

Notes to the Financial Statements

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation and presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties are stated at valuation.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34 (revised)	:	Employee benefits

The adoption of these new and revised SSAPs has no material effect on the Group's financial statements other than changes in the presentation of the consolidated statement of changes in equity and the consolidated cash flow statement. Certain comparative figures have been reclassified to conform with the current year's presentation.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December.

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

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

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

Notes to the Financial Statements

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(b) Basis of consolidation (Cont'd)

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill/negative goodwill or goodwill/negative goodwill taken to reserves which was not previously charged or recognised in the consolidated profit and loss account.

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

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

(c) Revenue recognition

Revenue from sale of properties held under development for sale is recognised on the basis of percentage of completion but subject to sales proceeds received.

Revenue from sale of completed properties held for sale is recognised when the relevant sales contracts are concluded but subject to sales proceeds received.

Rental income is recognised on a straight-line basis over the period of the leases.

Estate management income is recognised on an accrual basis.

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

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

(d) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Notes to the Financial Statements

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Employee benefits (Cont'd)

(ii) Pension obligations

The Group operates a defined contribution provident fund scheme (the “Scheme”) which is available to certain employees who joined the Group before 1st December, 2000. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group’s contributions are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the Scheme prior to vesting fully in the contributions.

Starting from 1st December, 2000, a mandatory provident fund scheme (the “MPF”) is available to all Hong Kong employees. Employees who joined the Group before 1st December, 2000 can choose to remain in the Scheme or participate in the MPF while employees who joined the Group after 1st December, 2000 can only participate in the MPF. Contributions to the MPF are expensed as incurred.

The Group also participates in the employee pension schemes of the respective municipal government in Mainland China where the Group operates. The Group has to make monthly contributions calculated as a percentage of the monthly payroll and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. The Group’s contributions to the schemes are expensed as incurred.

(e) Associated companies

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

The consolidated profit and loss account includes the Group’s share of the results of associated companies for the year, and the consolidated balance sheet includes the Group’s share of the net assets of the associated companies after revaluation of the underlying properties of the associated companies, where appropriate, in accordance with the Group’s accounting policy, and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Surplus on revaluation of the underlying properties of associated companies are credited directly to revaluation reserves. Deficits on revaluation are offset against surplus on previous valuations in respect of the properties of the same associated company and thereafter debited to operating profit. Any subsequent surpluses are credited to operating profit up to the amount previously debited.

Notes to the Financial Statements

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Associated companies (Cont'd)

Where audited financial statements of associated companies are not co-terminous with those of the Group, the share of the results is arrived at from the latest audited financial statements available and unaudited management financial statements made up to 31st December, as adjusted for the revaluation of the underlying properties of the associated companies.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(f) Fixed assets

(i) *Investment properties*

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

Investment properties held on leases with unexpired periods of greater than twenty years are stated at annual professional valuation based on the open market value at balance sheet date. Separate values are not attributed to land and buildings. The valuations are incorporated in the annual financial statements. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

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

(ii) *Properties held for/under development*

Properties held for/under development for long term purposes are classified under fixed assets and are stated at cost to the Group less accumulated impairment losses. These properties are transferred to investment properties or other properties, as the case may be, upon completion of the development at carrying value.

Notes to the Financial Statements

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Fixed assets (Cont'd)

(iii) Leasehold land and buildings and other fixed assets

Leasehold land and buildings and other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

(iv) Depreciation

No depreciation is provided on investment properties with an unexpired lease term of over twenty years. When the unexpired lease term is twenty years or less, depreciation is provided on the carrying value over the remaining term of the lease.

No depreciation is provided on properties held for/under development for long term purposes.

Depreciation of leasehold land and buildings is calculated over the unexpired period of the lease or their expected useful lives to the Group whichever is shorter.

Depreciation of other fixed assets is calculated to write off their costs less accumulated impairment losses on a straight-line basis over their expected useful lives to the Group. The principal annual rates used for this purpose are:

Office equipment	20%
Furniture and fixtures	20%
Motor vehicles	10% – 20%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(v) Impairment and gain or loss on disposal of fixed assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets other than investment properties are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

Notes to the Financial Statements

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Fixed assets (Cont'd)

(v) Impairment and gain or loss on disposal of fixed assets (Cont'd)

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net proceeds from disposal and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(g) Properties held for sale

Properties held for sale are included in current assets and stated at the lower of cost and estimated net realisable value. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

(h) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(i) Borrowing costs

Interest and related finance charges are generally expensed as incurred. With respect to interest incurred on borrowings attributable to financing the acquisition and development of qualifying assets, the expenses are capitalised as part of the costs of those assets if, in the opinion of the Directors, the qualifying assets concerned will generate adequate future economic benefit to the Group.

