



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 1. ORGANISATION

Shanghai Real Estate Limited ("the Company") was incorporated in Bermuda with limited liability on 11th August 1999 as an exempted company under the Companies Act 1981 of Bermuda. Pursuant to a group reorganisation (the "Reorganisation") in connection with the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "SEHK"), the Company became the ultimate holding company of the other companies comprising the Group on 12th November 1999. Further details of the Reorganisation are set out in the Company's prospectus dated 30th November 1999. The shares of the Company were listed on the SEHK on 10th December 1999.

During the year ended 31st December, 2002, the Group acquired equity interests in the following subsidiaries and associates. The consideration and the Group's share in the net attributable tangible assets of the companies acquired are as follow:

Company	Date of incorporation or acquisition	Equity interests acquired	Consideration	Net attributable tangible assets
Kolsun Enterprises Ltd.	2nd January 2002	100%	7.8	7.8
Onfair Holding Ltd.	27th March 2002	100%	7.8	7.8
Anderson Land (Shanghai) Ltd.	29th May 2002	52%	7.8	406
Shanghai Anderson Fuxing Land Co., Ltd.	29th May 2002	51.48%	40,988,749	40,988,749
Shanghai Hangtou Govern Real Estate Co., Ltd.	14th June 2002	90%	70,202,955	70,202,955
Shanghai Jinwu Real Estate Co., Ltd.	28th August 2002	76.63%	36,108,755	36,108,755
Shanghai Jinluodian Real Estate & Development Co., Ltd.	26th September 2002	62%	46,800,000	46,800,000
Shanghai Zhufu Property Development Co., Ltd.	30th October 2002	48.45%	4,566,016	4,566,016
Shanghai Internet Information Technology Co., Ltd.	4th December 2002	47.5%	9,424,182	9,424,182
			208,090,680	208,091,079



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 1. ORGANISATION (continued)

As at 31st December 2002, the consolidated accounts of the Group include the accounts of the Company and the following subsidiaries and associated companies:

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group		Issued and paid-up capital	Authorised share capital	Principal activities
		2002	2001			
<u>Subsidiaries:</u>						
Shanghai Xin Dong Industry Co., Ltd. ("Xin Dong")	People's Republic of China ("PRC") 28th May 1993	98%	98%	United States Dollars ("US\$") 3,457,729	US\$3,457,729	Property leasing and real estate agency
Shanghai Cosco-Xin Dong Real Estate Development Co., Ltd. ("Cosco-Xin Dong")	PRC 16th September 1996	49%	49%	RMB50,000,000	RMB50,000,000	Property development
Shanghai Well Real Estate Co., Ltd. ("Well Real Estate")	PRC 6th May 1997	98%	98%	US\$10,000,000	US\$10,000,000	Property development
Trans Ocean (Shanghai) Real Estate & Construction Co., Ltd. ("Trans Ocean Construction")	PRC 24th December 1997	97.5%	97.5%	US\$9,800,000	US\$9,800,000	Property development
Tranceocean (Shanghai) Real Estate Development Co., Ltd. ("Tranceocean Development")	PRC 29th September 1998	97.5%	95%	US\$4,900,000	US\$4,900,000	Property development
Sinopower Investment Limited	British Virgin Island ("BVI") 1st October 1998	100%	100%	US\$52	US\$50,000	Investment holding
Powerland Investment Limited	BVI 31st May 1999	100%	100%	US\$11	US\$50,000	Investment holding
Dragon Time Investment Limited	BVI 2nd July 1999	100%	100%	US\$11	US\$50,000	Investment holding



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 1. ORGANISATION (continued)

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group		Issued and paid-up capital	Authorised share capital	Principal activities
		2002	2001			
<u>Subsidiaries:</u>						
Eastin Resources Ltd.	BVI 21st July 1999	100%	100%	US\$11	US\$50,000	Investment holding
Wellwide Ltd.	BVI 21st July 1999	100%	100%	US\$21	US\$50,000	Investment holding
Wingo Investment Ltd.	BVI 21st July 1999	100%	100%	US\$1	US\$50,000	Investment holding
Shanghai Trans-Ocean Housing Technology Co., Ltd. ("Housing Technology")	PRC 4th August 1999	95%	95%	US\$10,000,000	US\$10,000,000	Development of technology for housing
Super-power.com Ltd. ("Super-power")	BVI 4th January 2000	100%	100%	US\$1	US\$50,000	Investment holding
Trans-Ocean Investment and Technology Ltd.	Hong Kong 6th June 2001	100%	100%	HK\$2	HK\$2	Property management
Shanghai Zhufu Property Development Co., Ltd. ("Zhufu")	PRC 11th August 2000	48.45%	–	RMB10,000,000	RMB10,000,000	Property development
Anderson Land (Shanghai) Ltd.	BVI 29th September 2001	52%	–	HK\$780	HK\$780	Investment holding
Kolsun Enterprises Ltd.	BVI 2nd January 2002	100%	–	US\$1	US\$1	Investment holding
Onfair Holding Ltd.	BVI 27th March 2002	100%	–	US\$1	US\$1	Investment holding



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 1. ORGANISATION (continued)

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group		Issued and paid-up capital	Authorised share capital	Principal activities
		2002	2001			
<u>Subsidiaries:</u>						
Shanghai Anderson Fuxing Land Co., Ltd. ("Anderson Fuxing")	PRC 16th April 2002	51.48%	–	USD10,207,254	USD20,000,000	Property development
Shanghai Hangtou Govern Real Estate Co., Ltd. ("Hangtou Govern")	PRC 14th June 2002	90%	–	USD10,000,000	USD10,000,000	Property development
Shanghai Jinwu Real Estate Co., Ltd. ("Shanghai Jinwu")	PRC 12th August 2002	76.63%	–	RMB50,000,000	RMB50,000,000	Property development
<u>Associated companies:</u>						
Shanghai Internet Information Technology Co., Ltd. ("Shanghai Internet")	PRC 9th January 1995	47.5%	–	RMB20,000,000	RMB20,000,000	Development of information system for intelligent building
Shanghai Trans-Ocean Property Management Co., Ltd. ("Trans-Ocean Property Management")	PRC 1st September 1995	47%	47%	RMB500,000	RMB500,000	Property management
Shanghai Orda Opto-electronics Science and Technology Co., Ltd. ("Orda")	PRC 23rd March 2000	23.52%	23.52%	RMB11,000,000	RMB11,000,000	Development and sales of photo electron products, computer hardware and software
Shanghai Telecom Broadband Networking Co., Ltd. ("Broadband")	PRC 24th October 2000	38%	38%	RMB30,000,000	RMB30,000,000	Development and sales of netware and construction of broad band fibre projects



