	(14,264)	(4,044)	(111)	(490)	(6,180)	(2)	(25,091)
Transfer	3,559	(30,977)	2,687	210	85	24,436	–
At 31 December 2003	<u>147,093</u>	<u>54,053</u>	<u>155,032</u>	<u>42,429</u>	<u>34,957</u>	<u>346,481</u>	<u>780,045</u>
Comprising:							
At cost	–	54,053	155,032	42,429	34,957	346,481	632,952
At valuation 2003	<u>147,093</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>147,093</u>
	<u>147,093</u>	<u>54,053</u>	<u>155,032</u>	<u>42,429</u>	<u>34,957</u>	<u>346,481</u>	<u>780,045</u>
DEPRECIATION							
At 1 January 2003	20,509	–	28,852	17,912	13,743	5,113	86,129
Disposal of subsidiaries	(131)	–	(274)	(236)	(76)	–	(717)
Provided for the year	7,547	–	8,090	7,064	4,542	6,790	34,033
Eliminated on disposals	(3,952)	–	(10)	(406)	(3,435)	–	(7,803)
At 31 December 2003	<u>23,973</u>	<u>–</u>	<u>36,658</u>	<u>24,334</u>	<u>14,774</u>	<u>11,903</u>	<u>111,642</u>
NET BOOK VALUES							
At 31 December 2003	<u>123,120</u>	<u>54,053</u>	<u>118,374</u>	<u>18,095</u>	<u>20,183</u>	<u>334,578</u>	<u>668,403</u>
At 31 December 2002	<u>119,811</u>	<u>12,239</u>	<u>118,457</u>	<u>11,680</u>	<u>18,590</u>	<u>151,898</u>	<u>432,675</u>

The leasehold land and buildings of the Group in the PRC were valued at 31 January 2001 by Messrs. DTZ Debenham Tie Leung Limited, Chartered Surveyors, on an opened market value basis. Messrs. Diz Debenham Tie Leung Limited are not connected with the Group.

Notes to the Financial Statements

For the year ended 31 December 2003

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

No professional valuation of the leasehold land and buildings was carried out at 31 December 2003 as, in the opinion of the directors, the carrying value of the leasehold land and buildings was not materially different from the open market value at 31 January 2001.

If the leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK\$78,160,000 (2002: HK\$66,322,000).

The Group had pledged property, plant and equipment with a net book value of approximately HK\$43,963,000 (2002: HK\$8,135,000) to secure banking facilities granted to the Group (note 40).

	Furniture, fixtures and equipment <i>HK\$'000</i>
THE COMPANY	
COST	
At 1 January 2003	2,409
Additions	59
Disposals	(1,503)
	<hr/>
At 31 December 2003	965
	<hr/>
DEPRECIATION	
At 1 January 2003	1,050
Provided for the year	412
Eliminated on disposals	(731)
	<hr/>
At 31 December 2003	731
	<hr/>
NET BOOK VALUE	
At 31 December 2003	234
	<hr/> <hr/>
At 31 December 2002	1,359
	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 December 2003

15. INTANGIBLE ASSET

	THE GROUP Exclusive operating right for city pipeline network HK\$'000
COST	
Acquired during the year and at 31 December 2003	10,035
AMORTISATION	
Charge for the year and at 31 December 2003	<u>(373)</u>
NET BOOK VALUE	
At 31 December 2003	<u><u>9,662</u></u>

The Group's exclusive operating right for city pipeline network was purchased from third parties.

The exclusive operating right is amortised on a straight line basis over 20 years.

16. GOODWILL

	THE GROUP 2003 HK\$'000
COST	
At 1 January 2003	24,519
Arising on conversion of convertible note into shares in a subsidiary	<u>63,108</u>
At 31 December 2003	<u>87,627</u>
AMORTISATION	
At 1 January 2003	1,860
Provided for the year	<u>1,216</u>
At 31 December 2003	<u>3,076</u>
NET BOOK VALUE	
At 31 December 2003	<u><u>84,551</u></u>
At 31 December 2002	<u><u>22,659</u></u>

The amortisation period adopted for goodwill is 20 years.

Notes to the Financial Statements

For the year ended 31 December 2003

17. NEGATIVE GOODWILL

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
GROSS AMOUNT		
At 1 January	(28,585)	(19,100)
Arising on acquisition during the year	(6,954)	(9,485)
Arising on acquisition of additional interest in a subsidiary	(2,130)	–
Eliminated on disposal during the year	19,100	–
At 31 December	(18,569)	28,585
RELEASED TO INCOME		
At 1 January	2,000	145
Released to income in the year	1,296	1,855
Eliminated on disposal during the year	(2,749)	–
At 31 December	547	2,000
CARRYING AMOUNT		
At 31 December	(18,022)	26,585

The negative goodwill in 2002 represented the Group's acquisition of an additional interest in Shenzhen Fuhuade Electric Power Co., Ltd. and interest in Weiyuan Panva Gas Co., Ltd. At the dates of acquisition, HK\$19,100,000 and HK\$9,485,000 of negative goodwill were identified respectively.

The negative goodwill in 2003 arose on the Group's acquisition of an additional interest in Chenzhou Pan River Gas Industry Co., Ltd. and interests in Lezhi Panva Gas Co., Ltd. and Pingchang Panva Gas Co., Ltd.. At the date of acquisition, HK\$2,130,000, HK\$1,195,000 and HK\$5,759,000 of negative goodwill were identified respectively.