(j) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such security will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Notes to the Financial Statements

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(k) Other assets

Other assets are stated at cost less any provision for impairment losses.

(l) Accounts receivables

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

(m) Cash and cash equivalents

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

(n) Deferred taxation

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

(o) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are incorporated into the financial statements by translating foreign currencies into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising are included in the profit and loss account.

The balance sheets of overseas subsidiaries and associated companies at the year end expressed in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences arising are taken directly to the exchange difference reserve.

Notes to the Financial Statements

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(p) Contingent liabilities

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

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

(q) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, properties, receivables and operating cash. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to fixed assets.

2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Company is an investment holding company and the Group is principally engaged in property development, property investment, estate management and holding of investments. The turnover and revenues recognised during the year are set out below:

	2002 HK\$'000	2001 HK\$'000
Sale of properties	2,454	179,089
Gross rental income		
— investment properties	23,395	31,516
— other properties	14,152	8,573
Estate management fees	12,632	15,690
Interest income	13,717	18,017
Dividend income	746	772
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Total revenues and turnover	67,096	253,657

Notes to the Financial Statements

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

Primary reporting — business segments

The Group reports its business segment analysis based on the four principal activities as follows:

2002

	Property development HK\$'000	Property investment HK\$'000	Estate management HK\$'000	Investment holding HK\$'000	Unallocated costs HK\$'000	Group HK\$'000
Turnover	2,454	37,547	12,632	14,463		67,096
Segment results	(605)	11,593	7,097	13,617		31,702
Unallocated corporate expenses					(19,031)	(19,031)
Operating profit						12,671
Finance costs						(7,700)
Share of profits less losses of associated companies	(1,488)	2,348	—	—		860
Profit before taxation						5,831
Taxation						(4,940)
Profit after taxation						891
Minority interests						128
Profit attributable to shareholders						1,019
Segment assets	230,477	1,074,008	1,611	15,452		1,321,548
Interests in associated companies	346,950	612,247	—	260,000		1,219,197
Unallocated assets						7,375
Total assets						2,548,120
Segment liabilities	227,723	306,922	4,259	—		538,904
Minority interests						67,673
Unallocated liabilities						3,060
Total liabilities						609,637
Capital expenditure	108	13,574	—	—	192	13,874
Depreciation	50	10,757	4	—	643	11,454
Impairment loss	—	—	—	830	27	857

Notes to the Financial Statements

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

Primary reporting — business segments (Cont'd)

2001

	Property development HK\$'000	Property investment HK\$'000	Estate management HK\$'000	Investment holding HK\$'000	Unallocated costs HK\$'000	Group HK\$'000
Turnover	179,089	40,089	15,690	18,789		253,657
Segment results	3,834	15,062	9,501	17,003		45,400
Unallocated corporate expenses					(21,127)	(21,127)
Operating profit						24,273
Finance costs						(11,955)
Share of profits less losses of associated companies	(16,052)	6,153	—	—		(9,899)
Profit before taxation						2,419
Taxation						(652)
Profit after taxation						1,767
Minority interests						4,914
Profit attributable to shareholders						6,681
Segment assets	199,061	1,077,273	1,324	16,202		1,293,860
Interests in associated companies	348,438	722,263	—	260,000		1,330,701
Unallocated assets						35,009
Total assets						2,659,570
Segment liabilities	220,449	311,280	5,387	—		537,116
Minority interests						67,801
Unallocated liabilities						3,102
Total liabilities						608,019
Capital expenditure	60,691	151,906	17	—	104	212,718
Depreciation	12,256	2,457	3	—	746	15,462
Impairment loss	—	—	—	—	1,600	1,600

Notes to the Financial Statements

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

Secondary reporting — geographical segments

A geographical analysis of the Group's turnover, segment results, total assets and capital expenditure by location of market, is as follows:

	2002				2001			
	Turnover HK\$'000	Segment results HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000	Turnover HK\$'000	Segment results HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
Hong Kong	50,490	30,272	644,043	192	65,995	49,939	649,032	122
Mainland China	16,606	1,430	677,505	13,682	187,662	(4,539)	644,828	212,596
	<u>67,096</u>	<u>31,702</u>	<u>1,321,548</u>	<u>13,874</u>	<u>253,657</u>	<u>45,400</u>	<u>1,293,860</u>	<u>212,718</u>
Unallocated corporate expenses		(19,031)				(21,127)		
Operating profit		<u>12,671</u>				<u>24,273</u>		
Interests in associated companies			1,219,197				1,330,701	
Unallocated assets			<u>7,375</u>				<u>35,009</u>	
Total assets			<u>2,548,120</u>				<u>2,659,570</u>	