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 1. ORGANISATION (continued)

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group		Issued and paid-up capital	Authorised share capital	Principal activities
		2002	2001			
<u>Associated companies:</u>						
Shanghai Jinluodian Real estate & Development Co., Ltd. ("Jinluodian") (note (i))	PRC 26th September 2002	62%	–	RMB79,620,000	RMB398,100,000	Land clearance and property development

- (i) Based on the business license of Jinluodian, the Group's equity interest was to be 62%. However, as a result of further negotiation of the joint venture contract in February 2003, the Group's equity interest in Jinluodian was finally determined as 45.26%. As such, Jinluodian is regarded as an associated company of the Group as at 31st December 2002 (Note 31(b)). This change in equity interest has no impact on the financial statements as Jinluodian had no operating results for the year ended 31st December 2002.
- (ii) On 7th February 2002, the land, on which the investment properties of the Group, held by a subsidiary – Shanghai Xin Shi Industry Co., Ltd. ("Xin Shi"), is located, was earmarked for infrastructure developments by the local government. As a result, Xinshi had to be dissolved in June 2002. A gain of HK\$453,804 was realised from the discontinuation of Xin Shi's business.



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES

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

### (a) BASIS OF PREPARATION

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

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

SSAP1 (revised):	Presentation of financial statements
SSAP11 (revised):	Foreign currency translation
SSAP15 (revised):	Cash flow statements

The changes to the Group's accounting policies have no material effect on the consolidated accounts of the Group.

### (b) GROUP ACCOUNTING

#### (i) Consolidation

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

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (b) GROUP ACCOUNTING (continued)

#### (i) Consolidation (continued)

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

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

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

#### (ii) Associated companies

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

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

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

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired associated company at the date of acquisition and is amortised using the straight-line method over its estimated useful life.



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (b) GROUP ACCOUNTING (continued)

#### (iii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as movements in reserves.

### (c) FIXED ASSETS

#### (i) Investment properties

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

Investment properties are valued by independent valuers on an annual basis. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

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

#### (ii) Other fixed assets

Other fixed assets, comprising buildings, leasehold improvements, furniture, fixtures and office equipment and motor vehicles, are stated at cost less accumulated depreciation and accumulated 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.





# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (c) FIXED ASSETS (continued)

#### (iii) Construction-in-progress

Construction-in-progress represents buildings under construction and machinery under installation and testing and is stated at cost less accumulated impairment losses. This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and ready for their intended use.

#### (iv) Depreciation

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

Buildings	30 years
Leasehold improvements	Over the remaining period of the lease
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

Expenditure incurred after other fixed assets have been put into operation, such as repairs and maintenance costs, 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 such assets, the expenditure is capitalised and depreciated over their expected useful lives.

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

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

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



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (d) OPERATING LEASES

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

### (e) PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

Properties held or under development for sale, the pre-sale of which has not commenced, are included in current assets at the lower of cost and net realisable value. Properties held or under development for sale, the pre-sale of which has commenced, are included in current assets or current liabilities at cost plus attributable profits less sale instalments and deposits received and receivable and any foreseeable losses.

Cost of properties in the course of development comprises land cost, fees for land use rights and other direct costs attributable to such properties.

Net realisable value is determined by reference to sales proceeds of properties sold in the ordinary course of business less all estimated marketing and selling expenses after the balance sheet date, or by management estimates based on prevailing market conditions.

No depreciation is provided on properties held or under development for sale.

### (f) INVENTORIES

Inventories comprise stocks and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises all costs of purchase, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (g) ACCOUNTS RECEIVABLE

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



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (h) CASH AND CASH EQUIVALENTS

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

### (i) EMPLOYEE BENEFITS – PENSION OBLIGATIONS

Pursuant to PRC laws and regulations, contributions to the basic old age insurance for the Group's local staff have been made monthly to a government agency based on 28.5% of the standard salary set by the provincial government, of which 22.5% is borne by the Group and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. In addition, the Company participates in the Mandatory Provident Fund Scheme, under which contributions of 5% of the Hong Kong employee's monthly salary are made by the employer and the Hong Kong employee. The provision and contributions have been included in the accompanying consolidated profit and loss account upon incurrence. The Group has no obligation for the payment of pension benefits beyond the contributions described above.

The Group provides no retirement nor termination benefits other than those described above.

### (j) DEFERRED TAXATION

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

### (k) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (k) CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### (l) REVENUE RECOGNITION

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other revenue are recognised on the following bases:

#### (i) Pre-sale of properties under development for sale

Pre-sale of properties under development for sale is recognised based on the percentage of completion method. The attributable profit on the pre-sold portion of the properties under development for sale is recognised over the course of the development after taking into account further construction costs which are required to be incurred in order to complete the project and after making suitable allowances for contingencies. The attributable profit on the pre-sold portion of a particular project is calculated by reference to the lower of the percentage which results from: (i) the proportion of the total construction costs incurred to the total estimated construction costs to complete the projects; or (ii) the proportion of cash received over the total sale consideration.

#### (ii) Sale of goods

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

#### (iii) Rendering of services

Service income is recognised as services are rendered.

#### (iv) Operating rental income

Operating rental income is recognised on a straight-line basis.



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (I) REVENUE RECOGNITION (continued)

#### (v) Interest income

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

#### (vi) Dividend income

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

### (M) BORROWING COST

Borrowing costs that are directly attributable to the construction of properties under development for sale that necessarily takes a substantial period of time to get ready for its intended sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

### (N) SEGMENTS REPORTING

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary and only reporting format. For management purposes, the Group conducts the majority of its business activities in the PRC. Its operations are organised under three principal business segments: property development, property leasing and sale of hi-tech products and services. Financial information on business segments is presented in Note 3.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, properties held or under development for sale, inventories, receivables and operating cash, and mainly exclude interests in associated companies and deferred tax assets. Segment liabilities comprise operating liabilities and exclude items such as deferred tax liabilities and certain corporate borrowings. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

Inter-segment transactions: segment revenue, segment expenses and segment performance include transfers between business segments. Such transfers are accounted for at a price determined on an arm-length basis and are eliminated on consolidation.



## Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 3. BUSINESS SEGMENT INFORMATION

The Group conducts the majority of its business activities in three areas, property development, property leasing and sale of hi-tech products and services. In 2002, the Group had no property leasing activity due to the disposal of Xin Shi as described in Note 1(ii).

An analysis by business segment is as follows:

	2002			
	Property development	Property leasing	High-tech	Total
<b>Turnover</b>				
Sales to external customers	717,989,991	–	82,896,463	800,886,454
<b>Segment results</b>				
Segment profit	132,442,993	–	20,217,262	152,660,255
Unallocated costs				(17,746,403)
Operating profit				134,913,852
Interest expense				(266,264)
Interest income				2,488,319
Gain from disposal of a subsidiary and an associated company	984,128	–	–	984,128
Share of net (loss) profit of associated companies	(2,601,946)	–	750,684	(1,851,262)
Profit before taxation				136,268,773
Taxation	(45,701,154)	–	(3,043,391)	(48,744,545)
Profit after taxation				87,524,228
Minority interests	3,666,257	–	(1,001,678)	2,664,579
Profit attributable to shareholders				90,188,807



## Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 3. BUSINESS SEGMENT INFORMATION (continued)

	2002			
	Property development	Property leasing	High-tech	Total
<b>Other information</b>				
Segment assets	1,481,040,191	106,099,404	136,511,182	1,723,650,777
Interests in associated companies	55,656,942	–	29,083,912	84,740,854
Deferred tax assets	–	–	112,736	112,736
Unallocated assets				148,742,551
Total assets				1,957,246,918
Segment liabilities	742,567,179	–	69,132,740	811,699,919
Deferred tax liabilities	43,374,839	–	–	43,374,839
Unallocated liabilities				27,816,164
Total liabilities				882,890,922
Capital expenditure	9,030,156	38,467,979	169,899	47,668,034
Depreciation	3,794,000	–	1,103,282	4,897,282



## Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 3. BUSINESS SEGMENT INFORMATION (continued)

In 2002, a great part of turnover and profit of high-tech segment is dependent on a single customer.

	2001			Total
	Property development	Property leasing	High-tech	
<b>Turnover</b>				
Sales to external customers	496,469,708	1,425,891	88,114,837	586,010,436
<b>Segment results</b>				
Segment profit (loss)	114,025,842	(5,350,832)	23,451,644	132,126,654
Unallocated costs				(12,107,893)
Operating profit				120,018,761
Interest expense				(1,879,774)
Interest income				1,223,566
Share of net (loss) profit of associated companies	(582,782)	(1,926,781)	1,094,857	(1,414,706)
Profit before taxation				117,947,847
Taxation	(37,434,566)	–	–	(37,434,566)
Profit after taxation				80,513,281
Minority interests	(2,370,299)	2,784,221	(1,217,135)	(803,213)
Profit attributable to shareholders				79,710,068





## Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 3. BUSINESS SEGMENT INFORMATION (continued)

	2001			
	Property development	Property leasing	High-tech	Total
<b>Other information</b>				
Segment assets	868,897,046	61,295,415	112,144,581	1,042,337,042
Interests in associated companies	10,661,797	1,594,520	22,309,264	34,565,581
Deferred tax assets	161,485	–	–	161,485
Unallocated assets				23,191,123
Total assets				1,100,255,231
Segment liabilities	335,145,672	15,907,992	19,598,704	370,652,368
Deferred tax liabilities	49,421,768	–	–	49,421,768
Unallocated liabilities				34,824,392
Total liabilities				454,898,528
Capital expenditure	20,991,752	–	26,135,128	47,126,880
Depreciation	2,453,520	800,613	1,219,028	4,473,161



## Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 4. TURNOVER

Revenues recognised during the year are as follows:

	2002	2001
Sales and pre-sales of properties held or under development	<b>632,536,194</b>	518,724,698
Sales of network hardware and installation of intelligent home equipment	<b>83,016,102</b>	88,897,236
Sales of land located in Hainan Province (Note 17(i))	<b>123,833,757</b>	–
Rental income from investment properties	–	1,516,421
	<b>839,386,053</b>	609,138,355
Less: Business tax and surtaxes (i)	<b>(38,499,599)</b>	(27,192,859)
Add: Financial refund (ii)	–	4,064,940
Net	<b>800,886,454</b>	586,010,436

- (i) The Group is subject to business tax (“BT”) at 5% on the revenue from the sale/pre-sale of properties and land, installation of intelligent home equipment and rental income. In addition to BT, some subsidiaries are subject to the following surtaxes:
- City development tax, a tax levied at 7% of BT or Value-Added Tax (“VAT”);
  - Education supplementary tax, a tax levied at 3% of BT or VAT.
- (ii) Financial refund represents financial subsidy equivalent to 30% and 35% of BT paid available to certain subsidiaries, and is recognised on a cash basis.



## Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 5. FINANCE (GAINS)/COSTS, NET

	2002	2001
Interest expense		
Interest on bank loans – wholly repayable within five years	<b>8,056,279</b>	1,858,612
Interest on bank loans – wholly repayable over five years	<b>248,438</b>	21,162
Interest on loans from related party – wholly repayable within five years (Note 27(a)(iii))	<b>3,700,877</b>	–
Other incidental borrowing costs	<b>1,982,500</b>	–
Total borrowing costs incurred	<b>13,988,094</b>	1,879,774
Less: amount capitalised in properties under development for sale	<b>(13,721,830)</b>	–
Interest expense charged into profit and loss account	<b>266,264</b>	1,879,774
Interest income		
Interest income on bank deposits	<b>(2,488,319)</b>	(1,223,566)
Finance (gains) / costs, net	<b>(2,222,055)</b>	656,208



## Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 6. PROFIT BEFORE TAXATION

The consolidated profit before taxation was determined after crediting or charging the following:

