

Notes to the Financial Statements

Year ended 31 December 2002

1. CORPORATE INFORMATION

The registered office of Shenzhen Investment Limited is located at 8th Floor, New East Ocean Centre, 9 Science Museum Road, Kowloon, Hong Kong.

Its ultimate holding company is Shum Yip Holding Company Limited ("Shum Yip Holdings"), a private company incorporated in Hong Kong.

During the year, the principal activities of the Group were property development and investment, the provision of transportation services, the manufacturing and, sale of industrial and commercial products, investment in infrastructure business and cable television network transmission, and technological services.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's consolidated financial statements:

- SSAP 1 (Revised) : Presentation of financial statements
- SSAP 11 (Revised) : Foreign currency translation
- SSAP 15 (Revised) : Cash flow statements
- SSAP 34 : Employee benefits

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 30 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 prescribes the basis for the translation of foreign currency transactions in the financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and associates are now translated into Hong Kong dollars at weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details about the impact of this SSAP are described in the accounting policy for foreign currencies as set out in note 3 to the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flows statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the cash flow statement set out on page 31 of the financial statements and the notes thereto have been revised in accordance with the new requirements. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of transaction, or at an approximate thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details about the impact of this change are described in the accounting policy for foreign currencies as set out in note 3 to the financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. Additional disclosures are now required in respect of the Company’s share option scheme, as detailed in note 31. These disclosures are similar to those required by the Listing Rules and which are now included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, equity investments and certain fixed assets, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. 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.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

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

Associates

An associate is a company, not being a subsidiary or 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, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group’s interests in associates.

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

Associates *(continued)*

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

Goodwill

Goodwill arising on the acquisition of subsidiaries and 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 for a period of not exceeding 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.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisition was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the translational provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries or 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 and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, 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.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates 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 expense 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.

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

Negative goodwill *(continued)*

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries or 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 negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

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 or 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.

Fixed assets and depreciation

Fixed assets, other than investment properties and construction in progress, are stated at cost or valuation 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.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset 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 a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

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

Fixed assets and depreciation *(continued)*

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

Land and buildings	Over the shorter of the term of the lease or 20 years
Plant and machinery	10% to 25%
Furniture, fixtures and equipment	10% to 25%
Motor vehicles	9% to 20%

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.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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.

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.

Properties under development

Properties under development, for which pre-sales have not yet commenced, are stated at cost less any impairment losses. Cost includes all costs attributable to such developments, including financing charges.

Properties under development which have been pre-sold are stated at cost plus attributable profits less sales deposits/instalments received and any foreseeable losses. Properties under development which have been pre-sold are classified under current assets.

When properties under development have been pre-sold, the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit recognised on properties pre-sold during the period is calculated by reference to the proportion of construction costs incurred up to the balance sheet date to the estimated total construction costs to completion, limited to the amount of sales deposits/instalments received under legally binding contracts at the balance sheet date, with due allowances for contingencies.

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

Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and development cost attributable to the unsold properties. Net realisable value is estimated by the directors based on prevailing market prices, on an individual property basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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.

Intangible assets

Vehicle licences acquired by the Group are stated at cost less any impairment losses and are amortised on the straight-line basis over the term of the respective licences.

Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis.

Held-to-maturity debt securities are redeemable at fixed dates, intended to be held to maturity and are stated at amortised cost less provisions for impairment, on an individual investment basis. Amortised cost is cost plus or minus the cumulative amortisation of the difference between the purchase price and the maturity amount. Provisions for impairment are made when carrying amounts are not expected to be recovered and are charged to the profit and loss account for the period in which they arise.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis.

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises.

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

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Infrastructure project investments

Investments in infrastructure projects which do not fall into the definition of subsidiaries, associates or jointly-controlled entities are classified as infrastructure project investments if the Group's return to be derived therefrom is predetermined in accordance with the provisions of the relevant agreements, and if the Group is not entitled to share in the project assets at the end of the investment period.

The Group's interests in infrastructure project investments are recorded at cost less any impairment losses and are amortised over the respective contract period on a straight line basis from the commencement of the projects' operations or the Group's entitlement to income. Where the estimated recoverable amounts of these investments fall below their carrying amounts, the carrying amounts are written down to the recoverable amounts. Income from these investments is recognised when the Group's right to receive payment is established.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of 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 rates of exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and associates and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 had no material effect on the financial statements. The adoption of the revised SSAP 15 had no material effect on the amounts of the previously-reported cash flows of the prior year.

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

Borrowing costs

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

Convertible guaranteed bonds

Convertible bonds are regarded as liabilities until conversion actually occurs. The finance costs, including the premium payable upon the final redemption of the convertible bonds, recognised in the profit and loss account in respect of the convertible bonds is calculated so as to produce a constant periodic rate of charge on the remaining balances of the convertible bonds for each accounting period.

The costs incurred in connection with the issue of convertible bonds are deferred and amortised on a straight-line basis over the lives of convertible bonds from the date of the issue of the bonds to their final redemption date. If any convertible bonds are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the profit and loss account.

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:

- (a) from the sale of properties, when the legally binding unconditional sales contracts are signed and exchanged;
- (b) from the sale of industrial and commercial products, when the significant risk and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (c) from the pre-sale of properties under development, when the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined and on the basis set out under the accounting policy headed "Properties under development";
- (d) rental income, in the period in which the properties are let out on the straight-line basis over the lease terms;
- (e) income from transportation services, when transportation services are rendered;
- (f) services income, when services are rendered;
- (g) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (h) dividend income, when the shareholder's right to receive payment is established.

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings 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.

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.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and 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 maturity of generally within three months when acquired, less banks 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 cash equivalents comprise cash on hand and banks, including term deposits, which are not restricted as to use.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. 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.

Each of the subsidiaries operating in the PRC participates in the central pension scheme (the "CPS") operated by the PRC government for all of its staff. These PRC subsidiaries are required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group with respect to the CPS is to pay the ongoing required contributions under the CPS. Contributions under the CPS are charged to the profit and loss account as they become payable in accordance with the rules of the CPS.

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

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.

4. SEGMENT INFORMATION

Segment information is presented on a primary segment reporting basis, by business segment. Substantially, all of the Group's operating businesses are with customers based in the PRC. Accordingly, no further segment analysis by geographical area of operation is provided.

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 other business segments. Summary details of the business segments are as follows:

- (a) the property development segment engages in development of residential, industrial and commercial properties;
- (b) the property investment segment invests in residential, industrial and commercial properties for their rental income potential;
- (c) the property management segment engages in management of both Group developed properties and non-Group developed properties;
- (d) the transportation services segment consists of the provision of passenger and freight transportation services, automobile maintenance and other related services;
- (e) the manufacturing segment engages in manufacture and sale of industrial and commercial products;
- (f) the infrastructure investment segment invests in power infrastructure projects;
- (g) the information technology segment engages in the provision of cable television network transmission and technological services; and
- (h) the others segment comprises, principally, of building construction and other businesses.