Notes to the Financial Statements

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2002 HK\$'000	2001 HK\$'000
Crediting		
Gross rental income from investment properties	23,395	31,516
Less: outgoings	(10,052)	(8,088)
Net rental income from investment properties	13,343	23,428
Gross rental income from other properties	14,152	8,573
Less: depreciation	(10,517)	(14,208)
outgoings	(1,939)	(1,844)
Net rental income/(loss) from other properties	1,696	(7,479)
Gain on deemed disposal of interests in a subsidiary	—	5,119
Gain on disposal of fixed assets	—	657
Recovery of bad debts previously written off	—	2,266
Charging		
Cost of properties sold	1,159	174,571
Staff costs, including Directors' remuneration (note 8)	17,892	19,087
Depreciation of fixed assets, other than leasehold land and buildings with rental income	937	1,254
Loss on disposal of fixed assets	54	—
Impairment loss of leasehold land and buildings	27	1,600
Provision for impairment loss of investment securities	830	1,874
Loss on disposal of investment properties	3,785	—
Operating leases in respect of office premises and staff quarters	3,343	3,417
Auditors' remuneration	856	856

Notes to the Financial Statements

4. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on bank loans and overdrafts		
Wholly repayable within five years	18,525	67,997
Interest on other loans		
Wholly repayable within five years	4	7
Not wholly repayable within five years	542	255
Other incidental borrowing costs	830	3,589
 Total borrowing costs incurred	 19,901	 71,848
Less: Interest capitalised	(12,201)	(56,835)
Incidental borrowing costs capitalised	—	(3,058)
 Total borrowing costs capitalised	 (12,201)	 (59,893)
	 <u>7,700</u>	 <u>11,955</u>

The capitalisation rate applied to funds borrowed generally and used for property development projects in the People's Republic of China (the "PRC") is between 4.49% and 6.47% per annum.

5. TAXATION

(a) The amount of taxation charged to the consolidated profit and loss account represents:

	2002 HK\$'000	2001 HK\$'000
Reversal of over-provision of Hong Kong profits tax in prior years	1,200	—
PRC income tax	(6,010)	—
Share of taxation attributable to associated companies	(130)	(652)
	<u>(4,940)</u>	<u>(652)</u>

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the year. PRC income tax has been provided at the rate of 33% on the estimated assessable profit of the Group's subsidiary operating in the PRC (2001: HK\$Nil).

(b) There was no material unprovided deferred taxation for the year (2001: HK\$Nil).

Notes to the Financial Statements

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of a loss of HK\$28,968,000 (2001: loss of HK\$312,901,000).

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$1,019,000 (2001: HK\$6,681,000) and 1,135,606,132 (2001: 1,135,606,132) ordinary shares in issue during the year. No diluted earnings per share are presented as all the share options of the Company expired on 22nd June, 2002.

8. STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION)

	2002 HK\$'000	2001 HK\$'000
Wages and salaries	15,838	17,531
Unutilised annual leave	48	—
Social security costs	1,603	1,242
Pension costs — defined contribution plans (note 9)	403	314
	17,892	19,087

9. RETIREMENT BENEFIT COSTS

The Group operates a defined contribution provident fund scheme (the "Scheme") which is available to certain employees who joined the Group before 1st December, 2000. Contributions to the Scheme by the Group and the employees are calculated as a percentage of the employees' monthly payroll. The Group's contributions are reduced by contributions forfeited by those employees who leave the Scheme prior to vesting fully in the contributions. Forfeited contributions totalling HK\$40,000 (2001: HK\$18,000) were utilised during the year and HK\$Nil (2001: HK\$105,000) was returned to the Group. The remaining forfeited contributions of HK\$20,000 (2001: HK\$2,000) at the year end can be used to reduce future contributions.

Starting from 1st December, 2000, a mandatory provident fund scheme (the "MPF") is available to all Hong Kong employees. Employees who joined the Group before 1st December, 2000 can choose to remain in the Scheme or participate in the MPF while employees who joined the Group after 1st December, 2000 can only participate in the MPF.

Notes to the Financial Statements

9. RETIREMENT BENEFIT COSTS (Cont'd)

The Group also participates in the employee pension schemes of the respective municipal government in Mainland China where the Group operates. The Group has to make monthly contributions calculated as a percentage of the monthly payroll and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group.

The cost charged to the profit and loss account represents contributions payable by the Group to the schemes. Contributions totalling HK\$403,000 (2001: HK\$314,000) were paid during the year.