	2002	2001
Crediting:		
Revaluation reserve realised	538,083	–
Gain on disposal of a subsidiary (Note 1(ii))	453,804	–
Gain on disposal of an associated company	530,324	–
Charging:		
Depreciation of fixed assets	4,897,282	4,473,161
Provision for fixed assets impairment		
loss-discontinuing operations	–	4,000,000
Staff costs (excluding directors)		
– Salaries and wages	10,003,695	7,251,074
– Pension	1,065,958	926,278
Cost of inventories	61,063,176	63,158,594
Operating lease expenses for offices	2,328,248	1,562,692
Auditors' remuneration	1,040,000	939,800
Provisions for maintenance fund	4,373,786	4,636,628
Amortisation of goodwill	327,962	328,116
Exchange loss, net	163,608	11,286



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 7. TAXATION

### (a) INCOME TAX

	2002	2001
Current – PRC taxation	<b>54,719,513</b>	20,604,909
Deferred taxation (Note 15)	<b>(5,974,968)</b>	16,829,657
	<b>48,744,545</b>	37,434,566

The Group conducts a significant portion of its business in the PRC and the applicable enterprise income tax (“EIT”) rate of its subsidiaries operating in the PRC is generally 33% other than Housing Technology, a Sino-foreign equity joint venture, which is engaged in manufacturing and thus entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years commencing from the first profitable year of operation after offsetting all tax losses carried from previous years (at most five years).

Meanwhile, Housing Technology is established in the old urban district of a city with technological economic development zone and the EIT rate is 27%. 2002 was the third profitable year of operation for Housing Technology and the applicable EIT rate was 13.5%.

The Company is exempted from taxation in Bermuda until 2016. There were also no Hong Kong profits tax liabilities, as the Group did not have any assessable profit in Hong Kong.



## Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 7. TAXATION (continued)

#### (a) INCOME TAX (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the Group's general taxation rate of 33% as follows:

	2002		2001	
Profit before taxation	<b>136,268,773</b>		117,947,847	
Add: Net loss incurred by the Company before accounting for the dividend income from subsidiaries which was eliminated on consolidation	<b>19,141,744</b>		11,401,502	
Accounting profit derived from the PRC	<b>155,410,517</b>	<b>100%</b>	129,349,349	100%
Calculated at a taxation rate of 33% (2001: 33%)	<b>51,285,471</b>	<b>33%</b>	42,685,285	33%
Effect of tax losses of subsidiaries not accounted for	<b>1,123,018</b>	<b>1%</b>	2,797,968	2%
Effect of different taxation rate of a subsidiary	<b>(3,663,944)</b>	<b>(2%)</b>	(8,048,687)	(6%)
Taxation charge	<b>48,744,545</b>	<b>31%</b>	37,434,566	29%

#### (b) BUSINESS TAX ("BT")

The Group is subject to BT at 5% on the revenue from the sale/pre-sale of properties and land, installation of intelligent home equipment, and rental income.



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 7. TAXATION (continued)

### (c) VALUE-ADDED TAX ("VAT")

The Group is subject to VAT, which is levied at general rate of 17% on the gross turnover upon sale or purchase of goods. An input credit is available whereby VAT previously paid on purchases of raw materials, semi-finished products, etc., may be used to offset the VAT payable on sales to determine the net VAT payable. Sales and purchases are stated net of VAT in the consolidated profit and loss account.

## 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a net profit of HK\$27,297,795 dealt with in the financial statements of the Company (2001: HK\$ 18,156,693).

## 9. DIVIDENDS

	2002	2001
Dividends proposed and paid		
– Final dividend of HK\$0.0159 per share (2001: HK\$0.012)	<b>17,999,754</b>	12,000,000
	<b>17,999,754</b>	12,000,000

Pursuant to a resolution made by the Board of Directors on 25th April, 2003, the Company proposed a final dividend of HK\$0.0199 per share for 2002, totalling approximately HK\$27,000,000 based on outstanding ordinary shares at the end of March 2003. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2003.

## 10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$90,188,807 (2001: HK\$79,710,068).

The basic earnings per share is based on the weighted average of 1,231,969,726 (2001: 1,002,547,233) ordinary shares in issue during the year. The diluted earnings per share is based on 1,231,969,726 (2001: 1,002,547,233) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average of 3,304,911 (2001: 12,793,291) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 11. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) DIRECTORS' EMOLUMENTS

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2002	2001
Non-executive directors		
Fees	–	–
Other emoluments	<b>310,000</b>	210,000
	<b>310,000</b>	210,000
Executive directors		
Fees	–	–
Other emoluments:	–	–
– Basic salaries, housing allowances, share options, other allowances and benefits in kind	<b>7,705,146</b>	10,268,160
– Discretionary bonuses	–	–
– Inducement fees	–	–
– Pension scheme	–	–
– Compensation for loss of office as director	–	–
	<b>7,705,146</b>	10,268,160
Total	<b>8,015,146</b>	10,478,160

In 2001, benefits in kind include the difference between the market price of the Company's shares and the exercise price of share options granted to the directors at the date of exercise of those options. The difference amounted to approximately HK\$4,368,000 and does not affect the results of operations of the Group. In 2002, directors did not exercise any stock options.

No directors waived the right to receive emoluments except one independent non-executive director.





# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 11. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

### (a) DIRECTORS' EMOLUMENTS (continued)

The emoluments of the directors fell within the following bands:

	Number of directors	
	2002	2001
Emoluments bands		
HK\$ nil – HK\$1,000,000	5	11
HK\$1,000,001 – HK\$1,500,000	5	–
HK\$1,500,001 – HK\$2,000,000	1	–

### (b) FIVE HIGHEST PAID INDIVIDUALS

Details of emoluments paid to the five highest paid individuals (including directors and employees) in the Group were as follows:

	2002	2001
Basic salaries, housing allowances, share options, other allowances and benefits in kind	6,246,797	7,948,080
Discretionary bonuses	–	–
Inducement fees	–	–
Pension scheme	–	–
Compensation for loss of office as director	–	–
	6,246,797	7,948,080