The remaining negative goodwill is released to income on a straight line basis of 30 years, being the remaining weighted average useful life of the depreciable assets acquired.

Notes to the Financial Statements

For the year ended 31 December 2003

18. INVESTMENTS IN SUBSIDIARIES

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	670,174	670,174
Amounts due from subsidiaries	235,323	208,159
	905,497	878,333

The amounts due from subsidiaries are interest-free, unsecured and have no fixed term of repayment. In the opinion of the directors, the amount will not be repayable within one year and therefore classified as non-current assets.

Particulars of the subsidiaries as at 31 December 2003 are as follows:

Name	Place of incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held	Principal activities
Directly-owned subsidiaries				
Executive Choice Investments Limited	BVI	1 share of US\$1 each	100%	Investment holding
Kenson Investment Limited	BVI	1 share of US\$1 each	100%	Investment holding
Leader Faith International Limited	BVI	1 share of US\$1 each	100%	Investment holding
Sinolink Progressive Limited	BVI	47,207 shares of US\$1 each	100%	Investment holding
Supreme All Investments Limited	BVI	1 share of US\$1 each	100%	Investment holding
Smart Orient Investments Limited	BVI	1 share of US\$1 each	100%	Investment holding

Notes to the Financial Statements

For the year ended 31 December 2003

18. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held	Principal activities
Indirectly-owned subsidiaries				
China Pan River Group Ltd.	BVI	12,821 shares of US\$1 each	100%	Investment holding
Chenzhou Pan River Gas Industry Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB9,000,000	60%	Wholesaling and retailing of LP Gas
China Overlink Holdings Co., Limited	BVI	1 share of US\$1 each	100%	Investment holding
Chizhou Panva Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB20,000,000	60%	The provision of LP Gas and related services and gas pipeline construction
Chuzhou YPC & Panva Energy Co., Limited	PRC – Sino-foreign equity joint venture	RMB1,000,000	60%	Wholesaling and retailing of LP Gas
Firstline Investment Limited	BVI	1 share of US\$1 each	100%	Investment holding
Future Perfect Properties Limited	BVI	1 share of US\$1 each	100%	Property holding
Knatwood Limited	BVI	1 share of US\$1 each	100%	Investment holding
Lezhi Panva Gas Co., Ltd.	PRC – Limited liability company	RMB14,800,000	100%	The provision of natural gas and related services and gas pipeline construction

Notes to the Financial Statements

For the year ended 31 December 2003

18. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held	Principal activities
Indirectly-owned subsidiaries (continued)				
Link Capital Investments Limited	BVI	50,000 shares of US\$1 each	100%	Investment holding
Jinan Panva Gas Co., Ltd.	PRC – Sino-foreign equity joint	RMB100,000,000	51%	The provision of LP Gas, natural gas and related services and gas pipeline construction
Nanjing Panva LPG Company Ltd.	PRC – Sino-foreign equity joint venture	RMB50,000,000	55%	Wholesaling and retailing of LP Gas
Nanjing Panva Pipeline Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	US\$1,010,000	77.95%	The provision of LP Gas and related services and gas pipeline construction
Ocean Diamond Limited	BVI	50,000 shares of US\$1 each	100%	Investment holding
Panriver Investments Company Limited	PRC – Limited liability company	US\$30,000,000	100%	Investment holding
Panva Gas Holdings Limited	Cayman Islands	779,097,891 shares of HK\$0.1 each	56.94%	Investment holding
Panva Gas (Yunnan) Co., Ltd.	PRC – Limited liability company	RMB58,840,000	56.94%	Wholesaling and retailing of LP Gas

Notes to the Financial Statements

For the year ended 31 December 2003

18. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held	Principal activities
Indirectly-owned subsidiaries (continued)				
Pan River Enterprises (Changde) Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB6,000,000	85%	Wholesaling and retailing of LP Gas
Pan River Enterprises (Changsha) Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB40,000,000	60%	Wholesaling and retailing of LP Gas
Pan River Enterprises (Hengyang) Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB6,000,000	84%	Wholesaling and retailing of LP Gas
Pan River Enterprises (Wuhu) Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB32,000,000	55%	Wholesaling and retailing of LP Gas
Pan River Gas (China Southwest) Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB16,000,000	50.10%	Wholesaling and retailing of LP Gas
Pengxi Panva Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB3,590,000	90%	The provision of natural gas and related services and gas pipeline construction

Notes to the Financial Statements

For the year ended 31 December 2003

18. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held	Principal activities
Indirectly-owned subsidiaries (continued)				
Pingchang Panva Gas Co., Ltd.	PRC – Limited liability company	RMB8,000,000	90%	The provision of natural gas and related services and gas pipeline construction
深圳湖心島實業有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	82%	Property development
Shenzhen China Overseas– Sinolink Property Management Co., Ltd.	PRC – Limited liability company	RMB1,500,000	100%	Property management
Shenzhen Mangrove West Coast Property Development Co. Ltd.	PRC – Sino-foreign equity joint venture	RMB10,000,000	100%	Property development
Shenzhen Sinolink Enterprises Co., Ltd.	PRC – Foreign equity joint venture	RMB375,000,000	80%	Property development
Shenzhen Sinolink Property Management Co., Ltd.	PRC – Foreign equity joint venture	RMB2,000,000	85%	Property management
Singkong Investments Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	Investment holding