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

- (a) The aggregate amounts of emoluments payable to the Directors of the Company during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Fees	660	771
Basic salaries, housing allowances, other allowances and benefits in kind	5,020	5,096
Discretionary bonuses	363	463
Pensions	24	24
	<u>6,067</u>	<u>6,354</u>

The fees payable to the Independent Non-executive Directors of the Company during the year amounted to HK\$440,000 (2001: HK\$440,000).

The emoluments of the Directors fell within the following bands:

Emolument bands	Number of Directors	
	2002	2001
HK\$Nil – HK\$1,000,000	3	4
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$3,000,001 – HK\$3,500,000	1	1
	<u>5</u>	<u>6</u>

Notes to the Financial Statements

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

- (b) The five individuals whose emoluments were the highest in the Group for the year include two (2001: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2001: three) individuals during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	1,696	2,223
Discretionary bonuses	141	320
Pensions	82	78
	1,919	2,621

The emoluments of these highest paid individuals fell within the following bands:

Emolument bands	Number of individuals	
	2002	2001
HK\$Nil – HK\$1,000,000	2	1
HK\$1,000,001 – HK\$1,500,000	1	2
	3	3

Notes to the Financial Statements

11. FIXED ASSETS

	Group						Company				
	Investment properties	Properties held for/under development	Leasehold land and buildings	Office equipment	Furniture and fixtures	Motor vehicles	Total	Office equipment	Furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation											
At 1st January, 2002	627,018	427,928	23,527	1,846	2,879	4,576	1,087,774	474	2,075	2,248	4,797
Additions	—	13,574	—	268	32	—	13,874	7	—	—	7
Revaluation	(4,034)	—	—	—	—	—	(4,034)	—	—	—	—
Impairment	—	—	(27)	—	—	—	(27)	—	—	—	—
Disposals	(6,166)	—	—	(259)	(41)	—	(6,466)	(10)	(18)	—	(28)
At 31st December, 2002	616,818	441,502	23,500	1,855	2,870	4,576	1,091,121	471	2,057	2,248	4,776
Accumulated depreciation											
At 1st January, 2002	—	—	2,731	1,386	2,248	3,115	9,480	337	1,563	1,575	3,475
Charge for the year	—	—	10,659	193	237	365	11,454	43	131	180	354
Disposals	—	—	—	(212)	(34)	—	(246)	(10)	(18)	—	(28)
At 31st December, 2002	—	—	13,390	1,367	2,451	3,480	20,688	370	1,676	1,755	3,801
Net book value											
At 31st December, 2002	616,818	441,502	10,110	488	419	1,096	1,070,433	101	381	493	975
At 31st December, 2001	627,018	427,928	20,796	460	631	1,461	1,078,294	137	512	673	1,322

The analysis of the cost or valuation of the above assets as at 31st December, 2002 and 2001 is as follows:

	Group						Company				
	Investment properties	Properties held for/under development	Leasehold land and buildings	Office equipment	Furniture and fixtures	Motor vehicles	Total	Office equipment	Furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost	—	441,502	23,500	1,855	2,870	4,576	474,303	471	2,057	2,248	4,776
At 2002 professional valuation	616,818	—	—	—	—	—	616,818	—	—	—	—
At 31st December, 2002	616,818	441,502	23,500	1,855	2,870	4,576	1,091,121	471	2,057	2,248	4,776
At cost	—	427,928	23,527	1,846	2,879	4,576	460,756	474	2,075	2,248	4,797
At 2001 professional valuation	627,018	—	—	—	—	—	627,018	—	—	—	—
At 31st December, 2001	627,018	427,928	23,527	1,846	2,879	4,576	1,087,774	474	2,075	2,248	4,797

Notes to the Financial Statements

11. FIXED ASSETS (Cont'd)

The Group's interest in investment properties, properties held for/under development and leasehold land and buildings at their net book values are analysed as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	593,160	593,200
Leases of between 10 to 50 years	22,800	33,000
Leases of less than 10 years	200	200
Outside Hong Kong, held on:		
Leases of over 50 years	2,690	2,723
Leases of between 10 to 50 years	449,580	446,619
	1,068,430	1,075,742

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Investment properties in Hong Kong and in the PRC were revalued at 31st December, 2002 on the basis of their open market value by independent firms of professional surveyors, Vigers Hong Kong Limited and DTZ Debenham Tie Leung Limited, respectively.

At 31st December, 2002, the net book value of fixed assets pledged as security for the Group's long term loans amounted to HK\$592,800,000 (2001: HK\$592,800,000).

12. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK\$'000	HK\$'000
Investment in unlisted shares, at cost	1,904	1,904
Amounts due from subsidiaries, net of provision	1,107,991	1,150,149
Amounts due to subsidiaries	(442)	(459)
	1,109,453	1,151,594

The particulars of principal subsidiaries of the Group as at 31st December, 2002 are set out on pages 58 to 59.

