

**NOTES TO FINANCIAL STATEMENTS**

As at 31 December 2004

**1 CORPORATE INFORMATION**

During the year, the Group was involved in the following principal activities:

- (a) Property trading and investments; and
- (b) Provision of property management and related services.

**2 IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS**

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice ("SSAP") and Interpretations), issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain equity investments, as further explained below.

**(b) Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (c) Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

#### (d) Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

#### (e) Related parties

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

#### (f) Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

**NOTES TO FINANCIAL STATEMENTS**

As at 31 December 2004

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***(f) Goodwill** *(continued)*

On disposal of associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised.

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

**(g) Negative goodwill**

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

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

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

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provisions of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

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

**NOTES TO FINANCIAL STATEMENTS**

As at 31 December 2004

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***(h) Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

**(i) Fixed assets and depreciation**

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

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

|  |     |
|--|-----|
| Leasehold improvements                   | 20% |
| Office equipment, furniture and fixtures | 15% |
| Computer software                        | 20% |
| Motor vehicles                           | 20% |
| Computer equipment                       | 33% |

**NOTES TO FINANCIAL STATEMENTS**

As at 31 December 2004

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***(i) Fixed assets and depreciation** *(continued)*

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

**(j) Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

**(k) Properties held for sale**

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis.

**(l) Properties held for development**

Properties held for development are stated at cost which includes land cost, development expenditure, professional fees, capitalised interest and other expenses incurred incidental to the development less any accumulated impairment losses.

**NOTES TO FINANCIAL STATEMENTS**

As at 31 December 2004

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***(m) Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

**(n) Non-trading investments**

Investments which are held for non-trading purposes are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the non-trading investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired, any relevant loss recorded in the revaluation reserve is taken to the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairment are written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.

**(o) Income tax**

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

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

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised.

**NOTES TO FINANCIAL STATEMENTS**

As at 31 December 2004

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***(o) Income tax** *(continued)*

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

**(p) Foreign currency transactions**

The Group's financial records are maintained and the financial statements are stated in Hong Kong dollars. Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the consolidated profit and loss account.

**(q) Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

**(r) Revenue recognition**

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

- (i) disposal of properties held for sale, on the execution of legally binding contracts of sale;
- (ii) rental income from properties, in the period in which the properties are let and on the straight-line basis over the lease terms;

**NOTES TO FINANCIAL STATEMENTS**

As at 31 December 2004

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***(r) Revenue recognition** *(continued)*

- (iii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (iv) dividend income, when the shareholders' right to receive payment has been established; and
- (v) property management revenue, when the services are rendered.

**(s) Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

**(t) Borrowing costs**

Borrowing costs indirectly 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. The 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 charged to the profit and loss account in the period in which they are incurred.



## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***(u) Employee benefits***(i) Retirement benefits scheme*

The Group contributes to a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") for its employees. The Group's contributions under the scheme are charged to the profit and loss account as incurred. The amount of the Group's contributions is based on specified percentages of the basic salaries of employees. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

*(ii) Share option scheme*

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

*(iii) Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

### 4 SEGMENT INFORMATION

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

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

- (a) Property investment;
- (b) Property trading;
- (c) Property management and related services; and
- (d) Operation of driver training centres and tunnel operation and management.

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

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 4 SEGMENT INFORMATION (continued)

## (a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments in 2004. There are no sales or other transactions between the business segments.

Group  
2004

|   | Property<br>investment<br>HK\$'000 | Property<br>trading<br>HK\$'000 | Property<br>management<br>and related<br>services<br>HK\$'000 | Operation<br>of driver<br>training centres<br>and tunnel<br>operation and<br>management<br>HK\$'000 | Consolidated<br>HK\$'000 |
|---|------------------------------------|---------------------------------|---|---|--------------------------|
| Segment revenue   | 77,957                             | 4,080                           | 7,806   | —   | 89,843                   |
| Segment results   | 135,270                            | (8,701)                         | 4,994   | —   | 131,563                  |
| Loss on deemed disposal of<br>partial interest in an associate    |                                    |                                 |   | (27,854)  | (27,854)                 |
| Unallocated income, net   |                                    |                                 |   |   | 299                      |
| Finance costs   |                                    |                                 |   |   | (13,002)                 |
| Operating profits   |                                    |                                 |   |   | 91,006                   |
| Share of results of associates                                    |                                    |                                 |   | 47,839  | 47,839                   |
| Goodwill amortisation   |                                    |                                 |   | (12,707)  | (12,707)                 |
| Profit before tax   |                                    |                                 |   |   | 126,138                  |
| Tax   |                                    |                                 |   |   | (23,252)                 |
| Net profit attributable<br>to shareholders                        |                                    |                                 |   |   | 102,886                  |
| Segment assets  | 1,797,080                          | 10,096                          | 9,220   | —   | 1,816,396                |
| Interests in associates   | —                                  | —                               | —   | 812,554   | 812,554                  |
| Unallocated assets  |                                    |                                 |   |   | 3,037                    |
| Total assets  |                                    |                                 |   |   | 2,631,987                |
| Segment liabilities   | 630,039                            | 7,871                           | 12,129  | —   | 650,039                  |
| Unallocated liabilities   |                                    |                                 |   |   | 20,106                   |
| Total liabilities   |                                    |                                 |   |   | 670,145                  |
| Other segment information:  |                                    |                                 |   |   |                          |
| Capital expenditure   | 1,924                              | 16                              | 14  | —   | 1,954                    |
| Depreciation  | —                                  | —                               | 484   | —   | 484                      |
| Surplus arising on revaluation<br>of investment properties        | 70,261                             | —                               | —   | —   | 70,261                   |
| Reversal of write down of<br>properties held for sale             | —                                  | 70                              | —   | —   | 70                       |
| Amortisation of goodwill<br>on acquisition of an<br>associate     | —                                  | —                               | —   | 12,707  | 12,707                   |
| Loss on deemed disposal<br>of partial interest in an<br>associate | —                                  | —                               | —   | 27,854  | 27,854                   |

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## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 4 SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments in 2003. There are no sales or other transactions between the business segments.