Notes to the Financial Statements

For the year ended 31 December 2003

18. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held	Principal activities
Indirectly-owned subsidiaries (continued)				
Sinolink International Investment (Group) Limited	BVI	1 share of US\$1 each	100%	Investment holding
Sinolink LPG Development Limited	BVI	1 share of US\$1 each	100%	Investment holding
Sinolink LPG Investment Limited	BVI	1 share of US\$1 each	100%	Investment holding
Sinolink Petrochemical Investment Limited	BVI	1 share of US\$1 each	100%	Investment holding
Sinolink Power Investment Limited	BVI	1 share of US\$1 each	100%	Investment holding
Sinolink Properties Agent Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	Property agent
Sinolink Worldwide (HK) Company Limited	Hong Kong	10,000,000 ordinary shares of HK\$1 each	100%	Investment holding
Weiyuan Panva Gas Co., Ltd.	PRC – Limited liability company	RMB5,000,000	99.5%	The provision of natural gas and related services and gas pipeline construction
Xiangtan Pan River Energy Industry Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB10,000,000	55%	Wholesaling and retailing of LP Gas

Notes to the Financial Statements

For the year ended 31 December 2003

18. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held	Principal activities
Indirectly-owned subsidiaries (continued)				
Yangzi Petrochemical Baijiang Energy Resources Co., Ltd. ("Yangzi Panva")	PRC – Sino-foreign equity joint venture	US\$7,230,000	50% (Note 1)	Wholesaling and retailing of LP Gas
Yangzhou YPC & Panva Gas Co., Ltd.	PRC – Limited liability company	RMB10,000,000	55%	Wholesaling and retailing of LP Gas
Yiyang Pan River Enterprises Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB5,000,000	60%	Wholesaling and retailing of LP Gas
Yongzhou Pan River Enterprises Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB5,000,000	60%	Wholesaling and retailing of LP Gas
Ziyang Panva Gas Co., Ltd.	PRC – Limited liability company	RMB9,890,000	90%	The provision of natural gas and related services and gas pipeline construction
Zunyi Pan River Gas Co., Ltd.	PRC – Limited liability company	RMB4,200,000	50.10%	Wholesaling and retailing of LP Gas

Note 1: Yangzi Panva is a subsidiary of the Company because the Company has control over the board of directors.

None of the subsidiaries had issued any debt securities at 31 December 2003 or at any time during the year except from Panva Gas Holdings Limited which has issued HK\$389,750,000 of convertible bonds, in which the Group has no interest.

Notes to the Financial Statements

For the year ended 31 December 2003

19. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Listed shares at cost	–	–	246,591	163,563
Share of net assets	156,421	39,005	–	–
Amounts due from associates	–	10,908	–	–
Loan to an associate	–	27,303	–	–
Goodwill on acquisition of an associate	49,942	52,666	–	–
Negative goodwill on acquisition of an associate	(21,811)	–	–	–
	184,552	129,882	246,591	163,563
Market value of listed shares			138,801	83,542

The amounts due from associates are interest free and unsecured. The amount is classified under non-current assets as the directors are of the opinion that they will not be repaid in the forthcoming year.

Notes to the Financial Statements

For the year ended 31 December 2003

19. INTERESTS IN ASSOCIATES (continued)

Details of movements of goodwill and negative goodwill on acquisition of associates are as follows:

	GOODWILL		NEGATIVE GOODWILL	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
COST				
At beginning of the year	54,482	–	–	–
Acquired on purchase of an associate	–	54,482	(22,759)	–
At end of the year	<u>54,482</u>	<u>54,482</u>	<u>(22,579)</u>	<u>–</u>
AMORTISATION				
At beginning of the year	1,816	–	–	–
Provided for the year	2,724	1,816	–	–
Released to income in the year	–	–	948	–
At end of the year	<u>4,540</u>	<u>1,816</u>	<u>948</u>	<u>–</u>
NET BOOK VALUES				
At end of the year	<u>49,942</u>	<u>52,666</u>	<u>(21,811)</u>	<u>–</u>
At beginning of the year	<u>52,666</u>	<u>–</u>	<u>–</u>	<u>–</u>

The goodwill in 2002 represented the Group's acquisition of Enerchina Holdings Limited. At date of acquisition, HK\$54,482,000 of goodwill had been arisen. The amortisation period adopted for goodwill is 20 years.

The negative goodwill in 2003 arose on the acquisition of an additional interest in Enerchina Holdings Limited. The negative goodwill is released to income on a straight line basis of 20 years, being the remaining weighted average useful life of the depreciable assets acquired.