	2002	2001
Number of directors	5	5
Number of employees	–	–
	5	5



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 12. FIXED ASSETS

### GROUP

	2002						2001
	Furniture, Leasehold fixtures and						
	Investment properties	Building	improve-ments	office equipment	Motor vehicles	Construction-in-progress	Total
<b>Cost or valuation</b>							<b>Total</b>
Beginning of year	65,649,633	61,338,786	8,398,510	14,353,240	6,057,441	38,153,600	193,951,210
Additions	38,467,979	-	1,532,959	1,464,270	6,202,826	-	47,668,034
Revaluations	-	-	-	-	-	-	7,182,727
Disposal of a subsidiary (Note 26(c))	(10,206,390)	-	(8,394,553)	(4,271,502)	-	-	(22,872,445)
Other disposals	-	-	-	(6,224,560)	-	(25,916,504)	(32,141,064)
Exchange adjustment	(30,936)	(24,134)	(3,957)	(6,554)	(2,707)	(17,978)	(86,266)
Reclassification	12,219,118	-	-	-	(12,219,118)	-	-
End of year	106,099,404	61,314,652	1,532,959	5,314,894	12,257,560	-	186,519,469
<b>Accumulated depreciation and impairment losses</b>							
Beginning of year	-	2,053,445	8,398,510	3,745,998	1,976,775	-	16,174,728
Charge for the year	-	1,831,474	419,374	1,093,828	1,552,606	-	4,897,282
Impairment charge	-	-	-	-	-	-	4,000,000
Disposal of a subsidiary (Note 26(c))	-	-	(8,394,553)	(1,961,712)	-	-	(10,356,265)
Other disposals	-	-	-	(1,068,360)	-	-	(1,068,360)
Exchange adjustment	-	(968)	(3,958)	(1,696)	(888)	-	(7,510)
End of year	-	3,883,951	419,373	1,808,058	3,528,493	-	9,639,875
<b>Net book value</b>							
Balance, end of year	106,099,404	57,430,701	1,113,586	3,506,836	8,729,067	-	177,776,482
Balance, beginning of year	65,649,633	59,285,341	-	10,607,242	4,080,666	38,153,600	177,776,482



## Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 12. FIXED ASSETS (continued)

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

	Investment properties	Building	Leasehold improve- ments	Furniture, fixtures and office equipment	Motor vehicles	Construction- in-progress	Total
Representing:							
At cost	-	57,430,701	1,113,586	3,506,836	8,729,067	-	70,780,190
At valuation	106,099,404	-	-	-	-	-	106,099,404
	106,099,404	57,430,701	1,113,586	3,506,836	8,729,067	-	176,879,594

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

Representing:							
At cost	-	59,285,341	-	10,607,242	4,080,666	38,153,600	112,126,849
At valuation	65,649,633	-	-	-	-	-	65,649,633
	65,649,633	59,285,341	-	10,607,242	4,080,666	38,153,600	177,776,482

As at 31st December 2001, the carrying amount of construction-in-progress included a prepayment of HK\$ 25,916,504 for the acquisition of investment properties. In 2002, the transaction was cancelled and the prepayment amount was duly recovered.

All investment properties are located in the PRC and the land use period of the related land use rights are from 47 to 70 years expiring in 2043 through 2068.

#### GROUP

The Group's investment properties were revalued at 31st December 2002 on the basis of their open market value by Vigers Hong Kong Limited, independent professional valuers.



## Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 12. FIXED ASSETS (continued)

#### COMPANY

	2002					2001
	Furniture, fixtures and					
	Leasehold	Building	office	Motor	Total	Total
	improvements		equipment	vehicles		
<b>Cost</b>						
Beginning of year	–	10,122,250	440,876	312,119	10,875,245	1,219,030
Additions	943,005	–	81,355	1,003,129	2,027,489	10,122,250
Disposals	–	–	–	–	–	(466,035)
End of year	943,005	10,122,250	522,231	1,315,248	12,902,734	10,875,245
<b>Accumulated depreciation</b>						
Beginning of year	–	–	141,651	93,635	235,286	240,286
Additions	141,450	273,884	90,064	205,077	710,475	253,687
Disposals	–	–	–	–	–	(258,687)
End of year	141,450	273,884	231,715	298,712	945,761	235,286
<b>Net book value</b>						
Balance, end of year	801,555	9,848,366	290,516	1,016,536	11,956,973	10,639,959
Balance, beginning of year	–	10,122,250	299,225	218,484	10,639,959	978,744

As at 31st December 2002 and 2001, approximately HK\$10 million of the Company's buildings were mortgaged as collateral for the Company's short-term and long-term bank loans (Note 22).

As at 31st December 2002, approximately HK\$0.8 million of the Company's motor vehicles was mortgaged as collateral for the Company's long-term bank loans (Note 22).



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 13. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES

### COMPANY

#### a. Investments in subsidiaries

	2002	2001
Unlisted equity interests, at cost	<b>395,308,736</b>	286,886,723

Details of the subsidiaries as at 31st December 2002 are set out in Note 1.

#### b. Advances to subsidiaries

The advances to subsidiaries were unsecured, interest free and without fixed repayment terms.

## 14. INTERESTS IN ASSOCIATED COMPANIES

### GROUP

	2002	2001
Investments (unlisted), at cost		
– Trans-Ocean Property Management	<b>226,180</b>	226,287
– Broadband	<b>18,848,365</b>	18,857,251
– Orda	<b>9,047,215</b>	9,051,480
– Shanghai No 1. Hardware		
Trans-Ocean Chain Co., Ltd (“No 1. Hardware”)	–	4,714,313
– Shanghai Internet	<b>9,424,182</b>	–
– Jinluodian	<b>46,800,000</b>	–
	<b>84,345,942</b>	32,849,331
Representing:		
– Share of net assets	<b>77,783,619</b>	26,287,008
– Goodwill on acquisition	<b>6,562,323</b>	6,562,323
	<b>84,345,942</b>	32,849,331
Accumulated amortisation of goodwill	<b>(820,136)</b>	(492,174)
Accumulated share of post acquisition profits less distributions	<b>1,215,048</b>	2,567,553
Unrealised profit from transaction with an associated company	–	(359,129)
	<b>84,740,854</b>	34,565,581

Details of the associated companies as at 31st December 2002 are set out in Note 1.



## Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 14. INTERESTS IN ASSOCIATED COMPANIES (continued)

The directors are of the opinion that the underlying values of the associated companies are not less than their carrying values as at 31st December 2002.

#### COMPANY

	2002	2001
Investments (unlisted), at cost		
– Share of net assets	<b>46,800,000</b>	–

### 15. DEFERRED TAXATION

#### GROUP

	2002	2001
Balance, beginning of year	<b>(49,260,283)</b>	(32,430,626)
Deferred taxation credit/(charge) to profit and loss account (Note 7)	<b>5,974,968</b>	(16,829,657)
Translation differences	<b>23,212</b>	–
Balance, end of year	<b>(43,262,103)</b>	(49,260,283)
Representing:		
Deferred tax assets	<b>112,736</b>	161,485
Deferred tax liabilities	<b>(43,374,839)</b>	(49,421,768)
	<b>(43,262,103)</b>	(49,260,283)

Deferred taxation mainly represents the tax effect of timing differences arising from the use of different bases of revenue recognition of pre-sale of property under development for financial reporting and tax purposes. There was no material unprovided deferred tax as at 31st December 2002.



## Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 16. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

#### GROUP

	2002		
	Included in current assets	Included in current liabilities	Total
At cost	973,484,256	255,502,104	1,228,986,360
Add: attributable profits on pre-sold properties	60,218,857	133,513,476	193,732,333
	1,033,703,113	389,015,580	1,422,718,693
Less: sale instalments and deposits received and receivable	(167,065,799)	(425,260,183)	(592,325,982)
	866,637,314	(36,244,603)	830,392,711
	2001		
	Included in current assets	Included in current liabilities	Total
At cost	717,351,757	194,541,346	911,893,103
Add: attributable profits on pre-sold properties	106,558,513	93,516,419	200,074,932
	823,910,270	288,057,765	1,111,968,035
Less: sale instalments and deposits received and receivable	(292,883,265)	(316,162,608)	(609,045,873)
	531,027,005	(28,104,843)	502,922,162

All properties held or under development for sale are situated in Shanghai, the PRC.

As at 31st December 2002, land of approximately HK\$64 million and land of approximately HK\$356 million were mortgaged as collaterals for the Group's short-term and long-term bank loans respectively (2001: approximately HK\$33 million were mortgaged as collaterals for the Group's short-term bank loans) (Note 22).



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 17. PREPAYMENTS AND OTHER CURRENT ASSETS

### GROUP

	2002	2001
Prepayment for land in Hainan (i)	–	71,598,529
Prepayment for land in Shanghai (ii)	<b>62,760,740</b>	–
Prepayment to suppliers	<b>19,334,751</b>	–
Others	–	9,342,028
	<b>82,095,491</b>	80,940,557

### COMPANY

	2002	2001
Prepayment for land in Shanghai (ii)	<b>45,797,211</b>	–

- (i) In 2001, the Group reached an agreement with a third party to purchase a parcel of land located in Hainan Province, the PRC. As at 31st December 2001, the Group had made the first instalment payment of approximately HK\$71.6 million. In 2002, the Group transferred the right to purchase the land to another third party and realised a gain of HK\$44 million (Note 4).
- (ii) The Group had the intention to form a project company with prospective PRC investors to jointly develop the Shanghai Oasis Skyway Garden Hotel and Condominium Project and a company was formed subsequent to year-end (Note 31(a)). The Group and the prospective investors purchased a parcel of land located in Shanghai. As of 31st December 2002, the Group paid approximately HK\$62.8 million for its share in the cost of land. This amount was subsequently injected to the project company as part of the Group's capital contributions.

## 18. ACCOUNTS RECEIVABLES

### GROUP

	2002	2001
Accounts receivable	<b>104,568,585</b>	82,684,151
Less: Provision for doubtful accounts	<b>(15,131)</b>	(15,139)
	<b>104,553,454</b>	82,669,012





# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 18. ACCOUNTS RECEIVABLES (continued)

### GROUP (continued)

An aging analysis of accounts receivables is set out below:

	2002	2001
0-360 days	<b>70,641,863</b>	65,165,249
361-720 days	<b>20,029,913</b>	17,518,902
Over 720 days	<b>13,896,809</b>	–
Less: Provision for doubtful debts	<b>(15,131)</b>	(15,139)
	<b>104,553,454</b>	82,669,012

Accounts receivable mainly arose from unsettled billings, which were made in accordance with instalment terms stipulated in pre-sale contracts.

The normal credit period granted by the Group is between one and two months. The amounts outstanding for more than one year resulted from pre-sales of properties where customers have placed deposits without entering into mortgage financing arrangements. Progress billings were made in accordance with the terms of the sales agreements.

## 19. SHARE CAPITAL

### GROUP AND COMPANY

	2002		2001	
	Number of shares	Nominal value	Number of shares	Nominal value
Ordinary shares of HK\$0.10 each				
Authorised:	<b>2,000,000,000</b>	<b>200,000,000</b>	2,000,000,000	200,000,000
Issued and fully paid:				
– Beginning of year	<b>1,032,060,000</b>	<b>103,206,000</b>	1,000,000,000	100,000,000
– Issue of shares (i)	<b>326,000,000</b>	<b>32,600,000</b>	–	–
– Exercise of options (ii)	<b>870,000</b>	<b>87,000</b>	32,060,000	3,206,000
– Buy back (iii)	<b>(6,000,000)</b>	<b>(600,000)</b>	–	–
– End of year	<b>1,352,930,000</b>	<b>135,293,000</b>	1,032,060,000	103,206,000



## Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 19. SHARE CAPITAL (continued)

- (i) On 21st March 2002, Good Time Resources Limited, the holding company placed 100,000,000 shares to a number of independent third parties at a price of HK\$0.99 per share. 100,000,000 shares had been subsequently allotted to Good Time Resources Limited on 3rd April 2002 at the same price. The net proceeds from this allotment of shares amounted to approximately HK\$94.9 million, of which, HK\$10 million was credited against share capital and approximately HK\$84.9 million credited to share premium.
- (ii) On 30th May 2002, Good Time Resources Limited, placed 226,000,000 shares to a number of independent third parties at a price of HK\$1.18 per share. 226,000,000 shares had been subsequently allotted to Good Time Resources Limited on 11th June, 2002 at the same price. The net proceeds from this allotment of shares amounted to approximately HK\$256.9 million, of which, HK\$22.6 million was credited against share capital and approximately HK\$234.3 million credited to share premium.