Group  
2003

|  | Property<br>investment<br>HK\$'000 | Property<br>trading<br>HK\$'000 | Property<br>management<br>and related<br>services<br>HK\$'000 | Operation<br>of driver<br>training centres<br>and tunnel<br>operation and<br>management<br>HK\$'000 | Consolidated<br>HK\$'000 |
|--|------------------------------------|---------------------------------|---|---|--------------------------|
| Segment revenue  | 87,794                             | 9,835                           | 8,011   | —   | 105,640                  |
| Segment results  | 52,459                             | (6,628)                         | 5,343   | —   | 51,174                   |
| Loss on deemed disposal of<br>partial interest in an associate                       |                                    |                                 |   | (3,577)   | (3,577)                  |
| Unallocated income, net  |                                    |                                 |   |   | 1,239                    |
| Finance costs  |                                    |                                 |   |   | (23,052)                 |
| Operating profits  |                                    |                                 |   |   | 25,784                   |
| Share of results of<br>associates  |                                    |                                 |   | 29,566  | 29,566                   |
| Goodwill amortisation  |                                    |                                 |   | (13,236)  | (13,236)                 |
| Profit before tax  |                                    |                                 |   |   | 42,114                   |
| Tax  |                                    |                                 |   |   | (13,709)                 |
| Net profit attributable<br>to shareholders   |                                    |                                 |   |   | 28,405                   |
| Segment assets   | 1,815,255                          | 90,538                          | 9,897   | —   | 1,915,690                |
| Interests in associates  | —                                  | —                               | —   | 797,673   | 797,673                  |
| Unallocated assets   |                                    |                                 |   |   | 26,915                   |
| Total assets   |                                    |                                 |   |   | 2,740,278                |
| Segment liabilities  | 871,797                            | 10,215                          | 11,819  | —   | 893,831                  |
| Unallocated liabilities  |                                    |                                 |   |   | 11,238                   |
| Total liabilities  |                                    |                                 |   |   | 905,069                  |
| Other segment information:   |                                    |                                 |   |   |                          |
| Capital expenditure  | 734                                | 5,872                           | —   | —   | 6,606                    |
| Depreciation   | —                                  | —                               | 503   | —   | 503                      |
| Deficit arising on revaluation<br>of investment properties                           | 26,656                             | —                               | —   | —   | 26,656                   |
| Write back of provision<br>for impairment loss on a property<br>held for development | —                                  | 9,562                           | —   | —   | 9,562                    |
| Write down of properties<br>held for sale  | —                                  | 106                             | —   | —   | 106                      |
| Amortisation of goodwill on<br>acquisition of an associate                           | —                                  | —                               | —   | 13,236  | 13,236                   |
| Loss on deemed disposal of partial<br>interest in an associate                       | —                                  | —                               | —   | 3,577   | 3,577                    |

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## NOTES TO FINANCIAL STATEMENTS

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4 SEGMENT INFORMATION *(continued)*

## (b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments. There are no sales between the geographical segments.

Group  
2004

|                            | Hong Kong<br><i>HK\$'000</i> | Mainland<br>China<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
|----------------------------|------------------------------|--------------------------------------|---------------------------------|
| Segment revenue            | <u>89,843</u>                | <u>—</u>                             | <u>89,843</u>                   |
| Other segment information: |                              |                                      |                                 |
| Segment assets             | 2,623,813                    | 8,174                                | 2,631,987                       |
| Capital expenditure        | <u>1,925</u>                 | <u>29</u>                            | <u>1,954</u>                    |

Group  
2003

|                            | Hong Kong<br><i>HK\$'000</i> | Mainland<br>China<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
|----------------------------|------------------------------|--------------------------------------|---------------------------------|
| Segment revenue            | <u>105,640</u>               | <u>—</u>                             | <u>105,640</u>                  |
| Other segment information: |                              |                                      |                                 |
| Segment assets             | 2,719,515                    | 20,763                               | 2,740,278                       |
| Capital expenditure        | <u>6,567</u>                 | <u>39</u>                            | <u>6,606</u>                    |

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

### 5 TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the aggregate of gross rental income received and receivable from investment properties, the proceeds from sales of properties, and income from property management and related services.

An analysis of the Group's turnover, other revenue and gains is as follows:

|  | 2004<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| <b>Turnover</b>  |                         |                         |
| Rental income from investment properties                   | 77,957                  | 87,794                  |
| Sale of properties   | 4,080                   | 9,835                   |
| Income from property management and related services       | 7,806                   | 8,011                   |
|  | <u>89,843</u>           | <u>105,640</u>          |
| <b>Other revenue and gains (net of direct outgoings)</b>   |                         |                         |
| Interest income  | 3,176                   | 4,575                   |
| Rental income net of outgoings on properties held for sale | 18                      | 292                     |
| Forfeiture of deposit                                      | 581                     | —                       |
| Reinstatement compensation                                 | —                       | 1,682                   |
| Gain on trading of listed shares                           | —                       | 1,529                   |
| Gain on disposal of an investment property                 | 69                      | —                       |
| Gain on disposal of a subsidiary                           | 11                      | —                       |
| Others   | 4,057                   | 565                     |
|  | <u>7,912</u>            | <u>8,643</u>            |