Notes to the Financial Statements

For the year ended 31 December 2003

19. INTERESTS IN ASSOCIATES (continued)

As at 31 December 2003, the Group had an interest in the following associate:

Name of associate	Place of incorporation/ establishment and operation	Issued and fully paid up registered capital	Proportion of nominal value of registered capital held by the Group	Principal activities
Enerchina Holdings Limited ("Enerchina")	Bermuda	762,762,968 shares of HK\$0.01 each	33.70%	Investment holding

20. INVESTMENT IN SECURITIES

	Held to maturity debt securities		Investment securities		Other investments		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
THE GROUP								
Equity securities								
Listed – Hong Kong	–	–	–	–	126	31,455	126	31,455
Unlisted	–	–	83,917	1,949	–	–	83,917	1,949
	<u>–</u>	<u>–</u>	<u>83,917</u>	<u>1,949</u>	<u>126</u>	<u>31,455</u>	<u>84,043</u>	<u>33,404</u>
Debt securities								
Unlisted	50,000	116,000	–	–	–	–	50,000	116,000
	<u>50,000</u>	<u>116,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>50,000</u>	<u>116,000</u>
Total								
Listed – Hong Kong	–	–	–	–	126	31,455	126	31,455
Unlisted	50,000	116,000	83,917	1,949	–	–	133,917	117,949
	<u>50,000</u>	<u>116,000</u>	<u>83,917</u>	<u>1,949</u>	<u>126</u>	<u>31,455</u>	<u>134,043</u>	<u>149,404</u>
Market value of listed securities	–	–	–	–	126	31,455	126	31,455
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>126</u>	<u>31,455</u>	<u>126</u>	<u>31,455</u>
Carrying amount analysed for reporting purposes as:								
Non-current	–	116,000	83,917	1,949	–	–	83,917	117,949
Current	50,000	–	–	–	126	31,455	50,126	31,455
	<u>50,000</u>	<u>116,000</u>	<u>83,917</u>	<u>1,949</u>	<u>126</u>	<u>31,455</u>	<u>134,043</u>	<u>149,404</u>

Notes to the Financial Statements

For the year ended 31 December 2003

20. INVESTMENT IN SECURITIES (continued)

	Held to maturity debt securities		Investment securities		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
THE COMPANY						
Debt securities						
Unlisted	50,000	116,000	–	–	50,000	116,000
Equity securities						
Listed – Hong Kong	–	–	–	5,512	–	5,512
	<u>50,000</u>	<u>116,000</u>	<u>–</u>	<u>5,512</u>	<u>50,000</u>	<u>121,512</u>
Market value of listed securities	–	–	–	5,512	–	5,512
Carrying amount analysed for reporting purposes as:						
Non-current	–	116,000	–	–	–	116,000
Current	50,000	–	–	5,512	50,000	5,512
	<u>50,000</u>	<u>116,000</u>	<u>–</u>	<u>5,512</u>	<u>50,000</u>	<u>121,512</u>

21. STOCK OF PROPERTIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Properties under development for sale		
Cost plus attributable profit less foreseeable losses	1,478,668	1,383,645
Less: Progress payments received	–	(1,929)
	<u>1,478,668</u>	<u>1,381,716</u>
Stock of unsold properties	161,326	262,638
	<u>1,639,994</u>	<u>1,644,354</u>

Included in stock of properties is interest capitalised of HK\$119,132,000 (2002: HK\$85,809,000).

Notes to the Financial Statements

For the year ended 31 December 2003

22. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
At cost:		
Gas fuel	23,442	11,512
Consumable stores	12,975	12,239
	<u>36,417</u>	<u>23,751</u>

23. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit terms ranging from 0 to 180 days to its customers. However, for the properties customers, general credit terms of up to 5 years are also allowed by the Group. Included in trade and other receivables are trade receivables totalling from HK\$193,176,000 (2002: HK\$114,327,000), the aged analysis of which is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Aged:		
0 to 90 days	136,789	96,856
91 to 180 days	47,109	5,357
181 to 360 days	3,743	4,784
over 360 days	5,535	7,330
	<u>193,176</u>	<u>114,327</u>
Less: Non-current portion	–	(1,269)
	<u>193,176</u>	<u>113,058</u>

24. AMOUNT DUE FROM AN ASSOCIATE

The loan to associate is payable on demand and carries interests at the rate of 3% per annum semi-annually. The payment of the amount is secured by the shares of Sinolink Industrial Limited, the shares of Sinolink Electric Power Co. Limited ("SEPCL") and a letter of undertaking to be executed by SEPCL.

Notes to the Financial Statements

For the year ended 31 December 2003

25. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$126,235,000 (2002: HK\$164,058,000), the aged analysis of which is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Aged:		
0 to 90 days	108,256	140,461
91 to 180 days	2,203	121
181 to 360 days	1,836	804
over 360 days	13,940	22,672
	<hr/>	<hr/>
	126,235	164,058
	<hr/> <hr/>	<hr/> <hr/>

26. AMOUNTS DUE TO SUBSIDIARIES

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

27. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS

These balances are unsecured, interest free and repayable on demand.

Notes to the Financial Statements

For the year ended 31 December 2003

28. BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans				
– secured	219,953	189,529	–	–
– unsecured	516,770	522,950	–	–
Other loans				
– unsecured	972	–	–	–
Convertible note	125,000	206,600	–	81,600
Convertible bonds	372,016	–	–	–
	1,234,711	919,079	–	81,600
The maturity of the above loans is as follows:				
On demand or within one year	669,056	14,599	–	–
More than one year but not exceeding two years	191,020	–	–	–
More than two years but not exceeding five years	374,635	904,480	–	81,600
	1,234,711	919,079	–	81,600
Less: Amount due within one year shown under current liabilities	(669,056)	(14,599)	–	–
Non-current portion	565,655	904,480	–	81,600

The interest rate paid on both bank and other loans during the year was based on prevailing markets rates.

During 2002, the convertible note due to a director, Mr. Ou Yaping, issued on 12 February 1999 was converted into 134,592,000 shares of the Company at an adjusted conversion price of HK\$0.41 per share.