Notes to the Financial Statements

12. INTERESTS IN SUBSIDIARIES (Cont'd)

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment, except for an amount of HK\$451,027,000 (2001: HK\$456,440,000) due from a subsidiary which is interest bearing at prime rate less 0.75% per annum (2001: prime rate).

13. INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets other than goodwill, after revaluation	834,113	946,104
Amounts due from associated companies, net of provision	394,519	392,421
Amounts due to associated companies	(9,435)	(7,824)
	<u>1,219,197</u>	<u>1,330,701</u>

The interests in associated companies represent unlisted shares in Hong Kong and the PRC. The details of principal associated companies of the Group as at 31st December, 2002 are set out on page 60.

The properties of the associated companies were valued annually at 31st December by independent professional surveyors on an open market value basis.

The amounts due from associated companies are unsecured, interest free and have no fixed terms of repayment, except for an amount of HK\$260 million (2001: HK\$260 million) due from an associated company which is interest bearing at prime rate per annum (2001: prime rate less 3% up to 28th February, 2001 and prime rate thereafter). The Group received interest income totalling HK\$13,277,000 (2001: HK\$16,964,000) in this respect.

Information on material associated companies

The financial information on Zeta Estates Limited ("Zeta"), a 33 $\frac{1}{3}$ % owned associated company, and Beijing Jing Yuan Property Development Co., Ltd. ("Jing Yuan"), a 29.4% owned associated company, the results and financial positions of which are material in the context of the Group's financial statements, is summarised below.

Notes to the Financial Statements

13. INTERESTS IN ASSOCIATED COMPANIES (Cont'd)

Information on material associated companies (Cont'd)

The financial year end of Zeta is not co-terminous with that of the Company. The information set out below is based on the audited results of Zeta covering the two months ended 28th February and the unaudited management accounts for the remaining ten months ended 31st December, adjusted to comply with the Group's accounting policies.

	Zeta	
	2002	2001
	HK\$'000	HK\$'000
Profit and loss account — year ended 31st December		
Turnover	84,572	94,554
Profit after taxation	4,327	13,834
	<hr/>	<hr/>
Profit attributable to the Group	1,442	4,611
	<hr/>	<hr/>
Balance sheet — as at 31st December		
Investment properties	7,261	7,261
Long term receivables	556	520
Current assets	878,559	872,149
Current liabilities	(70,833)	(68,714)
Long term liabilities	(780,000)	(780,000)
	<hr/>	<hr/>
Shareholders' funds	35,543	31,216
	<hr/>	<hr/>
Surplus arising from revaluation, based on the market value of the underlying properties of the associated company	1,576,779	1,903,016
	<hr/>	<hr/>
Adjusted net assets	1,612,322	1,934,232
	<hr/>	<hr/>
Net assets attributable to the Group	537,441	644,744
	<hr/>	<hr/>

Notes to the Financial Statements

13. INTERESTS IN ASSOCIATED COMPANIES (Cont'd)

Information on material associated companies (Cont'd)

As at 31st December, 2002, Zeta had the following contingent liability:

The Commissioner of Inland Revenue raised additional profits tax assessments of HK\$87,852,000 (2001: HK\$60,795,000) on Zeta for the years of assessment 1998/1999, 1999/2000, 2000/2001 and 2001/2002, resulting in additional tax of HK\$14,056,000 (2001: HK\$9,727,000) being payable. These additional assessable profits arose from non-acceptance of part of the interest on unsecured loans paid by Zeta during these years as allowable deductions in computing the assessable profits. Zeta objected to these assessments, and as at 31st December, 2002, the result of the dispute was still not known. The share of this tax liability by the Group amounting to HK\$4,685,000 (2001: HK\$3,242,000) was not provided for as at 31st December, 2002.

	Jing Yuan	
	2002 HK\$'000	2001 HK\$'000
Profit and loss account — year ended 31st December		
Turnover	222,023	46,814
Loss after taxation	(5,063)	(101,368)
	<u>(1,488)</u>	<u>(16,052)</u>
Loss attributable to the Group		
	<u>(1,488)</u>	<u>(16,052)</u>
Balance sheet — as at 31st December		
Properties held under development for sale	1,967,198	1,945,069
Fixed assets	245,349	245,395
Long term receivables	1,885	1,885
Current assets	419,218	474,236
Current liabilities	(59,651)	(108,446)
Long term liabilities	(1,756,290)	(1,735,367)
	<u>817,709</u>	<u>822,772</u>
Shareholders' funds		
	<u>817,709</u>	<u>822,772</u>
Net assets attributable to the Group	240,406	241,895
	<u>240,406</u>	<u>241,895</u>