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 6 OPERATING PROFITS

The Group's operating profits are arrived at after charging/(crediting) the following:

|  | 2004<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Depreciation   | 484                     | 503                     |
| Loss on disposal of fixed assets                                       | —                       | 1                       |
| Loss on deemed disposal of<br>partial interest in an associate #       | 27,854                  | 3,577                   |
| Provision for doubtful debts   | 8,124                   | 14,250                  |
| Auditors' remuneration   | 637                     | 627                     |
| Staff costs (including executive<br>directors' remuneration (note 8)): |                         |                         |
| Wages and salaries   | 6,644                   | 6,958                   |
| Discretionary bonuses  | 3,819                   | 2,550                   |
| Pension scheme contributions *   | 308                     | 296                     |
|  | <u>10,771</u>           | <u>9,804</u>            |
| Gross rental income  | (78,091)                | (88,470)                |
| Less: Outgoings  | 4,442                   | 4,146                   |
| Net rental income  | <u>(73,649)</u>         | <u>(84,324)</u>         |
| Exchange gains, net  | <u>(5)</u>              | <u>(2)</u>              |

# Loss on deemed disposal of partial interest in an associate is included in other operating expenses in the profit and loss account.

\* At 31 December 2004, there were no forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years (2003: Nil).

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

### 7 FINANCE COSTS

|   | Group           |                 |
|---|-----------------|-----------------|
|   | 2004            | 2003            |
|   | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest on bank loans, overdrafts and other loans: |                 |                 |
| Wholly repayable within five years                  | 4,020           | 9,646           |
| Not wholly repayable within five years              | 8,373           | 12,932          |
| Loan arrangement fees                               | 609             | 474             |
|   | <u>13,002</u>   | <u>23,052</u>   |

### 8 DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

|   | Group           |                 |
|---|-----------------|-----------------|
|   | 2004            | 2003            |
|   | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Fees  | 700             | 700             |
| Other emoluments:   |                 |                 |
| Basic salaries, housing allowances, other allowances and benefits in kind | 1,940           | 1,820           |
| Discretionary bonuses   | 2,750           | 2,000           |
| Pension scheme contributions  | 93              | 86              |
|   | <u>5,483</u>    | <u>4,606</u>    |

The directors' fees of HK\$700,000 (2003: HK\$700,000) were payable to the independent non-executive directors and non-executive director. There were no other emoluments payable to the independent non-executive directors and non-executive director during the year (2003: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.



## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

**8 DIRECTORS' REMUNERATION** *(continued)*

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

|                                | Number of directors |          |
|--------------------------------|---------------------|----------|
|                                | 2004                | 2003     |
| Nil to HK\$1,000,000           | 7                   | 5        |
| HK\$2,500,001 to HK\$3,000,000 | 1                   | 1        |
|                                | <u>8</u>            | <u>6</u> |

**9 FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year included two (2003: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2003: four) non-director, highest paid employees are as follows:

|   | Group            |                  |
|---|------------------|------------------|
|   | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Basic salaries, bonuses, housing allowances,<br>other allowances and benefits in kind | 2,097            | 2,523            |
| Discretionary bonuses   | 335              | 385              |
| Pension scheme contributions  | 97               | 116              |
|   | <u>2,529</u>     | <u>3,024</u>     |

The number of non-director, highest paid employees' remuneration fell within the following bands is as follows:

|                                | Number of employees |          |
|--------------------------------|---------------------|----------|
|                                | 2004                | 2003     |
| HK\$500,001 to HK\$1,000,000   | 2                   | 3        |
| HK\$1,000,001 to HK\$1,500,000 | 1                   | 1        |
|                                | <u>3</u>            | <u>4</u> |

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 10 TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

|   | 2004<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Group:                                  |                         |                         |
| Hong Kong                               | 5,752                   | 5,821                   |
| Overprovision in prior year             | (23)                    | (20)                    |
|   | <u>5,729</u>            | <u>5,801</u>            |
| Deferred ( <i>note 24</i> )             | 8,507                   | 2,452                   |
|   | <u>14,236</u>           | <u>8,253</u>            |
| Share of tax attributable to associates | 9,016                   | 5,456                   |
|   | <u>23,252</u>           | <u>13,709</u>           |

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries and associates are domiciled to the tax expense at the effective tax rates is as follows:

|  | Group                   |                         |
|--|-------------------------|-------------------------|
|  | 2004<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> |
| Profit before tax                                    | <u>126,138</u>          | <u>42,114</u>           |
| Tax at the statutory tax rate of 17.5% (2003: 17.5%) | 22,074                  | 7,370                   |
| Overprovision of tax in prior year                   | (23)                    | (20)                    |
| Unrecognised temporary difference                    | 242                     | (117)                   |
| Effect on opening deferred tax of increase in rates  | —                       | 689                     |
| Income not subject to tax                            | (9,097)                 | (5,253)                 |
| Expenses not deductible for tax                      | 10,168                  | 13,671                  |
| Tax losses utilised from previous periods            | —                       | (1,874)                 |
| Others   | (112)                   | (757)                   |
|  | <u>23,252</u>           | <u>13,709</u>           |
| Tax charge at the Group's effective rate             | <u>23,252</u>           | <u>13,709</u>           |

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

**11 NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

The net profit attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was HK\$58,000 (2003: HK\$325,711,000) (note 26).