During 2003, the convertible note due to a third party, Silvergrant International Industries Limited, issued on 6 May 2002 was partly converted into 51,000,000 shares of the Company at a conversion price of HK\$0.8 per share. The outstanding unconverted principal amount of the note was redeemed during the year at par.

Notes to the Financial Statements

For the year ended 31 December 2003

28. BORROWINGS (continued)

The remaining amount of HK\$125,000,000, being the exchangeable note issued by a subsidiary of the Company, will be exchangeable into shares of Panva Gas from the date of issue up to the second anniversary of the date of issue. The outstanding unconverted principal amount of the note will be redeemed on 14 October 2004 at par. Interest is payable at 2% per annum.

The convertible bonds were issued on 23 April 2003 by a subsidiary of the Company. The bonds are convertible into shares of Panva Gas on or after 7 June 2003 and up to 9 April 2008. The outstanding unconverted principal amount of the bonds will be redeemed on 23 April 2008 at 108.119%. Interest of 2% is paid per annum.

29. SHARE CAPITAL

	Number of shares		Share capital	
	2003	2002	2003 HK\$'000	2002 HK\$'000
<i>Authorised:</i>				
Shares of HK\$0.1 each				
Balance as at 1 January and as at 31 December	4,800,000,000	4,800,000,000	480,000	480,000
<i>Issued and fully paid:</i>				
Balance as at 1 January	1,849,437,000	1,672,000,000	184,944	167,200
Share options exercised (note 35)	10,571,000	42,845,000	1,057	4,285
Warrants exercised	27,200	–	3	–
Convertible note converted	51,000,000	134,592,000	5,100	13,459
Balance as at 31 December	1,911,035,200	1,849,437,000	191,104	184,944

Notes:

During 2002, the subscription rights attached to 15,950,000 shares, 26,675,000 shares and 220,000 share options were exercised at subscription prices of HK\$0.33, HK\$0.41 and HK\$0.5 per share respectively resulting in the issue of 42,845,000 shares of HK\$0.1 each in the Company for a total cash consideration before expenses of HK\$16,310,250.

On 8 February 2002, a convertible note of HK\$55,183,000 was converted into 134,592,000 shares of HK\$0.1 each in the Company at the price of HK\$0.41.

Notes to the Financial Statements

For the year ended 31 December 2003

29. SHARE CAPITAL (continued)

During 2003, the subscription rights attached to 7,051,000, 3,300,000 and 220,000 share options were exercised at subscription prices of HK\$0.33, HK\$0.41 and HK\$0.50 per share respectively resulting in the issue of 10,571,000 shares of HK\$0.1 each in the Company for a total cash consideration before expenses of HK\$3,789,830.

On 26 March 2003, a convertible note of HK\$40,800,000 was converted into 51,000,000 shares of HK\$0.1 each in the Company at the price of HK\$0.80.

All the shares which were issued during the year rank pari passu with the then existing shares in all respects.

30. RESERVES

	Share premium account HK\$'000	Properties revaluation reserve HK\$'000	Translation reserve HK\$'000	Goodwill reserve HK\$'000	General reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP									
At 1 January 2002	278,653	19,462	(5,710)	(5,920)	57,722	858	368,262	395,233	1,108,560
Exchange rate adjustment not recognised in the income statement	-	-	(211)	-	-	-	-	-	(211)
Realised on disposal of a subsidiary	-	(10,611)	(294)	8,511	(3,821)	(77)	(480)	-	(6,772)
Shares issued at premium	53,749	-	-	-	-	-	-	-	53,749
Transfer from profit and loss account	-	-	-	-	6,130	-	-	(6,130)	-
Profit for the year	-	-	-	-	-	-	-	294,429	294,429
Dividend	-	-	-	-	-	-	-	(55,483)	(55,483)
At 31 December 2002	332,402	8,851	(6,215)	2,591	60,031	781	367,782	628,049	1,394,272
Exchange rate adjustment not recognised in the income statement	-	-	(724)	-	-	-	-	-	(724)
Shares issued at premium	38,457	-	-	-	-	-	-	-	38,457
Addition during the year	-	-	122	-	483	-	-	-	605
Realised on disposal of subsidiaries	-	(64)	(19)	-	(75)	32	-	-	(126)
Realised on partial disposal of a subsidiary	-	(994)	260	81	(878)	(301)	-	-	(1,832)
Realised on disposal of an associate	-	(5,323)	(309)	-	(3,165)	(58)	-	-	(8,855)
Transfer from profit and loss account	-	-	-	-	958	-	-	(958)	-
Profit for the year	-	-	-	-	-	-	-	778,050	778,050
Dividend	-	-	-	-	-	-	-	(57,276)	(57,276)
At 31 December 2003	370,859	2,470	(6,885)	2,672	57,354	454	367,782	1,347,865	2,142,571

Notes to the Financial Statements

For the year ended 31 December 2003

30. RESERVES (continued)

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1 January 2002	278,653	572,173	19,995	870,821
Premium arising on issue of shares	53,749	–	–	53,749
Profit for the year	–	–	94,722	94,722
Dividend	–	–	(55,483)	(55,483)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	332,402	572,173	59,234	963,809
Premium arising on issue of shares	38,457	–	–	38,457
Profit for the year	–	–	46,024	46,024
Dividend	–	–	(57,276)	(57,276)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	<u>370,859</u>	<u>572,173</u>	<u>47,982</u>	<u>991,014</u>

Included in the above are the Group's share of post-acquisition reserves of its associate as follows:

	Accumulated loss <i>HK\$'000</i>
At 1 January 2003	(26,783)
Profit for the year, accumulated	5,981
Eliminated on disposal	(4,194)
	<hr/>
At 31 December 2003	<u>(24,996)</u>

The contributed surplus of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1998.