Notes to the Financial Statements

14. INVESTMENT SECURITIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Investment securities		
Unlisted investments, at cost	18,712	18,712
Provision	(8,460)	(7,630)
Advances to investee companies	5,200	5,099
	<u>15,452</u>	<u>16,181</u>

15. OTHER ASSETS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Club debentures, at cost	<u>2,218</u>	<u>2,218</u>	<u>1,405</u>	<u>1,405</u>

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16. LOAN TO A SUBSIDIARY

The loan to a subsidiary is unsecured, interest bearing at 7% per annum and repayable within twelve months from the balance sheet date.

17. TRADE RECEIVABLES

At 31st December, 2002, the ageing analysis of the trade receivables was as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
0–30 days	1,102	1,270
31–60 days	659	685
61–90 days	476	361
Over 90 days	14,482	17,795
	<u>16,719</u>	<u>20,111</u>

A majority of the Group's trade receivables in the current year represented amounts due from customers in respect of the sale of properties held for sale, the repayment of which is in accordance with the respective contract terms.

Notes to the Financial Statements

18. TRADE PAYABLES

At 31st December, 2002, the ageing analysis of the trade payables was as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
0–30 days	470	473
31–60 days	612	522
61–90 days	123	157
Over 90 days	82,655	51,303
	83,860	52,455

19. SHARE CAPITAL

	Company	
	Ordinary shares of HK\$0.50 each	
	Number of shares	HK\$'000
Authorised:		
At 1st January, 2001, 2002 and 31st December, 2002	1,600,000,000	800,000
Issued and fully paid:		
At 1st January, 2001, 2002 and 31st December, 2002	1,135,606,132	567,803

20. EXECUTIVE SHARE OPTION SCHEME

Under the executive share option scheme of the Company, the Directors may, at their absolute discretion, invite executives of the Group to take up options to subscribe for shares of the Company pursuant to the terms and conditions stipulated therein.

At 1st January, 2002, the Company had outstanding options granted to certain Directors and employees to subscribe for 23,100,000 shares of the Company at a subscription price of HK\$3.676 per share. No options had been exercised during the period from 1st January, 2002 to 22nd June, 2002, the expiry date of the options.

Notes to the Financial Statements

21. RESERVES

Group

	Share premium account HK\$'000	Investment properties revaluation reserve HK\$'000	Other properties revaluation reserve HK\$'000	Exchange difference reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2001	694,070	395,325	744,473	5,780	(256,693)	1,582,955
Revaluation surplus realised upon disposal of properties of an associated company	—	—	(2,362)	—	—	(2,362)
Deficit arising from revaluation of the Group's investment properties	—	(2,004)	—	—	—	(2,004)
Deficit arising from revaluation of the Group's interests in associated companies based on the market value of their underlying properties	—	—	(99,225)	—	—	(99,225)
Exchange differences arising from translation of the financial statements of foreign subsidiaries	—	—	—	457	—	457
Exchange gain realised upon deemed disposal of interests in a subsidiary	—	—	—	(2,754)	—	(2,754)
Profit attributable to shareholders for the year	—	—	—	—	6,681	6,681
At 31st December, 2001	<u>694,070</u>	<u>393,321</u>	<u>642,886</u>	<u>3,483</u>	<u>(250,012)</u>	<u>1,483,748</u>
Dealt with by:						
Company and subsidiaries	694,070	393,321	—	3,483	(226,223)	864,651
Associated companies	—	—	642,886	—	(23,789)	619,097
At 31st December, 2001	<u>694,070</u>	<u>393,321</u>	<u>642,886</u>	<u>3,483</u>	<u>(250,012)</u>	<u>1,483,748</u>
At 1st January, 2002	694,070	393,321	642,886	3,483	(250,012)	1,483,748
Revaluation deficit realised upon disposal of the Group's investment properties	—	2,268	—	—	—	2,268
Revaluation surplus realised upon disposal of properties of an associated company	—	—	(1,645)	—	—	(1,645)
Deficit arising from revaluation of the Group's investment properties	—	(4,034)	—	—	—	(4,034)
Deficit arising from revaluation of the Group's interests in associated companies based on the market value of their underlying properties	—	—	(110,676)	—	—	(110,676)
Profit attributable to shareholders for the year	—	—	—	—	1,019	1,019
At 31st December, 2002	<u>694,070</u>	<u>391,555</u>	<u>530,565</u>	<u>3,483</u>	<u>(248,993)</u>	<u>1,370,680</u>
Dealt with by:						
Company and subsidiaries	694,070	391,555	—	3,483	(225,534)	863,574
Associated companies	—	—	530,565	—	(23,459)	507,106
At 31st December, 2002	<u>694,070</u>	<u>391,555</u>	<u>530,565</u>	<u>3,483</u>	<u>(248,993)</u>	<u>1,370,680</u>