**12 DIVIDEND**

|  | 2004<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Proposed final — HK2.0 cents (2003: HK1.5 cents)<br>per ordinary share | <u>15,991</u>           | <u>11,957</u>           |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

**13 EARNINGS PER SHARE**

The calculation of basic earnings per share for the year is based on the net profit attributable to shareholders for the year of HK\$102,886,000 (2003: HK\$28,405,000), and the weighted average of 797,157,415 (2003: 797,157,415) ordinary shares in issue during the year.

The diluted earnings per share amount for the years ended 31 December 2004 and 2003 have not been disclosed as no diluting events existed during these years.

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 14 FIXED ASSETS

## Group

|                                  | Leasehold<br>improvements<br><i>HK\$'000</i> | Office<br>equipment,<br>furniture<br>and fixtures<br><i>HK\$'000</i> | Computer<br>software<br><i>HK\$'000</i> | Motor<br>vehicles<br><i>HK\$'000</i> | Computer<br>equipment<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|----------------------------------|--|--|---|--------------------------------------|--|--------------------------|
| <b>Cost:</b>                     |  |  |   |                                      |  |                          |
| At 1 January 2004                | 743  | 252  | 453                                     | 923                                  | 359                                      | 2,730                    |
| Additions                        | —  | 35   | —                                       | —                                    | 8  | 43                       |
| At 31 December 2004              | <u>743</u>                                   | <u>287</u>   | <u>453</u>                              | <u>923</u>                           | <u>367</u>                               | <u>2,773</u>             |
| <b>Accumulated depreciation:</b> |  |  |   |                                      |  |                          |
| At 1 January 2004                | 174  | 42   | 268                                     | 492                                  | 330                                      | 1,306                    |
| Provided during the year         | 149  | 40   | 90                                      | 184                                  | 21                                       | 484                      |
| At 31 December 2004              | <u>323</u>                                   | <u>82</u>  | <u>358</u>                              | <u>676</u>                           | <u>351</u>                               | <u>1,790</u>             |
| <b>Net book value:</b>           |  |  |   |                                      |  |                          |
| At 31 December 2004              | <u>420</u>                                   | <u>205</u>   | <u>95</u>                               | <u>247</u>                           | <u>16</u>                                | <u>983</u>               |
| At 31 December 2003              | <u>569</u>                                   | <u>210</u>   | <u>185</u>                              | <u>431</u>                           | <u>29</u>                                | <u>1,424</u>             |

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 15 INVESTMENT PROPERTIES

|                                  | Group            |                  |
|----------------------------------|------------------|------------------|
|                                  | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| At 1 January                     | 1,767,370        | 1,793,330        |
| Surplus/(deficit) on revaluation | 74,436           | (26,656)         |
| Additions                        | 1,895            | 696              |
| Disposals                        | (95,931)         | —                |
| At 31 December                   | <u>1,747,770</u> | <u>1,767,370</u> |

The Group's investment properties included above are held under the following lease terms:

|                    | Hong Kong<br>HK\$'000 | Mainland<br>China<br>HK\$'000 | Total<br>HK\$'000 |
|--------------------|-----------------------|-------------------------------|-------------------|
| At valuation:      |                       |                               |                   |
| Long term leases   | 892,770               | —                             | 892,770           |
| Medium term leases | 850,000               | 5,000                         | 855,000           |
|                    | <u>1,742,770</u>      | <u>5,000</u>                  | <u>1,747,770</u>  |

The revaluation of the above investment properties was carried out by Savills (Hong Kong) Limited, an independent firm of professional qualified valuers, on an open market, existing use basis as at 31 December 2004.

Certain of the Group's investment properties were pledged to banks to secure banking facilities granted to the Group (note 23).

Further particulars of the Group's investment properties are included on page 63.

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 16 PROPERTY HELD FOR DEVELOPMENT

|                                  | Group             |                   |
|----------------------------------|-------------------|-------------------|
|                                  | 2004<br>HK\$'000  | 2003<br>HK\$'000  |
| At 1 January                     | 63,434            | 48,000            |
| Development expenditure incurred | 16                | 5,872             |
| Write back of provision          | —                 | 9,562             |
| Disposal                         | (63,450)          | —                 |
|                                  | <u>          </u> | <u>          </u> |
| At 31 December                   | <u>          </u> | <u>63,434</u>     |

The Group's property held for development represents a development project which is situated in Hong Kong and is held under a medium term lease.

## 17 INTERESTS IN SUBSIDIARIES

|                                | Company          |                  |
|--------------------------------|------------------|------------------|
|                                | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Unlisted shares, at cost       | 1,465,569        | 1,465,569        |
| Due from subsidiaries          | 1,209,473        | 1,221,061        |
|                                | <u>2,675,042</u> | <u>2,686,630</u> |
| Less: Provision for impairment | (1,129,766)      | (1,129,766)      |
|                                | <u>1,545,276</u> | <u>1,556,864</u> |

The amounts due from and to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Details of the principal subsidiaries of the Company are set out in note 32.

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 18 INTERESTS IN ASSOCIATES

|   | Notes | Group            |                  |
|---|-------|------------------|------------------|
|   |       | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Share of net assets                       |       | 535,070          | 457,296          |
| Goodwill on acquisition less amortisation |       | 173,876          | 218,186          |
| Convertible note                          | (a)   | 80,457           | 80,457           |
| Share option                              | (b)   | 3,151            | 21,734           |
| Loan to an associate                      | (b)   | 20,000           | 20,000           |
|   |       | <u>812,554</u>   | <u>797,673</u>   |
| Market value of listed equity securities  |       | <u>431,617</u>   | <u>283,062</u>   |

Notes :

- (a) Please refer to note 31(c) for details of the convertible note.
- (b) Please refer to note 31(d) for details of the share option and loan to an associate. During the year, the Group exercised certain of its share option rights and subscribed for 7,352,941 shares in The Cross-Harbour (Holdings) Limited ("Cross-Harbour").