4. SEGMENT INFORMATION (continued)

Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	For the year ended 31 December 2002								Total HK\$'000
	Property development HK\$'000	Property investment HK\$'000	Property management HK\$'000	Transportation services HK\$'000	Manufacturing HK\$'000	Infrastructure investment HK\$'000	Information technology HK\$'000	Others HK\$'000	
Segment revenue:									
Sales to external customers	580,573	185,852	172,379	145,094	201,462	–	–	48,250	1,333,610
Segment results	68,862	128,891	30,662	24,613	12,774	(8,334)	–	4,011	261,479
Investment income									63,302
Unallocated expenses									(50,244)
Finance costs									(119,046)
Share of profits and losses of associates	136,938	–	–	3,129	18,307	225,592	15,799	54	399,819
Profit before tax									555,310
Tax									(96,471)
Profit before minority interests									458,839
Minority interests									(178,140)
Net profit from ordinary activities attributable to shareholders									280,699

4. SEGMENT INFORMATION (continued)**Business segments** (continued)**Group**

	As at 31 December 2002							
	Property development	Property investment	Property management	Transportation services	Manufacturing	Infrastructure investment	Information technology	Others
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	1,841,609	1,994,607	211,523	236,695	378,102	41,583	–	2,380,515
Interests in associates	745,967	14,188	–	54,952	230,846	1,000,394	179,739	29,292
Total assets	2,587,576	2,008,795	211,523	291,647	608,948	1,041,977	179,739	2,409,807
Segment liabilities								
Total liabilities	(2,147,474)	(272,375)	(135,972)	(230,289)	(499,293)	(482,421)	–	(2,314,489)
Other segment information:								
Depreciation	(8,161)	(4,049)	(5,448)	(32,268)	(10,034)	–	–	(6,201)
Amortisation	–	–	–	(1,522)	–	(3,643)	–	–
Capital expenditure	40,673	11,621	4,570	46,663	6,380	–	–	38,823

4. SEGMENT INFORMATION (continued)

Business segments (continued)

Group

	For the year ended 31 December 2001								Total HK\$'000
	Property development HK\$'000	Property investment HK\$'000	Property management HK\$'000	Transportation services HK\$'000	Manufacturing HK\$'000	Infrastructure investment HK\$'000	Information technology HK\$'000	Others HK\$'000	
Segment revenue:									
Sales to external customers	960,917	133,700	43,284	199,288	–	–	–	20,646	1,357,835
Segment results	144,211	104,892	2,619	36,635	–	–	–	(10,934)	277,423
Investment income									75,797
Unallocated expenses									(39,073)
Finance costs									(136,633)
Gain on deemed disposal of an associate	92,763								92,763
Gain arising from the repurchase and cancellation of convertible bonds									1,516
Share of profits and losses of associates	160,094	–	–	2,535	(3,458)	216,391	20,546	45	396,153
Profit before tax									667,946
Tax									(105,075)
Profit before minority interests									562,871
Minority interests									(209,591)
Net profit from ordinary activities attributable to shareholders									353,280

4. SEGMENT INFORMATION (continued)

Business segments (continued)

Group

	As at 31 December 2001							
	Property development	Property investment	Property management	Transportation services	Manufacturing	Infrastructure investment	Information technology	Others
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	1,631,024	666,351	80,152	427,731	–	94,156	–	1,484,938
Interests in associates	682,313	7,858	–	60,954	220,144	888,682	116,363	52,335
Total assets	2,313,337	674,209	80,152	488,685	220,144	982,838	116,363	1,537,273
Segment liabilities								
Total liabilities	(977,581)	(146,481)	(46,976)	(331,215)	–	(392,086)	–	(1,768,013)
Other segment information:								
Depreciation	(10,271)	(7,771)	(1,065)	(52,516)	–	–	–	(1,591)
Amortisation	–	–	–	(2,481)	–	(4,372)	–	–
Capital expenditure	239,785	7,618	1,286	64,938	–	–	–	9,614

5. TURNOVER, REVENUE AND GAINS

Turnover represents proceeds from the sale of properties and pre-sale of properties under development, sale of commercial and industrial goods, rental income, management fee income, income from the provision of transportation services and others.

An analysis of turnover, other revenue and gains is as follows:

		Group	
	Note	2002 HK\$'000	2001 HK\$'000
Turnover			
Sale of properties and pre-sale of properties under development		580,573	960,917
Sale of commercial and industrial goods		201,462	–
Gross management fee income		172,379	39,044
Gross rental income		185,852	133,700
Income from transportation services		145,094	199,288
Others		48,250	24,886
		1,333,610	1,357,835
Other revenue			
Rental income		15,011	11,451
Interest earned on bank deposits		48,769	57,440
Dividends received and receivable from investments:			
Listed investments		982	–
Unlisted investments		969	9,889
Unrealised holding gains on listed securities		–	1,166
Other interest income		12,583	7,302
Others		68,343	31,953
		146,657	119,201
Gains			
Gain on disposal of fixed assets		2,066	980
Negative goodwill recognised			
From acquisition of a subsidiary	16	10,895	–
From acquisition of associates		131	–
Gain on disposal of short term investments		–	7,185
		13,092	8,165
		159,749	127,366

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	Notes	Group	
		2002 HK\$'000	2001 HK\$'000
Cost of inventories sold		584,588	697,316
Cost of services provided		114,894	156,406
Auditors' remuneration		5,155	3,718
Depreciation	14	66,161	73,214
Issue cost of convertible bonds written off upon repurchase		–	1,306
Provision for impairment in values of properties under development		–	6,174
Minimum lease payments under operating leases in respect of land and buildings		3,979	671
Amortisation of vehicle licences *	15	1,522	2,481
Amortisation of infrastructure project investments**	21	3,643	4,372
Loss on disposal of infrastructure project investments		6,083	–
Staff costs (excluding directors' remuneration – note 8)			
Wages and salaries		128,205	87,540
Pension contributions		20,655	9,783
Less: Forfeited contributions		–	–
Net: Pension contributions ***		20,655	9,783
		148,860	97,323
and after crediting:			
Exchange gains, net		854	2,011
Reversal of Land Value Appreciation Fee		–	45,500
Net rental income:			
Investment properties		141,049	99,225
Land and buildings		6,750	8,588
		147,799	107,813

* The amortisation of vehicle licences for the year is included in "Cost of sales" on the face of the consolidated profit and loss account.

** The amortisation of infrastructure project investments for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.

*** At 31 December 2002, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2001: Nil).

7. FINANCE COSTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Interest on:		
Bank loans wholly repayable within 5 years	97,527	76,500
Other loans wholly repayable within 5 years	984	1,954
Convertible bonds	4,960	9,280
Accretion of convertible bond premium on redemption	29,365	54,880
Amortisation of convertible bond issue expenses	2,209	4,280
Total interest	135,045	146,894
Less: Amounts capitalised under property development projects	(15,999)	(10,261)
	119,046	136,633

8. DIRECTORS' REMUNERATION

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	150	100
	150	100
Other emoluments (executive directors):		
Salaries, allowances and benefits in kind	2,290	2,559
Pension scheme contributions	182	164
	2,472	2,723
	2,622	2,823

Fees include HK\$150,000 (2001: HK\$100,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

8. DIRECTORS' REMUNERATION (continued)

The remuneration of each of the directors for the year fell within the following band:

	Number of directors	
	2002	2001
Nil – HK\$1,000,000	11	5

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2001: five) directors, details of whose remuneration are set out in note 8 above.

10. TAX

	2002 HK\$'000	2001 HK\$'000
Group:		
Hong Kong, PRC	–	652
Mainland, PRC	42,651	53,881
Deferred PRC Enterprise Income Tax (note 30)	(5,201)	3,417
	37,450	57,950
Share of tax attributable to:		
Associates	59,021	47,125
Tax charge for the year	96,471	105,075

Hong Kong profits tax is provided at the rate of 16% (2001: 16%) on the estimated assessable profit arising in Hong Kong during the year. Taxes on profits assessable in the People's Republic of China (the "PRC") are calculated at the rates of tax prevailing in the locations in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. Major subsidiaries and associates of the Group operates in Shenzhen, PRC, which are subject to the enterprise income tax of 15%.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$127,384,000 (2001: net profit of HK\$156,583,000).

12. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Interim – HK1.50 cents (2001: HK1.50 cents) per ordinary share	36,214	32,559
Adjustment to prior year's final dividend	–	290
Proposed final – HK2.50 cents (2001: HK2.50 cents) per ordinary share	60,357	57,315
	96,571	90,164

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed final dividend per share for the year ended 31 December 2001 and interim dividend per share for the six months ended 30 June 2002 have been retrospectively adjusted for the effect of subdivision of shares as mentioned in note 31.