Notes to the Financial Statements

21. RESERVES (Cont'd)

Company

	Share premium account <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2001	694,070	115,450	809,520
Loss for the year	—	(312,901)	(312,901)
At 31st December, 2001	<u>694,070</u>	<u>(197,451)</u>	<u>496,619</u>
At 1st January, 2002	694,070	(197,451)	496,619
Loss for the year	—	(28,968)	(28,968)
At 31st December, 2002	<u>694,070</u>	<u>(226,419)</u>	<u>467,651</u>

As at 31st December, 2002, the Company does not have any distributable reserve calculated under section 79B of the Hong Kong Companies Ordinance (2001 : HK\$Nil).

22. BANK LOANS AND OVERDRAFTS

	Group		Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Bank overdrafts (note a)	15,940	1,006	15,224	—
Short term bank loans — secured (note b)	228,087	220,264	—	—
Long term bank loans — secured (note c)				
Current portion	87,470	46,000	46,000	46,000
Non-current portion	20,000	107,904	20,000	66,000
	<u>107,470</u>	<u>153,904</u>	<u>66,000</u>	<u>112,000</u>
	<u>351,497</u>	<u>375,174</u>	<u>81,224</u>	<u>112,000</u>

Notes to the Financial Statements

22. BANK LOANS AND OVERDRAFTS (Cont'd)

At 31st December, 2002, the Group and the Company's bank loans and overdrafts were repayable as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	331,497	267,270	61,224	46,000
In the second year	20,000	87,904	20,000	46,000
In the third to fifth years	—	20,000	—	20,000
	20,000	107,904	20,000	66,000
	351,497	375,174	81,224	112,000

- (a) The Group has a bank overdraft facility of HK\$100 million (2001 : HK\$100 million) which is secured by first legal charges over the properties held by a wholly-owned subsidiary of the Company and share charges over the issued shares of certain subsidiaries of the Company.
- (b) The short term banking facilities comprise:
- A short term bank loan of RMB200 million (HK\$188.5 million) (2001 : RMB200 million (HK\$188.5 million)) was granted to Beijing Lucky Building Company Limited ("Beijing Lucky"), a company established in the PRC which is owned as to 61.1% by Turbo Dragon Limited ("Turbo Dragon"), a wholly-owned subsidiary of the Company. The loan is secured by the properties held under development of Beijing Lucky.
 - A short term bank loan of RMB32 million (HK\$30.2 million) (2001 : RMB33.7 million (HK\$31.8 million)) obtained by Beijing Dan Yao Property Company Limited ("Dan Yao"), a company established in the PRC which is owned as to 85% by Enfort Company Limited ("Enfort"), a wholly-owned subsidiary of the Company. The loan is secured by a US dollar deposit of the Group amounted to US\$4 million (HK\$31.2 million) (2001 : US\$4.3 million (HK\$33.7 million)).
 - A short term bank loan of RMB10 million (HK\$9.4 million) (2001 : \$Nil) granted to Dan Yao is secured by the properties of Dan Yao.

Notes to the Financial Statements

22. BANK LOANS AND OVERDRAFTS (Cont'd)

(c) The long term bank loans comprise:

- (i) A loan granted to the Company amounted to HK\$66 million (2001: HK\$112 million) of which HK\$46 million (2001: HK\$46 million) is repayable in the year 2003. The loan is secured by first legal charges over the properties held by a wholly-owned subsidiary of the Company and share charges over the issued shares of certain subsidiaries of the Company.
- (ii) A loan amounted to RMB44 million (HK\$41.5 million) (2001: RMB44.5 million (HK\$41.9 million)) granted to Dan Yao is secured by properties of Dan Yao.

23. DEFERRED TAXATION

	Group	
	2002 HK\$'000	2001 HK\$'000
Revaluation of investment properties		
At 1st January	77,302	80,388
Deemed disposal of a subsidiary	—	(3,089)
Exchange difference	—	3
	<hr/>	<hr/>
At 31st December	77,302	77,302

Deferred taxation arising from revaluation of investment properties mainly represents the taxation on the revaluation surplus of the Group's properties in Hong Kong upon reclassification from properties held for sale to investment properties in previous years, which has been allowed to be deferred until the disposal of the properties.