The goodwill capitalised in interests in associates is amortised on the straight-line basis over its estimated useful life of 20 years from the date of acquisition. The movement of goodwill is shown as follows:

|   | Group            |                  |
|---|------------------|------------------|
|   | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| At 1 January  | 218,186          | 236,601          |
| Negative goodwill on scrip dividends received                                   | —                | (3,189)          |
| Amortisation  | (12,707)         | (13,236)         |
| Unamortised goodwill written off on deemed disposal of interest in an associate | (14,805)         | (1,990)          |
| Negative goodwill on subscription of new shares                                 | (16,798)         | —                |
|   | <u>173,876</u>   | <u>218,186</u>   |
| At 31 December  | <u>173,876</u>   | <u>218,186</u>   |

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 18 INTERESTS IN ASSOCIATES (continued)

Particulars of the associate is as follows:

| Name                                 | Business structure | Place of incorporation and operations | Percentage of attributable equity to the Group |        |
|--------------------------------------|--------------------|---------------------------------------|--|--------|
|                                      |                    |                                       | 2004   | 2003   |
| The Cross-Harbour (Holdings) Limited | Corporate          | Hong Kong                             | 27.31%   | 27.55% |

The above associate was not audited by Ernst &amp; Young Hong Kong.

Cross-Harbour is an investment holding company, incorporated and listed in Hong Kong, with its subsidiaries engaged in the operation of driver training centres and the business of tunnel operation and management in Hong Kong.

Extracts of the consolidated operating results and consolidated financial position of the associate, Cross-Harbour, are as follows:

|   | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|---|------------------|------------------|
| Operating results for the year:         |                  |                  |
| Turnover                                | <u>254,038</u>   | <u>255,234</u>   |
| Net profit attributable to shareholders | <u>134,979</u>   | <u>87,235</u>    |
| Financial position at 31 December:      |                  |                  |
| Non-current assets                      | 1,768,431        | 1,565,600        |
| Current assets                          | 460,923          | 390,596          |
| Current liabilities                     | (203,259)        | (147,473)        |
| Non-current liabilities                 | (21,380)         | (105,257)        |
| Minority interests                      | (47,209)         | (42,857)         |
| Net asset value                         | <u>1,957,506</u> | <u>1,660,609</u> |



## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 19 NON-TRADING INVESTMENTS

|                      | Group            |                  |
|----------------------|------------------|------------------|
|                      | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Unlisted investments | <u>1,468</u>     | <u>1,913</u>     |

## 20 PROPERTIES HELD FOR SALE

|                         | Group            |                  |
|-------------------------|------------------|------------------|
|                         | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Hong Kong:              |                  |                  |
| At net realisable value | <u>1,960</u>     | <u>6,300</u>     |

## 21 TRADE DEBTORS

An aged analysis of the trade debtors at the balance sheet date is as follows:

|                   | Group            |                  |
|-------------------|------------------|------------------|
|                   | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| 0 - 30 days       | 486              | 627              |
| 31 - 60 days      | 559              | 1,652            |
| More than 60 days | <u>66</u>        | <u>7,014</u>     |
|                   | <u>1,111</u>     | <u>9,293</u>     |

Included in trade debtors is nil (2003: HK\$5,000,000) which represents proceeds receivable from property buyers.

The remaining balance of the trade debtors is primarily rental receivables from tenants which are normally due on the first day of each month.

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 22 TRADE CREDITORS

An aged analysis of the trade creditors at the balance sheet date is as follows:

|              | Group                   |                         |
|--------------|-------------------------|-------------------------|
|              | 2004<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> |
| 0 - 30 days  | 919                     | 977                     |
| 31 - 60 days | —                       | 382                     |
|              | <u>919</u>              | <u>1,359</u>            |

## 23 BANK LOANS, SECURED

(a) Bank loans are repayable as follows:

|  | Group                   |                         |
|--|-------------------------|-------------------------|
|  | 2004<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> |
| Within one year                                  | 196,500                 | 356,000                 |
| In the second year                               | 38,000                  | 41,500                  |
| In the third to fifth year, inclusive            | 157,800                 | 215,100                 |
| After the fifth year                             | 203,200                 | 226,400                 |
|  | <u>595,500</u>          | <u>839,000</u>          |
| Amounts classified under current liabilities     | <u>(196,500)</u>        | <u>(356,000)</u>        |
| Amounts classified under non-current liabilities | <u>399,000</u>          | <u>483,000</u>          |

(b) At the balance sheet date, the Group's banking facilities were secured by:

- (i) Mortgages on certain investment properties with an aggregate carrying value of HK\$1,740,000,000 (2003: HK\$1,760,000,000) and the assignment of rental income from certain of the properties. In addition, the Company has pledged all the issued shares of certain subsidiaries and subordinated its loans to certain subsidiaries in favour of the lenders of the above bank loans; and
- (ii) Corporate guarantees issued by the Company.