The listing and permission to deal in the shares allotted were approved by the HKSE. These shares rank pari passu with the existing shares.

- (iii) During the year ended 31st December 2002, a total of 870,000 shares were issued in connection with the exercise of share options at HK\$0.45 per share (Note 20). The net proceeds from this exercise amounted to approximately HK\$391,500, of which HK\$87,000 was credited against share capital and approximately HK\$304,500 credited to share premium. These shares rank pari passu with the existing shares.
- (iv) During the period from 18th September 2002 to 20th September 2002, the Company bought back on the SEHK a total of 6,000,000 shares at the price of HK\$0.67 – HK\$0.77 per share. The total consideration paid for these shares amounted to approximately HK\$4,226,000, of which, HK\$600,000 was debited against share capital and approximately HK\$3,626,000 debited against share premium. As at 31st December 2002, all the relevant share certificates in respect of the shares buy-back had been duly cancelled and destroyed.



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 20. SHARE OPTION SCHEME

A new share option scheme was approved by a special general meeting dated 23rd May 2002. According to this new share option scheme, the directors may, at their discretion at any time during ten years from the date of approval of the scheme, invite any executive and/or employee of the Group to take up share options of the Company. The subscription price is determined by the directors and will be determined according to the higher price of (i) the average official closing price of the shares on the SEHK for the five trading days immediately preceding the relevant offer date and (ii) the official closing price of the shares on the SEHK on the relevant offer date. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each grantee and unless the Board shall otherwise resolve in relation to any option at the time of grant, such period of time should not exceed 3 years commencing on the expiry of six months after the date on which the option is accepted and expiring on the last day of such period or 11th November 2009, whichever is the earlier.

A summary of the movements of share options granted under the scheme during the year is as follows:

Exercise price per share	HK\$0.41– HK\$0.50	HK\$0.51– HK\$0.60	HK\$0.71– HK\$0.80	HK\$0.81– HK\$0.90	Total
Beginning of year	1,740,000	–	3,000,000	50,800,000	55,540,000
Granted during the year	–	50,000,000	–	–	50,000,000
Exercised during the year (Note 19)	(870,000)	–	–	–	(870,000)
Cancelled/lapsed during the year	–	–	(3,000,000)	(50,800,000)	(53,800,000)
End of year	870,000	50,000,000	–	–	50,870,000
Including:					
– Directors	–	–	–	–	–
– Employees	870,000	50,000,000	–	–	50,870,000
	870,000	50,000,000	–	–	50,870,000



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 21. RESERVES

### GROUP

Movement in reserves of the Group is presented in the consolidated statement of changes in equity.

- (a) Share premium represents proceeds from the issuance of shares in excess of their par value, net of underwriting commissions, organisation costs and professional fees.
- (b) The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit as reported in their respective statutory accounts. All statutory reserves are created for specific purposes.

Companies within the Group that are registered in the PRC are required to appropriate 10% of the net profits as reported (after offsetting any prior years' losses) in the statutory accounts to the statutory surplus reserve; such appropriation is optional when the statutory surplus reserve has reached 50% of its share capital. The statutory surplus reserve can only be used, upon approval by the relevant authority, to offset a deficit or increase share capital. However, such statutory surplus reserve shall be maintained at a minimum of 25% of share capital after such issuance.

- (c) Companies within the Group that are registered in the PRC are also required to appropriate 5% to 10% of the net profits as reported (after offsetting any prior years' losses) in the statutory accounts to the statutory public welfare fund, which can only be used for capital expenditures for the collective welfare of the employees.

### COMPANY

Movement in reserves of the Company was as follows:

	Share premium	Retained earnings	Total
Balance as at 1st January 2001	279,222,780	18,641,879	297,864,659
Shares issued (Note 19(i)(ii))	319,466,565	–	319,466,565
Shares bought back (Note 19(iii))	(3,625,740)	–	(3,625,740)
Profit attributable to shareholders	–	27,297,795	27,297,795
Dividends (Note 9)	–	(17,999,754)	(17,999,754)
Balance as at 31st December 2002	595,063,605	27,939,920	623,003,525



## Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 22. BANK LOANS

#### GROUP AND COMPANY

	Group		Company	
	2002	2001	2002	2001
Short-term bank loans				
– Secured	<b>171,577,702</b>	29,285,876	<b>1,000,000</b>	1,000,000
– Unsecured	–	5,864,605	–	–
	<b>171,577,702</b>	35,150,481	<b>1,000,000</b>	1,000,000
Long-term bank loans				
– Secured	<b>143,701,688</b>	6,760,423	<b>7,051,042</b>	6,760,423
– Unsecured	<b>132,696,730</b>	–	<b>95,000,000</b>	–
	<b>276,398,418</b>	6,760,423	<b>102,051,042</b>	6,760,423
The long-term bank loans were repayable as follows:				
– Within one year	<b>57,242,762</b>	452,667	<b>697,667</b>	452,667
– In the second year	<b>175,803,218</b>	452,667	<b>95,697,667</b>	452,667
– In the third to fifth year	<b>39,218,058</b>	1,358,000	<b>1,521,328</b>	1,358,000
– After the fifth year	<b>4,134,380</b>	4,497,089	<b>4,134,380</b>	4,497,089
	<b>276,398,418</b>	6,760,423	<b>102,051,042</b>	6,760,423
Less: Amount due within one year shown under current liabilities	<b>(57,242,762)</b>	(452,667)	<b>(697,667)</b>	(452,667)
	<b>219,155,656</b>	6,307,756	<b>101,353,375</b>	6,307,756



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 22. BANK LOANS (continued)

### GROUP AND COMPANY (continued)

#### (a) Short-term bank loans

As at 31st December, 2002, except for approximately HK\$1 million (2001: approximately HK\$1 million) of short-term bank loans that were denominated in HK\$, which bore interest at 3.625% per annum (2001: 4%), all short-term bank loans were denominated in RMB, and bore interest at rates ranging from 5.0448% to 6.039% (2001: 5.58% to 6.44%) per annum.