Notes to the Financial Statements

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow/(outflow) from operations

	Group	
	2002	2001
	HK\$'000	HK\$'000
Operating profit	12,671	24,273
Impairment loss of leasehold land and buildings	27	1,600
Provision for impairment loss of investment securities	830	1,874
Depreciation	11,454	15,462
Loss on disposal of investment properties	3,785	—
Loss/(gain) on disposal of fixed assets	54	(657)
Gain on deemed disposal of interests in subsidiaries	—	(5,119)
Interest income	(13,717)	(18,017)
Dividend income	(746)	(772)
	<u>14,358</u>	<u>18,644</u>
Operating profit before working capital changes	14,358	18,644
Increase in properties held for sales	(11,840)	—
Decrease/(increase) in trade receivables, other receivables, prepayments and deposits	5,842	(22,892)
Decrease in trade payables, other payables and accrued charges	(8,157)	(45,577)
	<u>(8,157)</u>	<u>(45,577)</u>
Net cash inflow/(outflow) from operations	<u>203</u>	<u>(49,825)</u>

Notes to the Financial Statements

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

(b) Analysis of changes in financing during the year

	Bank and other loans		Minority interests	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
At 1st January	378,406	1,573,046	67,801	176,219
Cash items:				
New loans raised	9,425	637,568	—	—
Repayment of bank loans	(48,036)	(495,631)	—	—
Repayment of loan from a third party	(519)	(490)	—	—
Non-cash items:				
Loss for the year attributable to minority shareholders	—	—	(128)	(4,914)
Deemed disposal of a subsidiary	—	(1,337,417)	—	(171,965)
Exchange differences	—	1,330	—	167
Contribution from minority shareholders	—	—	—	68,294
At 31st December	<u>339,276</u>	<u>378,406</u>	<u>67,673</u>	<u>67,801</u>

(c) Analysis of cash and cash equivalents

	2002 HK\$'000	2001 HK\$'000
Bank balances and cash	36,621	61,025
Bank overdrafts	(15,940)	(1,006)
	<u>20,681</u>	<u>60,019</u>

Notes to the Financial Statements

25. CONTINGENT LIABILITY

On 21st February, 2003, a buyer of the properties developed by Dan Yao, the Group's 85% owned subsidiary, has lodged a civil action against the subsidiary to claim for the refund of the purchase consideration of the properties of US\$8,879,000 (approximately HK\$69,256,000) and a penalty of US\$1,776,000 (approximately HK\$13,852,000) by reasons, among others, of not being able to obtain the property certificate within the timeframe as set out in the relevant sale and purchase agreement. Taking into account the advice from the solicitors, the Directors of the Company are of the view that it is too early to realistically assess the outcome of the case, and therefore, no provision has been made in the financial statements for the year.

26. COMMITMENTS

(a) Capital commitments

At 31st December, 2002, the Group had capital commitments in respect of properties held for/under development and properties held for sale as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Contracted but not provided for	—	707
Authorised but not contracted for	—	34,252
	<u>—</u>	<u>34,959</u>

(b) Commitments under operating leases

At 31st December, 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Not later than one year	2,665	3,166
Later than one year and not later than five years	338	2,113
	<u>3,003</u>	<u>5,279</u>

Notes to the Financial Statements

26. COMMITMENTS (Cont'd)

(c) Future minimum rental receivables

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Not later than one year	17,482	19,583
Later than one year and not later than five years	18,643	28,765
Later than five years	14,149	—
	50,274	48,348

27. RELATED PARTY TRANSACTION

Except for the amounts due from associated companies and the related interest income received therefrom as disclosed in note 13 to the financial statements, the Group has the following transactions with the related companies:

- During the year 2002, a total sum of HK\$5,060,000 was paid by Dan Yao to Feldspar Assets Limited, a company owned by a Director of the Company, as a refund of a deposit paid for the purchase of the properties in Danyao Building owned by Dan Yao.
- On 21st November, 2000, Dan Yao entered into respective agreements (the "Agency Agreements") with Mr. Zhao Sheng Li and Mr. Hua Ming, being two connected persons of the Company, to act as their property management agent of the properties owned by them for a period from 1st July, 2001 to 30th June, 2009. Under the Agency Agreements, Dan Yao is entitled to all the net income arising from leasing the properties and in return, Dan Yao has undertaken the repayments of mortgage loans amounted to RMB5,090,000 (HK\$4,797,000) and the interest accrued thereon and provided corporate guarantees to the bank on the mortgage loans. As at 31st December, 2002, such mortgage loans amounted to RMB3,946,000 (HK\$3,719,000) (2001 : RMB4,497,000 (HK\$4,238,000)).

28. ULTIMATE HOLDING COMPANY

The Directors regard Dan Form International Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 15th April, 2003.