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 24 DEFERRED TAX

The movements in deferred tax liabilities, arising from accelerated tax depreciation, during the year are as follows:

## Deferred tax liabilities

## Group

|   | <i>HK\$'000</i>             |
|---|-----------------------------|
| At 1 January 2004   | 9,801                       |
| Deferred tax charged to the profit and<br>loss account during the year ( <i>note 10</i> )   | <u>8,507</u>                |
| <b>Deferred tax liabilities at 31 December 2004</b>   | <b><u><u>18,308</u></u></b> |
| At 1 January 2003   | 7,349                       |
| Deferred tax charged to the<br>profit and loss account during the year,<br>including a charge of HK\$689,000 due<br>to the effect of a change in tax rates ( <i>note 10</i> ) | <u>2,452</u>                |
| Deferred tax liabilities at 31 December 2003  | <u><u>9,801</u></u>         |

The Group has tax losses arising in Hong Kong of HK\$18,658,953 (2003: HK\$119,744,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

**NOTES TO FINANCIAL STATEMENTS**

As at 31 December 2004

**25 SHARE CAPITAL****Shares**

|   | 2004<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Authorised:                                   |                         |                         |
| 1,500,000,000 ordinary shares of HK\$0.1 each | <u>150,000</u>          | <u>150,000</u>          |
| Issued and fully paid:                        |                         |                         |
| 797,157,415 ordinary shares of HK\$0.1 each   | <u>79,716</u>           | <u>79,716</u>           |

**Share options**

The particulars in relation to the share option scheme of the Company that are required to be disclosed under Rules 17.07 to 17.09 of Chapter 17 of the Listing Rules and SSAP 34, are as follows:

At a special general meeting of the Company held on 22 December 1993, the Share Option Plan of the Company was approved and adopted. At 31 December 2004, there were 2,400,000 (2003: 2,400,000) options outstanding which are exercisable in stages from the date of grant and no option will be exercisable later than 10 years after the date of grant. The amount payable on acceptance of the option is minimal. No options have been granted, exercised or expired during the year.

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 25 SHARE CAPITAL (continued)

## Share options (continued)

The terms of share options outstanding at the balance sheet date were as follows:

| Exercise period                    | Exercise price<br>HK\$ | Number of options |                  | Vested number of options |                  |
|------------------------------------|------------------------|-------------------|------------------|--------------------------|------------------|
|                                    |                        | 2004              | 2003             | 2004                     | 2003             |
| <i>Directors</i>                   |                        |                   |                  |                          |                  |
| 3 April 2000 to<br>2 April 2010    | 0.5860                 | 2,000,000         | 2,000,000        | 2,000,000                | 1,600,000        |
| <i>Other employees</i>             |                        |                   |                  |                          |                  |
| 16 January 1997 to<br>15 July 2006 | 0.9488                 | 100,000           | 100,000          | 100,000                  | 100,000          |
| 3 April 2000 to<br>2 April 2010    | 0.5860                 | 300,000           | 300,000          | 300,000                  | 240,000          |
|                                    |                        | <u>2,400,000</u>  | <u>2,400,000</u> | <u>2,400,000</u>         | <u>1,940,000</u> |

All of the above options were exercised in full on 24 February 2005. Accordingly, there were no shares available for issue under the Share Option Plan as at the date of this report.

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 26 RESERVES

## Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 21 and 22 of the financial statements.

The Group's contributed surplus originally represented the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

## Company

|                                | Share<br>premium<br>account<br><i>HK\$'000</i> | Contributed<br>surplus<br><i>HK\$'000</i> | Capital<br>redemption<br>reserve<br><i>HK\$'000</i> | Retained<br>profits/<br>(accumulated<br>losses)<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|--------------------------------|--|---|---|--|--------------------------|
| At 1 January 2003              | 94,535   | 1,329,125                                 | 1,350   | (261,665)  | 1,163,345                |
| Payment of 2002 final dividend | —  | (11,957)                                  | —   | —  | (11,957)                 |
| Profit for the year            | —  | —   | —   | 325,711  | 325,711                  |
| Proposed 2003 final dividend   | —  | —   | —   | (11,957)   | (11,957)                 |
| At 31 December 2003            | 94,535   | 1,317,168                                 | 1,350   | 52,089   | 1,465,142                |
| Profit for the year            | —  | —   | —   | 58   | 58                       |
| Proposed 2004 final dividend   | —  | —   | —   | (15,991)   | (15,991)                 |
| At 31 December 2004            | <u>94,535</u>                                  | <u>1,317,168</u>                          | <u>1,350</u>  | <u>36,156</u>  | <u>1,449,209</u>         |

The contributed surplus of the Company originally represented the excess of the fair values of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued for their acquisition at the time of the reorganisation in preparation for the listing of the Company's shares in prior years. Under the Companies Act (1981) of Bermuda (as amended), the contributed surplus may be distributed to shareholders under certain circumstances.

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Reconciliation of profit before tax to net cash inflow generated from operations

|  | <i>Notes</i> | 2004<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> |
|--|--------------|-------------------------|-------------------------|
| Profit before tax  |              | 126,138                 | 42,114                  |
| Adjustments for:   |              |                         |                         |
| Share of results of associates   |              | (47,839)                | (29,566)                |
| Interest income  | 5            | (3,176)                 | (4,575)                 |
| (Surplus)/deficit arising on revaluation<br>of investment properties                 |              | (70,261)                | 26,656                  |
| Impairment loss/(write back of<br>impairment loss) on non-trading<br>investments     |              | 669                     | (853)                   |
| Loss on deemed disposal of partial<br>interest in an associate                       | 6            | 27,854                  | 3,577                   |
| Write back of provision for<br>impairment loss on a property<br>held for development |              | —                       | (9,562)                 |
| Gain on disposal of a subsidiary   | 5            | (11)                    | —                       |
| Gain on disposal of an investment property   | 5            | (69)                    | —                       |
| Amortisation of goodwill on acquisition<br>of an associate                           |              | 12,707                  | 13,236                  |
| Depreciation   | 6            | 484                     | 503                     |
| Loss on disposal of fixed assets   | 6            | —                       | 1                       |
| Interest on bank loans, overdraft and<br>other loans                                 | 7            | 12,393                  | 22,578                  |
| Operating profit before<br>working capital changes                                   |              | <u>58,889</u>           | 64,109                  |
| Decrease in trade debtors, other debtors,<br>deposits and prepayments                |              | 46,290                  | 14,132                  |
| Increase in trade creditors and<br>other payables                                    |              | 347                     | 3,663                   |
| Decrease in properties held for sale   |              | <u>4,340</u>            | 10,688                  |
| Net cash inflow generated from operations  |              | <u><u>109,866</u></u>   | <u><u>92,592</u></u>    |