13. EARNINGS PER SHARE

The calculation of basic earnings per share was based on the net profit attributable to shareholders for the year of HK\$280,699,000 (2001: HK\$353,280,000) and on the weighted average number of 2,350,951,063 (2001: 2,170,619,726) shares in issue during the year. The weighted average number of shares outstanding for the year ended 31 December 2001 has been retrospectively adjusted for the effect of the sub-division of shares.

The calculation of diluted earnings per share for the year ended 31 December 2002 was based on the net profit attributable to shareholders for the year of HK\$280,699,000 (2001: HK\$353,280,000). The weighted average number of ordinary shares used in the calculation is the 2,350,951,063 (2001: 2,170,619,726) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 33,975,923 (2001: 37,911,428) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options granted during the year.

The convertible bonds have not been included in the calculation of diluted earnings per share for the years ended 31 December 2001 and 2002 since their effects are anti-dilutive. The weighted average number of ordinary shares in issue during the year ended 31 December 2001 and the weighted average number of ordinary shares assumed to have been issued at no consideration for the year ended 31 December 2001 have been retrospectively adjusted for the effect of the subdivision of shares (note 31).

14. FIXED ASSETS

Group

	Land and buildings in Hong Kong held under medium term leases HK\$'000	Land and buildings in the PRC held under medium term leases HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures, and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation:							
At beginning of year	2,365	278,728	44,959	42,779	249,068	12,041	629,940
Additions	—	36,144	5,172	16,980	39,151	8,290	105,737
Acquisition of a subsidiary (note 33(b))	—	144,434	44,142	10,199	7,125	43,251	249,151
Disposals	—	(39,912)	(3,725)	(11,097)	(44,496)	(237)	(99,467)
Transfer to investment properties (note 18)	—	(25,122)	—	—	—	—	(25,122)
Reclassifications	—	—	3,911	—	—	(3,911)	—
Exchange realignments	(11)	(973)	(204)	(184)	(1,110)	(54)	(2,536)
At 31 December 2002	2,354	393,299	94,255	58,677	249,738	59,380	857,703
An analysis of cost or valuation:							
At cost	—	228,997	94,255	58,677	249,738	59,380	691,047
At 1997 valuation	2,354	164,302	—	—	—	—	166,656
	2,354	393,299	94,255	58,677	249,738	59,380	857,703
Accumulated depreciation:							
At beginning of year	82	36,000	11,651	26,731	138,966	—	213,430
Provided during the year	—	15,152	8,065	11,495	31,449	—	66,161
Disposals	—	(24,183)	(2,516)	(7,479)	(42,935)	—	(77,113)
Exchange realignments	(1)	(164)	(53)	(115)	(622)	—	(955)
At 31 December 2002	81	26,805	17,147	30,632	126,858	—	201,523
Net book value:							
At 31 December 2002	2,273	366,494	77,108	28,045	122,880	59,380	656,180
At 31 December 2001	2,283	242,728	33,308	16,048	110,102	12,041	416,510

14. FIXED ASSETS (continued)

Certain of the Group's land and buildings were revalued at 31 December 1997 by RHL Appraisal Ltd. (formerly known as Francis Lau & Co., (Surveyors) Ltd.), an independent firm of professional property valuers. These land and buildings were revalued at their open market values based on their existing use. In the opinion of the directors, there has been no material change in the values of these land and buildings as at 31 December 2002.

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK\$146 million (2001: HK\$157 million), as compared to their carrying amounts included in fixed assets of approximately HK\$123 million (2001: HK\$131 million).

Company

	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:			
At beginning of year	2,024	2,708	4,732
Additions	44	–	44
Disposals	(1,597)	–	(1,597)
At 31 December 2002	471	2,708	3,179
Accumulated depreciation:			
At beginning of year	1,391	843	2,234
Provided during the year	244	542	786
Disposals	(1,331)	–	(1,331)
At 31 December 2002	304	1,385	1,689
Net book value:			
At 31 December 2002	167	1,323	1,490
At 31 December 2001	633	1,865	2,498

15. INTANGIBLE ASSETS

	Group HK\$'000
Vehicle licences	
Cost:	
At beginning of year	34,069
Additions	4,162
Exchange realignments	(155)
	<hr/>
At 31 December 2002	38,076 <hr/>
Accumulated amortisation:	
At beginning of year	11,269
Provided during the year	1,522
Exchange realignments	(51)
	<hr/>
At 31 December 2002	12,740 <hr/>
Net book value:	
At 31 December 2002	25,336 <hr/>
At 31 December 2001	<hr/> 22,800 <hr/>

16. GOODWILL AND NEGATIVE GOODWILL

The amount of the negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of a subsidiary, is as follows:

	Group Negative goodwill HK\$'000
Cost:	
At beginning of year:	–
Acquisition of a subsidiary (note 33(b))	130,740
	<hr/>
At 31 December 2002	130,740
	<hr/>
Accumulated amortisation recognition as income:	
At beginning of year:	–
Amortisation recognised as income during the year	10,895
	<hr/>
At 31 December 2002	10,895
	<hr/>
Net book value:	
At 31 December 2002	119,845
	<hr/>
At 31 December 2001	–
	<hr/>

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively.

The amounts of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries and associates prior to 1 January 2001, were HK\$45,525,000 and HK\$61,259,000, respectively, as at 1 January 2002 and 31 December 2002.

17. PROPERTIES UNDER DEVELOPMENT

	Group	
	2002	2001
	HK\$'000	HK\$'000
Land in the PRC held under medium term leases, at cost:		
At beginning of year	142,527	74,427
Exchange realignments	(648)	324
Acquisition of a subsidiary (note 33(b))	138,603	–
Additions	815,125	82,901
Transfer to properties under development for sale	(122,456)	(8,951)
Provision for impairment in values arising during the year	–	(6,174)
At 31 December	973,151	142,527
Development expenditure, at cost:		
At beginning of year	58,470	97,561
Exchange realignments	(266)	424
Additions	177,430	110,097
Transfer to properties under development for sale	(164,352)	(106,575)
Transfer to fixed assets	–	(31,102)
Transfer to investment properties	–	(11,935)
At 31 December	71,282	58,470
	1,044,433	200,997

As at 31 December 2002, no interest was capitalised in properties under development (2001: Nil).

18. INVESTMENT PROPERTIES

	Group	
	2002 HK\$'000	2001 HK\$'000
At beginning of year	1,086,900	712,884
Exchange realignments	(4,878)	2,977
Transfer from fixed assets (note14)	25,122	–
Additions, at cost	–	354,011
Acquisition of a subsidiary (note 33(b))	659,833	–
Revaluation surplus arising during the year	205,044	67,492
Reclassified from/(to) completed properties for sale	17,899	(50,464)
At 31 December	1,989,920	1,086,900

At the balance sheet date, all the investment properties were revalued on the basis of their open market values by RHL Appraisal Ltd., an independent firm of professional property valuers. The net surplus arising on revaluation has been credited to the investment property revaluation reserve.

All of the Group's investment properties are rented out under operating leases.

The investment properties comprise land and buildings in the PRC which are held under medium term leases.

19. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	1,955,435	1,416,206
Due from subsidiaries *	433,014	236,060
Provision for impairment	(2,686)	–
	2,385,763	1,652,266

* The amounts due from subsidiaries are unsecured and not repayable within one year. Except for the amounts due from subsidiaries of HK\$242,751,000 which are interest-free, the remaining balance of HK\$190,263,000 are interest-bearing at the rates ranging from 3% to 6.435% per annum.

The amounts due from/to subsidiaries classified under current assets/liabilities are unsecured, interest-free and have no fixed terms of repayment.

19. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Name of subsidiaries	Place of establishment/ incorporation and operations	Nominal value of issued and fully paid-up capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
Ha Er Bin Shum Yip Estate Development Limited (Note 4)	PRC	US\$5,000,000	100	Property development
Qingdao Shum Yip Properties Development Co., Ltd. (Note 4)	PRC	US\$2,500,000	100	Property development
Shum Yip Holdings (Shenzhen) Co., Ltd. (Note 4)	PRC	HK\$430,320,000	100	Property development
Shum Yip Centre Development (Shenzhen) Co., Ltd. (Note 4)	PRC	HK\$40,000,000	100	Property development
Shenzhen Shumyixihu Transportation Company Ltd. (Note 1 & 5)	PRC	HK\$3,000,000	100	Transportation
Guangdong Shum Yip Transportation Co., Ltd. (Note 1, 2 & 5)	PRC	HK\$5,000,000	100	Transportation
Shenzhen Yong Sheng Industrial & Trade Co., Ltd. (Note 1, 2 & 5)	PRC	RMB9,180,000	97.82	Operation of fuel stations and motor vehicle repairs
New Great Properties Limited	Hong Kong	HK\$2	100	Investment holding
Shenzhen Shengkong Industrial (Group) Co., Ltd. (Note 6)	PRC	RMB95,500,000	80	Investment holding
Shenzhen Shengkong Automobile Maintenance Service Co., Ltd. (Note 1 & 5)	PRC	RMB14,830,000	79	Vehicle repairs
Shenzhen Shengkong Taxi Co., Ltd. (Note 1 & 5)	PRC	RMB13,780,000	80	Vehicle rentals
Shenzhen Guangfa Combined Transportation Co., Ltd (Note 1 & 5)	PRC	RMB10,000,000	80	Transportation
Shenzhen Ganglong Transportation Industrial Co., Ltd. (Note 1 & 5)	PRC	RMB10,000,000	80	Transportation
Shenzhen Shengkong Properties Management Co., Ltd. (Note 1 & 5)	PRC	RMB3,000,000	80	Property management

19. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiaries	Place of establishment/ incorporation and operations	Nominal value of issued and fully paid-up capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
Shenzhen Terra Industrial Co., Ltd. (Note 6)	PRC	RMB200,000,000	51	Property development
Shenzhen Tairan Aluminium Alloy Works Company (Note 1 & 5)	PRC	RMB6,200,000	51	Aluminium engineering
Shenzhen Tairan Property Management Service Company (Note 1 & 5)	PRC	RMB4,390,000	51	Property management
Shenzhen Shengkong Winglee Cross Border Bus Co., Ltd. (Notes 1, 3 & 5)	PRC	RMB20,000,000	40	Provision of cross-border bus services and vehicle repairs
Shenzhen Sungang Warehouse Enterprise Company Ltd. (Note 6)	PRC	RMB160,764,662	51	Operation of warehouses and property development
Shenzhen Pengji (Holdings) Company Limited* (Note 4)	PRC	RMB231,911,337	100	Property trading investment and development
Shenzhen PJLD Security Products Co., Ltd. (Note 1 & 5)	PRC	RMB75,000,000	63.46	Manufacturing
Shenzhen Gaofa Investment Holdings Limited (Note 1 & 5)	PRC	RMB309,200,000	50	Investment and property development
Shenzhen Pengji Property Management Services Limited (Note 1 & 5)	PRC	RMB20,000,000	100	Property management
Shum Yip Capital Limited	British Virgin Islands ("BVI")	US\$1	100	Investment holding
Coland Limited	BVI	US\$1	100	Investment holding
Eastart International Investment Limited	BVI	US\$2	100	Investment holding
Newton Industrial Limited	BVI	US\$34	55.88	Investment holding
City Capital Limited	BVI	US\$1	100	Investment holding

None of the subsidiaries had any loan capital outstanding as at 31 December 2002.

19. INTERESTS IN SUBSIDIARIES (continued)

Shenzhen Pengji (Holdings) Company Limited ("Shenzhen Pengji") was a 40%-owned associated company of the Company last year. During the year, the Group acquired the remaining 60% interest in Shenzhen Pengji from the ultimate holding company and accordingly, Shenzhen Pengji become a wholly-owned subsidiary of the Company. Further details of this acquisition are included in note 33(b) to the financial statements.

The above table lists 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.

Notes:

1. Indirectly held by the Company.
2. The Group is entitled to all of the profits and losses remaining after paying the annual guaranteed return to the joint venture partners.
3. The Company has control of the board of directors of this entity and therefore this entity is regarded as a subsidiary of the Company.
4. Established in the PRC as wholly-owned foreign enterprise.
5. Established in the PRC as domestic limited liability enterprise.
6. Established in the PRC as joint venture enterprise.

20. INTERESTS IN ASSOCIATES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	—	—	189,269	301,133
Share of net assets	2,298,339	2,033,804	—	—
Negative goodwill on acquisition	(16,253)	—	—	—
Loans advanced from associates	(87,645)	(59,022)	(20,011)	(138,081)
Loans advanced to associates	60,937	53,867	—	—
	2,255,378	2,028,649	169,258	163,052
Market value of listed shares	1,204,593	1,069,427	—	—

The loans from/to associates are unsecured, interest-free and are not repayable within one year.

The amount due to associates classified under current liabilities are unsecured, interest-free and have no fixed terms of repayments.

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively.

The amount of goodwill remaining in consolidated reserves, arising from the acquisition of associates, was HK\$61,259,000 as at 1 January 2002 and 31 December 2002.

20. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the principal associates are as follows:

Name of associates	Business structure	Place of establishment/ incorporation and operations	Nominal value of issued and fully paid-up capital/registered capital	Percentage of equity interest attributable to the Group	Principal activities
Shenzhen Longsheng Industrial Co., Ltd.	Corporate	PRC	RMB50,000,000	45	Operation of a godown and property investment
Shenzhen Hua Min Development Co., Ltd.	Corporate	PRC	RMB23,689,890	50	Property investment and management
Hui Yang Hui Shen Transportation Industrial Development Company	Corporate	PRC	RMB1,000,000	40	Transportation
Karbony Investment Limited*	Corporate	Hong Kong	HK\$10,000,000	20	Property investment and trading
Karbony Real Estate Development (Shenzhen) Co., Ltd.*	Corporate	PRC	US\$12,000,000	20	Property development
Goldfield Industries Inc. +	Corporate	PRC	RMB270,000,000	26.08	Property trading, investment and development
Shenzhen Tianan Industrial Development Co., Ltd.	Corporate	PRC	US\$18,000,000	25.5	Property trading, investment and development
Shenzhen Mawan Power Company Limited ("Mawan")	Corporate	PRC	RMB560,000,000	34	Power generation
Shenzhen Topway Video Communication Co., Ltd.	Corporate	PRC	RMB200,000,000	31.1	Provision of cable TV and other communication network technology services
Shenzhen SEG-CNEDC Color Display Device Corp.	Corporate	PRC	RMB300,000,000	26.76	Investment holding

* Not audited by Ernst & Young, Certified Public Accountants, Hong Kong or other Ernst & Young International member firms.

+ Goldfield Industries Inc. is listed on the Shanghai Stock Exchange.

The above table lists the associates of the Group 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 associates would, in the opinion of the directors, result in particulars of excessive length.

20. INTERESTS IN ASSOCIATES *(continued)*

The following is a condensed summary of certain additional financial information of the major associates:

	Shenzhen Mawan Power Company Limited		Goldfield Industries Inc.	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Results for year:				
Turnover	2,208,665	1,814,880	949,602	304,517
Profit from ordinary activities after tax	585,132	575,509	110,150	29,369
Profit from ordinary activities after tax attributable to the Group	198,945	195,673	24,415	5,483
Financial position:				
Non-current assets	1,740,833	2,612,235	481,198	182,972
Current assets	1,583,864	1,114,412	2,829,706	2,132,414
Current liabilities	(352,042)	(1,085,183)	(1,492,426)	(784,663)
Non-current liabilities	(30,319)	(27,694)	(309,288)	(153,058)
Net assets	2,942,336	2,613,770	1,509,190	1,377,665
Share of net assets attributable to the Group	1,000,394	888,682	393,597	257,210

21. INFRASTRUCTURE PROJECT INVESTMENTS

	Group	
	2002 HK\$'000	2001 HK\$'000
At beginning of year	94,156	98,528
Amortisation during the year	(3,643)	(4,372)
Disposals	(90,513)	–
At 31 December	–	94,156

On 21 October 2002, the Group entered into a contract for the disposal of its infrastructure project investment in Panzhihua with a third party for a cash consideration of RMB92 million (equivalent to approximately HK\$86.6 million). The present value at the balance sheet date of the portion of the consideration receivable due after more than one year, amounting to HK\$29.1 million, was recorded as a long term receivable while the current portion of HK\$15.1 million was included in current assets.