The contributed surplus of the Company represents the differences between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1998.

Notes to the Financial Statements

For the year ended 31 December 2003

30. RESERVES (continued)

The general reserve represents the Enterprise Expansion Fund and General Reserve Fund set aside by certain subsidiaries in accordance with the relevant laws and regulations of the PRC, which are not available for distribution.

The capital reserve represents the contribution from the minority shareholders of the subsidiaries waived.

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

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

In the opinion of the directors, the Company's reserves available for distribution to shareholders are as follows:

	2003 HK\$'000	2002 HK\$'000
Contributed surplus	572,173	572,173
Retained earnings	47,982	59,234
	<hr/> 620,155 <hr/>	<hr/> 631,407 <hr/>

Notes to the Financial Statements

For the year ended 31 December 2003

31. DISPOSAL OF SUBSIDIARIES

During 2003 the Group disposed of four subsidiaries, I-Happy Profit Limited, Nanling Pan River LPG Co., Ltd., Shenzhen Weikong Decorate Engineering Co., Ltd. and Wuhu Pan River Jiangbei Enterprises Co., Ltd.. Their net assets at the date of disposal and at 31 December 2003 were as follows:

As referred to note 10, on 6 May 2002 the Group discontinued its electricity supply operations at the time of disposal of its subsidiary, Sinolink Industrial to Enerchina.

	2003	2002
	HK\$'000	HK\$'000
Net (liabilities) assets disposed of:		
Property, plant and equipment	1,847	284,886
Interests in associate	–	564
Inventories	772	15,073
Trade receivables	100	9,613
Bank balances and cash	21	83,479
Other receivables, deposits and prepayments	10,672	3,518
Investments in securities	18,073	–
Trade payables	(1,438)	(7,028)
Other payables and accruals	(1,311)	(20,167)
Loan from a minority shareholder of a subsidiary	–	(27,301)
Shareholder's loan	–	(137,902)
Tax payable	–	(483)
Bank borrowings	–	(174,144)
Minority interests	(178)	(31,238)
	28,558	(1,130)
Realisation of reserves on disposal:		
Properties revaluation account	(64)	(10,611)
Translation reserve	(19)	(294)
Goodwill reserve	–	8,511
General reserve	(75)	(3,821)
Capital reserve	32	(77)
Contributed surplus	–	(480)
	28,432	(7,902)

Notes to the Financial Statements

For the year ended 31 December 2003

31. DISPOSAL OF SUBSIDIARIES (continued)

	2003	2002
	HK\$'000	HK\$'000
Deferred gain on disposal	–	77,000
Unrealised gain on disposal	–	68,987
(Loss) gain on disposal	(13,569)	84,048
	<hr/>	<hr/>
Total consideration	14,863	222,133
	<hr/>	<hr/>
Satisfied by:		
Cash consideration	14,863	163,035
Debt assignment	–	(137,902)
Loan	–	197,000
	<hr/>	<hr/>
	14,863	222,133
	<hr/> <hr/>	<hr/> <hr/>
Net cash inflow (outflow) arising on disposal:		
Cash received	14,863	163,035
Bank balance and cash disposed of	(21)	(83,479)
	<hr/>	<hr/>
	14,842	79,556
	<hr/> <hr/>	<hr/> <hr/>

According to the sale and purchase agreement dated 8 March 2002 ("Agreement"), the Group guaranteed Enerchina, approximately RMB135,000,000 of profit in respect of a subsidiary of Sinolink Industrial, Fuhuade for the two years ending 31 December 2003. Since the profit guarantee of Fuhuade was met at the balance sheet date, the deferred gain was released to income during the year. According to the Agreement, the balance of HK\$197,000,000 is payable on demand. During 2003, HK\$122,000,000 was settled in cash.

On 6 May 2002, the Group acquired 29.99% of Enerchina which then became an associate of the Group. Accordingly, part of the gain on disposal of Sinolink Industrial became unrealised until the interest in Enerchina is disposed of.

Notes to the Financial Statements

For the year ended 31 December 2003

32. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired 100%, and 90% of the registered capital of Lezhi Panva Gas Co., Ltd. and Pingchang Panva Gas Co., Ltd.. respectively Both acquisitions have been accounted for by the acquisition method of accounting. The amount of negative goodwill arising as a result of the acquisitions was HK\$1,195,000 and HK\$5,759,000, respectively.

	2003	2002
	HK\$'000	HK\$'000
Net assets acquired:		
Property, plant and equipment	82,854	77,729
Other investments	2,010	344
Inventories	2,092	126
Trade receivables	288	782
Other receivables, deposits and prepayments	24,188	1,386
Bank and cash balances	543	1,033
Trade payables	(2,077)	(3,119)
Other payables and accruals	(51,634)	(34,960)
Short term borrowings	(4,902)	(660)
Long term borrowings	(25,678)	–
Minority interests	(1,273)	(1,282)
	26,411	41,379
Goodwill	–	2,461
Negative goodwill	(6,954)	(9,485)
Total consideration	19,457	34,355
Satisfied by		
Cash paid	15,716	34,355
Payable	3,741	–
	19,457	34,355
Net cash outflow arising on acquisition:		
Cash consideration	(15,716)	(34,355)
Bank balances and cash acquired	543	1,033
	(15,173)	(33,322)

The subsidiaries acquired during the year contributed HK\$79,027,000 to the Group's turnover and HK\$63,966,000 to the Group's profit from operations.