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

## (b) Disposal of a subsidiary

|                                  | Notes | Group         |          |
|----------------------------------|-------|---------------|----------|
|                                  |       | 2004          | 2003     |
|                                  |       | HK\$'000      | HK\$'000 |
| Net assets disposed of:          |       |               |          |
| Property held for development    | 16    | 63,450        | —        |
| Other payables                   |       | (12)          | —        |
|                                  |       | <u>63,438</u> | <u>—</u> |
| Gain on disposal of a subsidiary | 5     | 11            | —        |
|                                  |       | <u>63,449</u> | <u>—</u> |
| Satisfied by:                    |       |               |          |
| Cash, net of expenses            |       | <u>63,449</u> | <u>—</u> |

## 28 OPERATING LEASE ARRANGEMENTS

## (a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms of approximately two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

|  | Group          |                |
|--|----------------|----------------|
|  | 2004           | 2003           |
|  | HK\$'000       | HK\$'000       |
| Within one year                        | 71,076         | 77,306         |
| In the second to fifth year, inclusive | 131,013        | 53,393         |
| After the fifth year                   | 6,000          | —              |
|  | <u>208,089</u> | <u>130,699</u> |



## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

28 OPERATING LEASE ARRANGEMENTS *(continued)*

## (b) As lessee

The Group leases its office properties under operating lease arrangements. The leases for the office properties are negotiated for terms of approximately one year each.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

|                 | Group           |                 |
|-----------------|-----------------|-----------------|
|                 | 2004            | 2003            |
|                 | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year | <u>465</u>      | <u>634</u>      |

## 29 COMMITMENTS

In addition to the operating lease commitments detailed in note 28(b) above, the Group had the following capital commitments in respect of investment properties:

|                                    | Group           |                 |
|------------------------------------|-----------------|-----------------|
|                                    | 2004            | 2003            |
|                                    | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Contracted, but not provided for   | 29              | 12              |
| Authorised, but not contracted for | <u>1,667</u>    | <u>2,643</u>    |
|                                    | <u>1,696</u>    | <u>2,655</u>    |

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 30 CONTINGENT LIABILITIES

- (a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

|   | Group    |          | Company  |           |
|---|----------|----------|----------|-----------|
|   | 2004     | 2003     | 2004     | 2003      |
|   | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000  |
| Guarantees given to banks in connection with facilities granted to subsidiaries | —        | —        | 935,900  | 1,019,400 |

At the balance sheet date, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$595,500,000 (2003: HK\$839,000,000).

- (b) A subsidiary executed guarantees to secure a banking facility made available to an investee company and certain property buyers of the investee company in respect of mortgage loans. In 2002, the entire investment in the investee company was disposed of by the subsidiary. The purchaser of the disposed shares of the investee company would indemnify the Group in respect of the guarantees after 31 December 1999. The Group's share of the outstanding guarantees arising prior to 2000 was estimated to be approximately HK\$5.6 million as at the end of 2004 (2003: HK\$7.8 million).
- (c) A subsidiary, which has been under voluntary liquidation since September 2004, has claimed against the contractor of a property development project, and deducted from payments to the contractor, approximately HK\$11 million for the delay in completion and defects of the construction works. In addition, there is a dispute of approximately HK\$1.7 million regarding the final contract amount. The contractor has denied the claim and has counter-claimed the subsidiary for HK\$22.3 million, including liquidated damages, the above-mentioned disputed contract sum and loss and expense. The case is pending arbitration. The liquidation of the subsidiary and its pending affairs have been handled by the appointed professional liquidators.

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 31 RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

|  | <i>Notes</i> | 2004<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> |
|--|--------------|-------------------------|-------------------------|
| Rental charges paid to a related company                     | <i>(a)</i>   | 959                     | 962                     |
| Administrative staff costs paid to a shareholder             | <i>(b)</i>   | 611                     | 611                     |
| Interest income on a convertible note issued by an associate | <i>(c)</i>   | 2,811                   | 3,233                   |
| Purchase of a share option issued by an associate            | <i>(d)</i>   | —                       | 50,000                  |
|  |              | <u>          </u>       | <u>          </u>       |