22. INVESTMENTS

Long term investments

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
At amortised cost:				
Held-to-maturity debt securities in the PRC:				
Listed	37,668	37,840	–	–
Unlisted	1,200	1,200	–	–
	38,868	39,040	–	–
At market value:				
Listed equity investments in the PRC	21,217	20,157	–	–
At fair value:				
Unlisted equity investments in the PRC	6,076	4,273	–	–
At cost:				
Club membership	2,340	2,340	1,720	1,720
	68,501	65,810	1,720	1,720

The market value of the listed held-to-maturity debt securities at the balance sheet date was HK\$38,701,045 (2001: HK\$37,840,000).

22. INVESTMENTS *(continued)***Short term investments**

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At market value:				
Listed equity investments in the PRC	278	12,564	–	–

23. INVENTORIES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	32,828	3,941	–	–
Work in progress	30,758	13,025	–	–
Finished goods	40,753	1,184	–	–
Completed properties for sale	221,176	272,868	8,813	8,813
	325,515	291,018	8,813	8,813

The carrying amount of inventories carried at net realisable value included in the above balance was nil (2001: Nil) at the balance sheet date.

24. PROPERTIES UNDER DEVELOPMENT FOR SALE

	Group	
	2002	2001
	HK\$'000	HK\$'000
Costs incurred	633,612	68,754
Add: Attributable profits on incomplete projects	69,024	31,892
	702,636	100,646
Less: Sale deposits/instalments received	(153,077)	(49,926)
	549,559	50,720

The properties under development for sale are located in the PRC and are held under medium term leases.

As at 31 December 2002, the amount of interest which had been capitalised to properties under development for sale amounted to HK\$15,999,000 (2001: HK\$10,261,000).

25. ACCOUNTS RECEIVABLE

	Group	
	2002 HK\$'000	2001 HK\$'000
Accounts receivable	69,569	62,665

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Within 1 year	61,786	65,154
1 to 2 years	23,255	5,874
2 to 3 years	2,073	2,359
Over 3 years	347	2,923
Total	87,461	76,310
Less: Provisions for bad and doubtful debts	(17,892)	(13,645)
	69,569	62,665

Under normal circumstances, the Group does not grant credit terms to its customers. The Group seeks to maintain strict control over its outstanding receivables and to minimise credit risk. Overdue balances are regularly reviewed by management.

26. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	621,828	1,409,344	2,334	469,332
Time deposits	1,390,468	399,217	879,470	346,278
Cash and cash equivalents	2,012,296	1,808,561	881,804	815,610

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$1,024,609,000 (2001: HK\$869,996,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of settlement, sale and payment of Foreign Exchange Regulation, the Group is permitted to exchange RMB for the other currencies through banks authorised to conduct foreign exchange business.

27. INTEREST-BEARING BANK LOANS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank loans:				
Secured	305,817	98,451	–	–
Unsecured	3,050,585	1,043,090	2,028,000	897,000
	3,356,402	1,141,541	2,028,000	897,000
Convertible bonds (note 28)	–	893,509	–	–
	3,356,402	2,035,050	2,028,000	897,000
Bank loans repayable:				
Within one year	1,876,125	1,294,050	897,000	156,000
In the second year	302,192	218,400	–	218,400
In the third to fifth years, inclusive	1,178,085	522,600	1,131,000	522,600
	3,356,402	2,035,050	2,028,000	897,000
Portion classified as current liabilities	(1,876,125)	(1,294,050)	(897,000)	(156,000)
Long term portion	1,480,277	741,000	1,131,000	741,000

Bank loans amounting to HK\$305,817,000 (2001: HK\$98,451,000) were secured by:

- (i) certain of the Group's land and buildings which have an aggregate net book value of approximately HK\$217,889,888 (2001: HK\$16,946,234), and investment properties of the Group with an aggregate value of approximately HK\$57,858,793 (2001: HK\$294,773,600); and
- (ii) certain of the Group's properties held for development with a net book value of HK\$285,000,000 (2001: Nil).

28. CONVERTIBLE BONDS

	Group	
	2002 HK\$'000	2001 HK\$'000
Principal amount:		
At beginning of year	682,617	885,894
Repurchased during the year	(682,617)	(204,846)
Exchange realignment	–	1,569
At 31 December	–	682,617
Add: Accretion of premium on redemption:		
At beginning of year	213,101	213,626
Provided for the year	29,365	54,880
Written back for the year	(242,466)	(55,837)
Exchange realignment	–	432
At 31 December	–	213,101
Less: Issue costs:		
At beginning of year	2,209	7,795
Amortised during the year	(2,209)	(4,280)
Written off upon repurchase	–	(1,306)
At 31 December	–	2,209
At 31 December	–	893,509

On 6 August 1997, Shum Yip Capital Limited (“S.Y. Capital”), a wholly-owned subsidiary of the Company, issued US\$230,000,000 of guaranteed redeemable convertible bonds (the “Bonds”) at a price of 100% of their principal amount to provide working capital for the Group. The terms of the Bonds are as follows:

- (1) The Bonds bore interest at the rate of 1.2% per annum. Interest on the Bonds is payable annually in arrears on 8 August in each year.
- (2) The Bonds were guaranteed by the Company.
- (3) The Bonds were convertible at the option of the holders from 13 October 1997 to 24 July 2002, both dates inclusive, into fully-paid shares of HK\$0.10 each in the Company at an initial conversion price of HK\$10.375 per share (the “Conversion Price”) with a fixed rate of exchange on conversion of HK\$7.7468=US\$1.00. The Conversion Price was subject to adjustment in certain circumstances.

28. CONVERTIBLE BONDS *(continued)*

- (4) Unless previously repurchased, redeemed or converted, the Bonds will be redeemed at the option of the issuer, in whole, but not in part, at any time on or after 8 August 2000 at their principal amount, together with interest accrued to the date of redemption. However, the Bonds were not able to be so redeemed unless (i) the closing market price of the ordinary shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") for a period of 30 consecutive dealing days has been at least 130%, in case of a redemption on or before 7 August 2001 and thereafter 140%, of the Conversion Price then in effect; or (ii) at least 90% of the principal amount of the Bonds has already been converted, redeemed or repurchased and cancelled. Unless previously redeemed or repurchased and cancelled, the Bonds were redeemable on 8 August 2002 at 135.52% of their principal amount plus accrued interest.

In August 2002, all Bonds with nominal value of US\$87,515,000 were redeemed at 135.52% of their principal amount. The aggregate price paid for the redemption was US\$118,600,000 (equivalent to approximately HK\$925,083,000).

During the year, no Bonds were converted into shares of the Company (2001: Nil).

29. ACCOUNTS PAYABLE

	Group	
	2002 HK\$'000	2001 HK\$'000
Accounts payable	420,671	53,911

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Within 1 year	307,473	11,178
1 to 2 years	13,525	14,332
2 to 3 years	16,843	284
Over 3 years	82,830	28,117
Total	420,671	53,911

30. DEFERRED TAX

	Group	
	2002	2001
	HK\$'000	HK\$'000
Balance at beginning of year	33,273	29,856
Charge /(credit) for the year (note 10)	(5,201)	3,417
At 31 December	28,072	33,273

The provision for deferred tax represents timing differences in respect of the profits on the pre-sales of properties under development for sale.

The Group and the Company had no significant unprovided deferred tax for the year or at the balance sheet date.

The revaluations of the Group's investment properties in Hong Kong and land and buildings do not constitute timing differences and consequently, the amount of potential deferred tax thereon has not been quantified.