Notes to the Financial Statements

For the year ended 31 December 2003

33. MAJOR NON-CASH TRANSACTIONS

On 26 March 2003, convertible note of HK\$40,800,000 was converted into 51,000,000 shares of HK\$0.10 each in the Company. The new shares rank pari passu with the existing shares in all aspects.

34. RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions carried out during the year:

	2003 HK\$'000	2002 HK\$'000
Skillful Assets Limited (Notes a & b)		
– Rental paid thereto (Note c)	996	1,047
Mr. Ou Yaping (Note a)		
– Convertible note interest paid thereto (Note d)	–	287
Enerchina		
– Interest received therefrom (Note d)	4,456	3,886
– Office expenses received therefrom	788	–
	788	–

Notes:

- a. Transactions with these related parties are regarded as connected transactions as set out in Chapter 14 of the Listing Rules of the Stock Exchange.
- b. A company controlled by Mr. Ou Yaping and of which Mr. Ou Yaping is a director.
- c. Rental expenses were determined by the directors based on the directors' estimates of fair market value.
- d. The interest expense was determined in accordance with the loan agreement. The interest rate is 5% per annum for the convertible note and 3% per annum for the loan from Enerchina.

Notes to the Financial Statements

For the year ended 31 December 2003

35. SHARE OPTION

The Company's share option schemes were adopted pursuant to the resolutions passed on 11 May 1998 (the "Old Scheme") and on 24 May 2002 (the "New Scheme") for providing incentives to directors and eligible employee and unless otherwise cancelled or amended. The New Scheme will expire on 23 May 2012. The Old Scheme was terminated on 24 May 2002. Under the Old Scheme and the New Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company, any of its subsidiaries, to subscribe for shares in the Company.

The following tables disclose details of the Company's share options held by employees (including directors) holdings during the year:

Option type	Outstanding at beginning of year	Granted during year	Exercised during year	Lapsed during year	Outstanding at end of year
For the year ended 31 December 2003	<u>48,371,000</u>	<u>–</u>	<u>10,571,000</u>	<u>2,650,000</u>	<u>35,150,000</u>
For the year ended 31 December 2002	<u>103,796,000</u>	<u>45,800,000</u>	<u>42,845,000</u>	<u>58,380,000</u>	<u>48,371,000</u>

Details of share options held by the Company's directors during the year are as follows:

	2003	2002
At 1 January	33,850,000	86,900,000
Granted during the year	–	27,800,000
Exercised during the year	(6,050,000)	(36,850,000)
Lapsed during the year	–	(44,000,000)
	<u>27,800,000</u>	<u>33,850,000</u>

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

Total consideration received during the year was Nil (2002: HK\$56).

Notes to the Financial Statements

For the year ended 31 December 2003

35. SHARE OPTION (continued)

Details of share options granted during the year are as follows:

	2003	2002
Expiry date	–	01.09.2004 to 23.04.2006
Exercise price	–	HK\$0.67 to HK\$0.81
Aggregate proceeds if shares are issued	–	HK\$32,226,000

Details of share options exercised during the year are as follows:

	2003	2002
Expiry date	01.01.2004 to 01.06.2006	03.09.2002 to 01.06.2006
Exercise price	HK\$0.33 to HK\$0.50	HK\$0.33 to HK\$0.50
Aggregate issue proceeds	HK\$3,789,830	HK\$16,310,000

As at 31 December 2003, details of options are as follows:

	Expiry date	Exercise price	2003	2002
"in the money"	03.09.2002	HK\$0.41 to HK\$0.50	–	330,000
	to 01.01.2004			
	01.09.2004	HK\$0.33 to HK\$0.67	20,700,000	–
	to 01.01.2005			
"out of money"	01.01.2005	HK\$0.33 to HK\$0.41	–	12,441,000
	to 01.06.2006			
	03.04.2005	HK\$0.67	14,450,000	–
	to 01.12.2005			
"out of money"	01.09.2004	HK\$0.67 to HK\$0.81	–	35,600,000
	to 23.04.2006			
			<u>35,150,000</u>	<u>48,371,000</u>

Notes to the Financial Statements

For the year ended 31 December 2003

35. SHARE OPTION (continued)

The share prices on the dates of exercise of options on 18 June 2003, 29 July 2003, 3 October 2003, 29 October 2003 and 28 November 2003 were HK\$0.60, HK\$0.60, HK\$0.74, HK\$0.85 and HK\$0.92 respectively.

The share prices on the dates of issue of shares upon exercise of options on 18 June 2003, 29 July 2003, 3 October 2003, 29 October 2003 and 28 November 2003 were HK\$0.60, HK\$0.60, HK\$0.74, HK\$0.85 and HK\$0.92 respectively.