*Notes :*

- (a) A subsidiary of the Company, Y. T. Group Management Limited ("YTGML"), entered into a sub-lease agreement with Chongqing Industrial Limited, a controlling shareholder of Yugang International Limited ("Yugang"), a substantial shareholder of the Company, to lease office space for a period of one year commencing on 18 October 2003 at a rental of HK\$66,392 per month plus applicable rates and expenses. The tenancy agreement has been renewed with the same terms for nine months commencing on 18 October 2004.
- (b) YTGML entered into an agreement with Yugang to share the cost of common administrative staff at a monthly charge which is determined based on the actual cost of the staff from time to time.
- (c) On 11 June 2002, a subsidiary of the Company, Honway Holdings Limited ("Honway"), invested HK\$117 million to purchase a convertible note (the "Note") issued by an associate, Cross-Harbour, which bears interest at a rate of 3.5% per annum with a maturity date of 11 June 2005. The Note carries a right of conversion into new ordinary shares of the associate at exercise prices of HK\$3.5, HK\$3.7 and HK\$3.9 per share during the years ending 11 June 2003, 11 June 2004 and 11 June 2005 respectively.
- (d) On 9 May 2003, Honway entered into a share option agreement with Cross-Harbour. The option was granted on 24 June 2003. Pursuant to the agreement, Honway was entitled to subscribe for up to a maximum of 60 million shares in the capital of Cross-Harbour at exercise prices of HK\$3.4, HK\$3.7 and HK\$4.0 per share during the years ending 24 June 2004, 24 June 2005 and 24 June 2006 respectively. The consideration paid by Honway for the option granted above was HK\$50,000,000, of which HK\$5,000,000 being the amount for purchasing the option, HK\$25,000,000 being the non-refundable and non-interest bearing deposit payable in advance for the exercise of the option and HK\$20,000,000 being a three-year interest-free unsecured term loan advanced by Honway to Cross-Harbour. During the year, the non-refundable and non-interest bearing deposit of HK\$25,000,000 paid by Honway to Cross-Harbour pursuant to the agreement was used to satisfy in full the consideration for the subscription of 7,352,941 shares in Cross-Harbour.

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 32 PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at the balance sheet date are as follows:

| Name of company              | Place of incorporation | Nominal value of issued and fully paid share capital | Percentage of equity attributable to the Company |      | Principal activities and place of operations        |
|------------------------------|------------------------|--|--|------|---|
|                              |                        |  | 2004   | 2003 |   |
| Best View Limited            | British Virgin Islands | 1 ordinary share of US\$1                            | 100%   | 100% | Property holding in Hong Kong                       |
| Benefit Plus Company Limited | Hong Kong              | 2 ordinary shares of HK\$1 each                      | 100%   | 100% | Property investment in Hong Kong                    |
| E-Tech Services Limited      | Hong Kong              | 2 ordinary shares of HK\$1 each                      | 100%   | 100% | Property technical consultant services in Hong Kong |
| Harson Investment Limited    | Hong Kong              | 2 ordinary shares of HK\$1 each                      | 100%   | 100% | Property investment in Hong Kong                    |
| Honway Holdings Limited      | British Virgin Islands | 1 ordinary share of US\$1                            | 100%   | 100% | Investment holding in Hong Kong                     |
| Luckleen Development Limited | Hong Kong              | 100 ordinary shares of HK\$1 each                    | 100%   | 100% | Property trading in Hong Kong                       |
| Mainland Sun Ltd.            | British Virgin Islands | 1 ordinary share of US\$1                            | 100%   | 100% | Property investment in Mainland China               |
| Rosy Star Company Limited    | Hong Kong              | 2 ordinary shares of HK\$1 each                      | 100%   | 100% | Property investment in Hong Kong                    |

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## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2004

## 32 PRINCIPAL SUBSIDIARIES (continued)

| Name of company                     | Place of incorporation | Nominal value of issued and fully paid share capital | Percentage of equity attributable to the Company |      | Principal activities and place of operations           |
|-------------------------------------|------------------------|--|--|------|--|
|                                     |                        |  | 2004   | 2003 |  |
| Score Goal Investment Limited       | Hong Kong              | 2 ordinary shares of HK\$1 each                      | 100%   | 100% | Property investment in Hong Kong                       |
| Score Target Investment Limited     | Hong Kong              | 2 ordinary shares of HK\$1 each                      | 100%   | 100% | Property trading in Hong Kong                          |
| Winwide Excel Limited               | British Virgin Islands | 1 ordinary share of US\$1                            | 100%   | 100% | Investment holding in Hong Kong                        |
| Y. T. (China) Limited               | Hong Kong              | 2 ordinary shares of HK\$1 each                      | 100%   | 100% | Investment holding in Mainland China                   |
| Y. T. Finance Limited               | Hong Kong              | 6,000 ordinary shares of HK\$500 each                | 100%   | 100% | Finance vehicle in Hong Kong                           |
| Y. T. Group Management Limited      | Hong Kong              | 2 ordinary shares of HK\$1 each                      | 100%   | 100% | Provision of business management services in Hong Kong |
| Y. T. Investment Holdings Limited   | British Virgin Islands | 50,100 ordinary shares of US\$1 each                 | 100%   | 100% | Investment holding in Asia                             |
| Y. T. Investment Management Limited | British Virgin Islands | 1 ordinary share of US\$1                            | 100%   | 100% | Securities investment in Mainland China                |

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**NOTES TO FINANCIAL STATEMENTS**

As at 31 December 2004

**32 PRINCIPAL SUBSIDIARIES** *(continued)*

| Name of company                        | Place of incorporation | Nominal value of issued and fully paid share capital | Percentage of equity attributable to the Company |      | Principal activities and place of operations |
|--|------------------------|--|--|------|--|
|  |                        |  | 2004   | 2003 |  |
| Y. T. Properties International Limited | British Virgin Islands | 201 ordinary shares of US\$1 each                    | 100%   | 100% | Investment holding in Hong Kong              |
| Y. T. Property Services Limited        | Hong Kong              | 100 ordinary shares of HK\$1 each                    | 100%   | 100% | Property management in Hong Kong             |

The above table includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. With the exception of Y. T. Investment Holdings Limited, all the above companies are indirect subsidiaries of the Company.

**33 APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 11 March 2005.