31. SHARE CAPITAL**Shares**

	Number of shares		Amount	
	2002	2001	2002 HK\$'000	2001 HK\$'000
Authorised:				
Ordinary shares of HK\$0.05 (2001: HK\$0.10) each	3,000,000,000	1,500,000,000	150,000	150,000
Issued and fully paid:				
Ordinary shares of HK\$0.05 (2001: HK\$0.10) each:				
At beginning of year	1,140,300,000	1,079,500,000	114,030	107,950
Issued in connection with options exercised	6,000,000	10,800,000	600	1,080
Issue of new shares	60,846,983	50,000,000	6,085	5,000
Subdivision of shares	1,207,146,983	—	—	—
At end of the year	2,414,293,966	1,140,300,000	120,715	114,030

During the year, there were the following movements in share capital:

- (i) On 10 January 2002, 6,000,000 share options were exercised at a price of HK\$1.19 per share, resulting in the issue of 6,000,000 new shares of HK\$0.10 each for a total cash consideration before expenses of HK\$7,140,000.
- (ii) On 8 July 2002, 60,846,983 shares of HK\$0.10 each were issued for cash at a subscription price of HK\$2.50 per share and their fair value at the date of exchange was HK\$2.65 per share for the acquisition of a subsidiary, amounting to a consideration before expenses, of HK\$161,244,505 (see note 33(b)).
- (iii) On 30 July 2002, the Company passed an ordinary resolution that every ordinary share of HK\$0.10 each in the issued and unissued shares of the Company be subdivided into two shares of HK\$0.05 each ("Subdivided Shares") with effective from 31 July 2002. Thereafter, the authorised share capital of the Company became HK\$150,000,000 divided into 3,000,000,000 Subdivided Shares.

31. SHARE CAPITAL *(Continued)*

Share option scheme

The Company has adopted a share option scheme (the “1997 Share Option Scheme”) pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 12 February 1997. Owing to the recent changes of the Listing Rules in relation to share option schemes, the Company has adopted a new share option scheme (the “2002 Share Option Scheme”) and terminated the 1997 Share Option Scheme pursuant to the ordinary resolutions passed at an extraordinary general meeting of the Company held on 5 June 2002. Upon termination of the 1997 Share Option Scheme, no further options may be offered but in respect of the outstanding options, the provisions of the 1997 Share Option Scheme shall remain in force. Any outstanding options under the 1997 Share Option Scheme shall continue to be subject to the provisions of the 1997 Share Option Scheme and the adoption of the 2002 Share Option Scheme will not in any event affect the terms of the grant of such outstanding options.

The purpose of the 2002 Share Option Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants and to provide the participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefits of the Company and its shareholders as a whole.

The maximum number of ordinary shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10 per cent. of the total number of shares in issue as at the date of approval of the 2002 Share Option Scheme unless the Company obtains a fresh approval from its shareholders. Options lapsed in accordance with the terms of the 2002 Share Option Scheme will not be counted for the purpose of calculating such 10 per cent. limit.

The maximum entitlement of each participant under the 2002 Share Option Scheme is that the total number of shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1 per cent. of the total number of shares in issue.

The period under which an option may be exercised will be determined by the directors at their absolute discretion and notified by the directors to each grantee as being the period during which an option may be exercised, and shall expire no later than 10th Anniversary of the date upon which the option is granted and accepted in accordance with the 2002 Share Option Scheme.

The amount payable on acceptance of an option is HK\$1. The full amount of exercise price for the subscription for shares has to be paid upon exercise of an option.

The exercise price shall be a price determined by the directors and notified to a participant and shall be at least the highest of (i) the closing price of the shares as stated in The Stock Exchange of Hong Kong Limited’s daily quotations sheet on the date of offer of grant, which must be a business day, (ii) a price being the average of the closing prices of the shares as stated in The Stock Exchange of Hong Kong Limited’s daily quotations sheets for the 5 business days immediately preceding the date of offer of grant, and (iii) the nominal value of a share in the Company.

The 2002 Share Option Scheme will expire on 5 June 2012.

31. SHARE CAPITAL *(Continued)***Share option scheme** *(Continued)*

During the year, movements of share options granted to the directors and employees under the 1997 Share Option Scheme and 2002 Share Option Scheme are as follows:–

Name or category of participant	At 1 January 2002	Granted during the year	Number of share options			At 31 December 2002	Date of grant of share options	Exercise period of share options	Exercise price of shares options HK\$
			Exercised during the year	Lapsed during the year	Cancelled during the year				
Directors									
SONG Zhiwang	4,000,000	–	–	–	–	4,000,000	15/6/2000	15/12/2000-14/12/2003	0.680
	–	2,400,000	–	–	–	2,400,000	27/6/2002	27/6/2002-26/6/2007	1.265
LIU Zixian	–	2,400,000	–	–	–	2,400,000	27/6/2002	27/6/2002-26/6/2007	1.265
SUN Juyi	–	2,000,000	–	–	–	2,000,000	27/6/2002	27/6/2002-26/6/2007	1.265
ZHANG Luzheng	–	2,000,000	–	–	–	2,000,000	27/6/2002	27/6/2002-26/6/2007	1.265
ZHU Qiyi	–	2,400,000	–	–	–	2,400,000	27/6/2002	27/6/2002-26/6/2007	1.265
YANG Yefang	–	2,000,000	–	–	–	2,000,000	9/7/2002	9/7/2002-8/7/2007	1.265
XU Ruxin	–	2,000,000	–	–	–	2,000,000	27/6/2002	27/6/2002-26/6/2007	1.265
ZHU Huoyang	–	2,000,000	–	–	–	2,000,000	27/6/2002	27/6/2002-26/6/2007	1.265
WONG Po Yan	–	2,000,000	–	–	–	2,000,000	27/6/2002	27/6/2002-26/6/2007	1.265
LEE Yip Wah, Peter	–	2,000,000	–	–	–	2,000,000	27/6/2002	27/6/2002-26/6/2007	1.265
WU Wai Chung, Michael	–	1,200,000	–	–	–	1,200,000	5/7/2002	5/7/2002-4/7/2007	1.265
	4,000,000	22,400,000	–	–	–	26,400,000			

31. SHARE CAPITAL (Continued)

Share option scheme (Continued)

Name or category of participant	At 1 January 2002	Granted during the year	Number of share options			At 31 December 2002	Date of grant of share options	Exercise period of share options	Exercise price of shares options HK\$
			Exercised during the year	Lapsed during the year	Cancelled during the year				
Other employees									
In aggregate	30,120,000	–	–	–	–	30,120,000	29/9/2000	29/3/2001-28/3/2004	0.665
	50,000,000	–	8,000,000	–	–	38,000,000	8/1/2001	8/7/2001-7/7/2004	0.595
	– 16,400,000	–	4,000,000	–	–	16,400,000	3/7/2002	3/7/2002-2/7/2007	1.265
	– 22,000,000	–	–	–	–	22,000,000	5/7/2002	5/7/2002-4/7/2007	1.265
	– 1,000,000	–	–	–	–	1,000,000	8/7/2002	8/7/2002-7/7/2007	1.265
	80,120,000	39,400,000	12,000,000	–	–	107,520,000			
	84,120,000	61,800,000	12,000,000	–	–	133,920,000			

Notes:

- Pursuant to an ordinary resolution passed on 30 July 2002, the Company approved the subdivision of each of the existing issued and unissued shares of HK\$0.10 each into two shares of HK\$0.05 each. Accordingly, all the number of shares and prices as shown in this paragraph have been adjusted for the subdivision of shares.
- Mr. WU Wai Chung, Michael was appointed as a director of the Company on 9th October, 2002.