36. RETIREMENT BENEFITS SCHEME

The Group provides a provident fund scheme for its Hong Kong employees and the scheme is funded by contributions from employers and employees. The amount of the Group's contributions is based on a specified percentage of the basic salary of the employees concerned. Forfeited contributions in respect of unvested benefits of employees leaving the scheme prior to benefits being vested are used to reduce the Group's ongoing contributions.

Moreover, pursuant to the relevant PRC regulations, relevant subsidiaries are required to contribute amounts ranging from approximately 7 to 25 per cent. of the aggregate staff wages to certain defined contribution retirement benefits schemes for the Group's employees in the PRC.

Details of the contributions made by the Group during the year are as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Group contributions to staff provident fund	5,495	5,925
Forfeited contributions utilised	—	(33)
	<hr/>	<hr/>
Net contributions charged to operating profit	<u>5,495</u>	<u>5,892</u>
	<hr/>	<hr/>
Un-utilised forfeited contributions	—	—
	<hr/>	<hr/>

With the implementation of the Mandatory Provident Fund ("MPF") Schemes Ordinance on 1 December 2000 in Hong Kong, the Group also participates in master trust MPF schemes operated by independent service providers. Mandatory contributions to these MPF schemes are made by both the employees and the Group at 5% of the employees' monthly relevant income capped at HK\$20,000. As the Group's retirement schemes in Hong Kong are non MPF-exempt recognised occupational retirement schemes ("ORSO schemes"), all the existing members have to lapse their ORSO schemes and participate in the MPF schemes from 1 December 2000.

Notes to the Financial Statements

For the year ended 31 December 2003

37. CONTINGENT LIABILITIES

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Guarantees given to banks as security for the mortgage loans arranged for the purchasers of the Group's properties	<u>17,256</u>	<u>254,546</u>
Corporate guarantee given to a bank to secure bank borrowings granted to an associate	<u>–</u>	<u>279,701</u>
	THE COMPANY	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Corporate guarantee given to a bank to secure general banking facilities granted to a subsidiary	<u>514,500</u>	<u>514,500</u>

38. CAPITAL COMMITMENTS

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Commitments in respect of properties under development:		
– authorised but not contracted for	881,292	1,429,652
– contracted for but not provided in the financial statements	<u>538,266</u>	<u>110,607</u>
	1,419,558	1,540,259
Commitments in respect of interest in subsidiaries contracted for but not provided in the financial statements	<u>186,361</u>	<u>87,618</u>
	<u>1,605,919</u>	<u>1,627,877</u>

The Company had no capital commitments at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2003

39. LEASE COMMITMENTS

At the balance sheet date, the Group had contracted with tenants for future minimum lease receipts in respect of land and buildings under non-cancellable operating leases which expire as follows:

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	336	225
In the second to fifth year inclusive	540	2
Over five years	306	–
	<hr/> 1,182 <hr/>	<hr/> 227 <hr/>

The properties held have committed tenants for periods up to nine years after the balance sheet date.

At the balance sheet date, the Group and the Company had the following outstanding commitments in respect of land and buildings under non-cancellable operating leases which expire as follows:

	THE GROUP		THE COMPANY	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	5,712	7,739	1,105	1,560
In the second to fifth years inclusive	12,774	11,634	–	845
Over five years	18,719	20,724	–	–
	<hr/> 37,205 <hr/>	<hr/> 40,097 <hr/>	<hr/> 1,105 <hr/>	<hr/> 2,405 <hr/>

The operating leases are negotiated for terms up to 30 years.

40. PLEDGE OF ASSETS

The Group has pledged its land held under medium term leases included in the properties under development for sale, having a net book value of approximately HK\$388,030,000 (2002: HK\$388,030,000) to secure general banking facilities granted to a subsidiary of the Company.

In addition, the Group had pledged property, plant and equipment having a net book value amounting to approximately HK\$43,963,000 (2002: HK\$8,135,000) to secure bank loans granted to the subsidiaries of the Company.

Notes to the Financial Statements

For the year ended 31 December 2003

41. POST BALANCE SHEET EVENT

On 8 January 2004, Kenson Investment Limited, a wholly owned subsidiary of the Company, subscribed for 155,200,000 new shares of Panva Gas. Upon completion of the subscription, the Group increased its interests in Panva Gas from 56.94% to 63.59%.

In January 2004, Panva Gas, a subsidiary of the Group signed a formal agreement with the Municipal Government of the municipality of Yuechi, Sichuan Province of the PRC for the acquisition of a 90% interest in Yuechi Natural Gas Company at a consideration of HK\$34,612,000.

On 5 February 2004, the Group entered into an agreement with 深圳創維鴻洲科技開發有限公司 and 黃宏生 where the Group has agreed to dispose the entire issued share capital of 深圳湖心島實業有限公司 ("深圳湖心島"), a subsidiary of the Company with 82% equity interest for a consideration of approximately HK\$66,188,000. The consideration for the disposal was determined, after arm's length negotiations with the reference to the registered capital of 深圳湖心島 and costs incurred for the property under development on land held in Dameisha in Shenzhen. A gain on disposal of HK\$3,898,000 was resulted.

On 14 April 2004, Enerchina completed an open offer of two offer shares for every existing share held. Smart Orient Investments Limited, a wholly owned subsidiary of the Company, acted as the underwriter of the open offer. A total of 1,525,525,936 shares were issued as a resulting raising approximately HK\$610,210,000. Upon completion of the subscription, the Group increased its interests in Enerchina from 33.70% to 37.10%.