The following share options were granted/exercised during the year:

- On 27 June 2002, a total of 19,200,000 share options were granted to the directors of the Company, which entitle the directors to subscribe for shares in the Company at a price of HK\$1.265 each during the period from 27 June 2002 to 26 June 2007.
- On 3 July 2002, a total of 16,400,000 share options were granted to certain employees of the Company, which entitle the employees to subscribe for shares in the Company at a price of HK\$1.265 each during the period from 3 July 2002 to 2 July 2007.

31. SHARE CAPITAL *(Continued)*

Share option scheme *(Continued)*

- (iii) On 5 July 2002, a total of 23,200,000 share options were granted to certain employees of the Company, which entitle the employees to subscribe for shares in the Company at a price of HK\$1.265 each during the period from 5 July 2002 to 4 July 2007.
- (iv) On 8 July 2002, a total of 1,000,000 share options were granted to certain employees of the Company which entitle the employees to subscribe for shares in the Company at a price of HK\$1.265 each during the period from 8 July 2002 to 7 July 2007.
- (v) On 9 July 2002, a total of 2,000,000 share options were granted to a director of the Company which entitle the director to subscribe for shares in the Company at a price of HK\$1.265 each during the period from 9 July 2002 to 8 July 2007.
- (vi) On 10 January 2002, a total of 12,000,000 share options were exercised at a price of HK\$0.595. These share options were granted on 8 January 2001.

The closing price of the shares of the Company on 26 June 2002, 2 July 2002, 4 July 2002, 5 July 2002 and 8 July 2002, being the trading dates immediately before the respective dates on which the options were granted were HK\$1.250, HK\$1.313, HK\$1.338, HK\$1.338 and HK\$1.325. The closing price of the shares of the Company on 9 January 2002, being the trading date immediately before the date on which the options were exercised was HK\$1.200.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors and employees because a number of factors crucial for the valuation cannot be determined, such factors include the exercise period and the conditions that an option is subject to. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful but would be misleading to the shareholders.

32. RESERVES

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Asset revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Statutory* reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
Group									
At 31 December 2000									
and beginning of year	1,185,951	37,495	51,372	(15,183)	28,150	19,798	137,405	742,014	2,187,002
Shares issued at premium	108,612	–	–	–	–	–	–	–	108,612
Exchange realignments									
– Subsidiaries	–	–	–	–	–	6,713	–	–	6,713
– Associates	–	–	–	–	–	10,691	–	–	10,691
Arising from deemed disposal of an associate	–	–	–	–	113,733	–	–	(113,733)	–
Surplus on revaluation	–	67,492	–	3,852	–	–	–	–	71,344
Reserves attributable to minority shareholders	–	(65,929)	–	–	–	(2,245)	–	–	(68,174)
Net profit for the year	–	–	–	–	–	–	–	353,280	353,280
Interim 2001 dividend	–	–	–	–	–	–	–	(32,849)	(32,849)
Proposed final 2001 dividend	–	–	–	–	–	–	–	(57,315)	(57,315)
Transfer from retained profits	–	–	–	–	9,632	–	90,700	(100,332)	–
At 31 December 2001	1,294,563	39,058	51,372	(11,331)	151,515	34,957	228,105	791,065	2,579,304
Shares issued at premium	161,590	–	–	–	–	–	–	–	161,590
Exchange realignments	–	–	–	–	–	(17,111)	–	–	(17,111)
Surplus on revaluation	–	205,044	–	2,455	–	–	–	–	207,499
Share of reserves from associates	–	74,909	–	–	5,370	(9,911)	–	–	70,368
Reserves attributable to minority shareholders	–	(112,877)	–	992	–	2,734	–	–	(109,151)
Net profit for the year	–	–	–	–	–	–	–	280,699	280,699
Interim 2002 dividend	–	–	–	–	–	–	–	(36,214)	(36,214)
Proposed final 2002 dividend	–	–	–	–	–	–	–	(60,357)	(60,357)
Transfer from retained profits	–	–	–	–	–	–	204,395	(204,395)	–
At 31 December 2002	1,456,153	206,134	51,372	(7,884)	156,885	10,669	432,500	770,798	3,076,627
Reserves retained by:									
Company and subsidiaries	1,456,153	134,695	49,707	(7,884)	99,308	3,688	381,040	9,777	2,126,484
Associates	–	71,439	1,665	–	57,577	6,981	51,460	761,021	950,143
31 December 2002	1,456,153	206,134	51,372	(7,884)	156,885	10,669	432,500	770,798	3,076,627
Company and subsidiaries	1,294,563	9,925	49,707	(11,331)	93,995	18,065	210,454	4,776	1,670,154
Associates	–	29,133	1,665	–	57,520	16,892	17,651	786,289	909,150
31 December 2001	1,294,563	39,058	51,372	(11,331)	151,515	34,957	228,105	791,065	2,579,304

32. RESERVES *(continued)*

- * Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries and associates in the PRC has been transferred to statutory reserves which are restricted as to use.

Certain amounts of goodwill arising on the acquisition of subsidiaries and associates prior to 1 January 2001, remain eliminated against consolidated reserves as explained in notes 19 and 20 to the financial statements.

	Share premium account HK\$'000	Retained profits HK\$'000	Total HK\$'000
Company			
At 1 January 2001	1,185,951	549,813	1,735,764
Share issued at premium	108,612	–	108,612
Profit for the year	–	156,583	156,583
Interim 2001 dividend	–	(32,849)	(32,849)
Proposed final 2001 dividend	–	(57,315)	(57,315)
At 31 December 2001	1,294,563	616,232	1,910,795
Shares issued at premium	161,590	–	161,590
Loss for the year	–	(127,384)	(127,384)
Interim 2002 dividend	–	(36,214)	(36,214)
Proposed final 2002 dividend	–	(60,357)	(60,357)
At 31 December 2002	1,456,153	392,277	1,848,430

The aggregate amount of reserves available for distribution to shareholders of the Company at 31 December 2002 was HK\$452,634,000 (2001: HK\$673,547,000), which represents the retained profits and proposed final 2002 dividend at that date.

33. NOTES TO THE CASH FLOW STATEMENT

(a) Cash flows from operating activities

	Notes	2002 HK\$'000	2001 HK\$'000 (Restated)
Profit before tax		555,310	667,946
Finance costs	7	119,046	136,633
Interest income	5	(61,352)	(64,742)
Depreciation	6	66,161	73,214
Dividends received from listed investments	5	(1,951)	(9,889)
Share of profits and losses of associates		(399,819)	(396,153)
Amortisation of intangible assets	6	1,522	2,481
Gain on deemed disposal of an associate		–	(92,763)
Gain arising on the repurchase and cancellation of convertible bonds		–	(1,516)
Bad debts recovery		(29,731)	(6,183)
Issue costs of convertible bonds written off upon repurchase	6	–	1,306
Gain on disposal of fixed assets	5	(2,066)	(980)
Unrealised holding gains on listed securities		–	(1,166)
Provision for impairment in values of properties under development	6	–	6,174
Loss on disposal of infrastructure investment		6,083	–
Negative goodwill recognised as income	5	(11,026)	–
Amortisation of infrastructure project investments	6	3,643	4,372
Operating profit before working capital changes		245,820	318,734
Decrease in accounts receivable		86,815	6,445
(Increase)/decrease in prepayments and other receivables		(33,712)	54,781
Decrease in short term investments		31,080	–
Decrease/(increase) in inventories		208,977	(6,532)
Increase/(decrease) in properties under development for sale		(37,599)	494,299
Decrease/(increase) in an amount due from a minority shareholder		5,834	(5,834)
Increase/(decrease) in accounts payable		69,973	(6,808)
Increase in other payables and accruals		113,658	29,719
Decrease in an amount due to a minority shareholder		–	(13,410)
Cash generated from operations		690,846	871,394
Interest received		61,352	64,742
Interest paid		(96,850)	(87,734)
PRC taxes paid		(85,200)	(42,686)
Dividends received from listed investments		1,951	9,889
Dividends paid		(93,529)	(86,824)
Net cash inflow from operating activities		478,570	728,781

33. NOTES TO THE CASH FLOW STATEMENT *(continued)***(b) Acquisition of a subsidiary**

	Notes	2002 HK\$'000	2001 HK\$'000
Net assets acquired:			
Fixed assets	14	249,151	—
Interests in associates		55,771	—
Investment properties	18	659,833	—
Cash and bank balances		508,893	—
Properties under development	17	138,603	—
Accounts receivable, prepayments and other receivables		121,654	—
Inventories		243,474	—
Properties under development for sale		192,331	—
Short term investment		19,030	—
Accounts payable and other accrued liabilities		(514,235)	—
Tax payable		(27,660)	—
Short term bank loans		(647,533)	—
Long term bank loans		(14,973)	—
Deferred tax		(427)	—
Minority interests		(243,557)	—
		740,355	—
Negative goodwill on acquisition	16	(130,740)	—
		609,615	—
Satisfied by:			
Cash		152,300	—
Issue of share capital		161,173	—
Decrease in carrying amount of the associate		296,142	—
		609,615	—

33. NOTES TO THE CASH FLOW STATEMENT *(continued)*

(b) Acquisition of a subsidiary *(continued)*

An analysis of the net inflow of cash and cash equivalents in respect of acquisition of a subsidiary is as follows:

	2002 HK\$'000	2001 HK\$'000
Cash consideration	(152,300)	—
Cash and bank balances acquired	508,893	—
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	356,593	—

On 6 March 2002, the Group acquired the remaining 60% interest in Shenzhen Pengji from Shum Yip Holdings, the ultimate holding company of the Company. Shenzhen Pengji is engaged in property development, property investment and the manufacture of commercial and industrial products. The purchase consideration for the acquisition was in the form of cash of HK\$152,300,000 and the issue of 60,846,983 shares of HK\$0.10 each for cash at a subscription price of HK\$2.50 per share and their fair value at the date of exchange was HK\$2.65 per share for the acquisition of subsidiary, amounting to a consideration before expenses, of HK\$161,244,505.

Since its acquisition, Shenzhen Pengji contributed HK\$752,514,000 to the Group's turnover and HK\$60,879,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2002.

34. COMMITMENTS

(i) As lessor

The Group leases its investment properties (note 18 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from two to five 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 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	77,279	85,823	—	—
In the second to fifth years, inclusive	112,161	169,893	—	—
After five years	14,240	57,740	—	—
	203,680	313,456	—	—

34. COMMITMENTS *(continued)*

(ii) As lessee

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from three to five years.

At 31 December 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	2,870	2,538	2,817	2,524
In the second to fifth years, inclusive	7,042	8,988	7,042	8,488
	9,912	11,526	9,859	11,012
(iii) Commitments in respect of acquisition of land and buildings, and development costs attributable to properties under development:				
Authorised, but not contracted for	–	9,911	–	–
Contracted, but not provided for	106,509	30,700	–	–
	106,509	40,611	–	–
(iv) Commitments in respect of a capital injection to a joint venture in the PRC:				
Contracted, but not provided for	–	37,840	–	–

35. CONTINGENT LIABILITIES

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

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
(i) Guarantees given to the holders of convertible bonds (note 28)	–	–	–	682,617
(ii) Guarantees for credit facilities granted to subsidiaries	–	–	477,536	143,500
(iii) At 31 December 2002, the Group had given guarantees to a maximum extent of approximately HK\$1,352,500,000 (2001: HK\$1,078,000,000) to banks for housing loans extended by the banks to the purchasers of the Group's properties.				
(iv) Pending litigation				

- (1) A statement of claim dated 27 August 2002 was issued by Fancheng Property Development Co., Limited (the "Plaintiff") as the plaintiff against Shum Yip Holdings (Shenzhen) Co., Ltd. ("Shumyip Shenzhen"), a wholly-owned subsidiary of the Company as first defendant and Yaoheng Development Co., Ltd. as the second defendant, in a civil claim in the PRC.

The Plaintiff claimed against Shumyip Shenzhen for, inter alia, alleged damages suffered by the Plaintiff as a result of the alleged breach by Shumyip Shenzhen of the terms of a co-operation agreement dated 8 July 1991 entered into between the Plaintiff and Shumyip Shenzhen, which allegations included: (i) Shumyip Shenzhen's deliberately registering of the properties called Shenfa Garden under the name of Shumyip Shenzhen and refusal to give the properties to the Plaintiff and (ii) Shumyip Shenzhen's appropriating the Plaintiff's sales proceeds to compensate the individual owners and the construction party of Shenfa garden and keeping the income in relation to certain car parks and the kindergarten situated within the area of Shenfa Garden. The Plaintiff claimed a total compensation of approximately RMB170 million from Shumyip Shenzhen. Shumyip Shenzhen lodged a defence and counter-claimed for compensation of RMB1.3 million against the plaintiff on 22 October 2002. This case was heard in court on 26 March 2003 and the parties are awaiting the delivery of the judgement.

- (2) An application for arbitration dated 9 August 2002 was issued by Shenzhen Special Economic Zone Estate (Group) Co., Ltd. (the "Applicant") as the applicant and Shumyip Shenzhen as the respondent in an arbitration case. The Applicant claimed against Shumyip Shenzhen for alleged damages suffered by the Applicant as a result of the alleged breach of the terms of a co-operation agreement entered into between the Applicant and Shumyip Shenzhen on 9 November 1993 which allegations included: (i) the late payment by Shumyip Shenzhen of the land cost/premium in respect of the properties called Yitai Centre to the relevant government authority; (ii) the late application for the certificate of building approval of the Yitai Centre; (iii) the delay in the application for pre-sale approval in relation to the Yitai Centre; and (iv) the failure to assist the Applicant in the application for property certificates for the individual owners of the Yitai Centre. The Applicant sought compensation from Shumyip Shenzhen aggregating approximately RMB137 million. This case was heard on 21 March 2003 and the parties are awaiting the delivery of the arbitration award.

35. CONTINGENT LIABILITIES *(continued)*

(iv) Pending litigations *(continued)*

(2) *(continued)*

As advised by the Group's lawyers, pursuant to a deed (the "Deed") entered into on 12 February 1997 by Shum Yip Holdings as covenantor in favour of the Company as covenantee, which was given in connection with the listing of the Company, the Company may be able to claim an indemnity from Shum Yip Holdings in respect of the foregoing if the Plaintiff and/or the Applicant are successful in their claims against Shumyip Shenzhen.

The maximum extent of potential loss on the Group that may arise from the above claims amounted to RMB307 million. In the opinion of the directors, having reviewed the outstanding claims and having taken legal advice, and with reference to the criteria as set out in SSAP 28 "Provisions, contingent liabilities and contingent assets", no provision is required to be recognised in these financial statements.

36. RELATED PARTY TRANSACTIONS

In addition to the transactions and balance set out elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	Group	
		2002 HK\$'000	2001 HK\$'000
Shum Yip Holdings			
– Rental expenses paid	(i)	3,015	2,929
– Acquisition of a subsidiary	(ii)	313,545	–
Karbony Investment Limited, an associate			
Properties in the PRC received in exchange for the settlement of a shareholder's loan		–	8,813
Guangzhou Nanfang Highway Transportation Co., Ltd., an associate:			
Sale of motor vehicles		–	29,589

Note

(i) The rentals were determined by the directors with reference to the then prevailing market prices of similar transactions.

(ii) The consideration was arrived at based on discounted estimated net asset value acquired. Please refer to 33(b) for further details.

37. POST BALANCE SHEET EVENT

On 21 January 2003, the Company entered into a conditional agreement with Shum Yip (S.Z.) Trading, Co., Limited, who is a wholly owned subsidiary of the controlling shareholder of the Company, and Shum Yip International Trading and Development Limited, an independent third party to acquire a 90% and a 10% equity interest in Shum Yip Steel Centre Limited for a cash consideration of RMB16.68 million (equivalent to approximately HK\$15.72 million) and RMB1.85 million (equivalent to approximately HK\$1.75 million), respectively.

38. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2003.