As at 31st December, 2002, short-term bank loans of approximately HK\$1 million (2001: HK\$1 million) were secured by pledges of the Company's buildings (Note 12), approximately HK\$35.8 million (2001: HK\$28.3 million) were secured by pledges of the Group's land (Note 16), approximately HK\$87.7 million of loan were secured by a standby letter of credit arranged by the Company via the pledge of a fixed deposit of HK\$85 million (Note 26(e)). In addition approximately HK\$47.1 million of loans were guaranteed by Shanghai Youpu Real Estate Co., Ltd., a related party. (Note 27(a)(iv)).

#### (b) Long-term bank loans

As at 31st December, 2002, except for approximately HK\$102 million of long-term bank loans that were denominated in HK\$, which bore interest at 3.125% to 3.556% per annum, all long-term bank loans were denominated in RMB, and bore interest at rates ranging from 5.022% to 6.039% per annum. As at 31st December, 2001, all long-term bank loans were denominated in HK\$ and bore interest at 3.5% per annum.

As at 31st December, 2002, included in the above loans are unsecured long-term bank loans of HK\$95 million, which were borrowed under a syndicate loan facility agreement dated 23rd October, 2002. The total loan facility granted was HK\$95 million for a period of 15 months from the date of the agreement. The rate of interest under this facility agreement is 1.5% above the Hong Kong Interbank Offered Rate.

As at 31st December, 2002, long-term bank loans of approximately HK\$0.6 million were secured by pledges of the Company's motor vehicles (Note 12), approximately HK\$6.4 million (2001: HK\$ 6.8 million) were secured by pledges of the Company's buildings (Note 12), and approximately HK\$136.7 million were secured by the Group's land (Note 16).

## 23. ACCOUNTS PAYABLE

The age of the Group's accounts payable are all less than one year.



## Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 24. OTHER PAYABLES AND ACCRUALS

#### GROUP

	2002	2001
Deposits paid by a potential customer	–	71,221,045
Proceeds from sale of properties on behalf of beneficial owners (i)	<b>18,424,121</b>	62,731,941
Advance from a third party (ii)	<b>14,013,387</b>	22,295,822
Accrued maintenance fund	<b>287,900</b>	3,991,027
Payable to a minority shareholder resulting from excess contribution	–	4,714,313
Accrued advertising fee	<b>1,206,295</b>	3,771,450
Others	<b>23,451,723</b>	23,903,659
	<b>57,383,426</b>	192,629,257

(i) The amount represents proceeds from sale of properties which the Group collects on behalf of the beneficial owners in its capacity as their agent.

(ii) The advance is unsecured, interest free and without fixed repayment term.

### 25. TAXATION PAYABLE

#### GROUP

	2002	2001
EIT payable	<b>91,747,279</b>	46,006,100
BT payable	<b>34,948,168</b>	21,804,721
VAT payable	<b>3,480,664</b>	1,505,129
Other taxes payable	<b>328,098</b>	438,092
	<b>130,504,209</b>	69,754,042



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 26. CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit before taxation to net cash (outflow) inflow from operating activities:

	2002	2001
Profit before taxation	<b>136,268,773</b>	117,947,847
Adjustments for:		
Provision for fixed assets impairment loss	–	4,000,000
Depreciation of fixed assets	<b>4,897,282</b>	4,473,161
Gain on disposal of fixed assets	<b>(1,743,416)</b>	–
Gain on disposal of a subsidiary	<b>(453,804)</b>	–
Gain on disposal of an associated company	<b>(530,324)</b>	–
Realisation of revaluation reserve	<b>(538,083)</b>	–
Share of net losses from associated companies	<b>1,851,262</b>	1,414,706
Interest income	<b>(2,488,319)</b>	(1,223,566)
Interest expense	<b>266,264</b>	1,879,774
Operating profit before working capital changes	<b>137,529,635</b>	128,491,922
Increase in restricted deposits	<b>(83,086,987)</b>	(1,725,147)
Increase in accounts receivable	<b>(21,884,442)</b>	(32,854,060)
(Increase) decrease in other receivables	<b>(3,855,687)</b>	2,084,292
Increase in prepayments and other current assets	<b>(1,154,934)</b>	(30,513,725)
Increase in advances to related companies	<b>(9,346,046)</b>	(1,003,809)
Increase in properties held or under development for sale	<b>(248,099,625)</b>	(150,466,577)
Increase in inventories	<b>(2,575,071)</b>	(2,223,819)
Decrease in accounts payable	<b>(7,211,412)</b>	(19,901,569)
(Decrease) Increase in other payables and accruals	<b>(160,957,718)</b>	132,242,992
Increase in taxation payable	<b>16,278,124</b>	13,535,241
Increase (Decrease) in advances from related companies	<b>5,020,760</b>	(3,017,160)
Decrease in long-term payables	–	(10,952,207)
Net cash (outflow) inflow generated from operations	<b>(379,343,403)</b>	23,696,374





## Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 26. CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (b) Cash paid for purchase of a subsidiary

On 30th October 2002, the Group acquired 48.45% equity interest in Zhufu. The fair value of the assets and liabilities acquired were as follows:

	2002
Net assets acquired	
Properties held or under development for sale	65,649,094
Accounts payable	(21,127,204)
Other payables and accruals	(35,097,708)
Minority interests	(4,617,849)
	4,806,333
Satisfied by	
Cash paid	4,806,333

#### (c) Cash received from disposal of a subsidiary (Note 1(ii))

	2002
Net assets disposed	
Fixed assets (Note 12)	12,516,180
Inventories	44,126
Cash and bank balances	629,730
Other payables and accruals	(9,397,220)
Taxation payable	(1,269,136)
Minority interests	(1,287,077)
	1,236,603
Satisfied by	
Cash received	1,690,407
Cash and bank balances of this subsidiary	(629,730)
	1,060,677



## Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 26. CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Analysis of changes in financing during the year:

	Share capital (Including Premium)	Minority interests	Long term bank loans
Balance as at 1st January 2001	366,627,780	44,290,848	–
Minority interests' share of profits	–	803,213	–
Minority interests' share of revaluation reserve	–	4,506,524	–
Cash flows from financing activities	15,801,000	1,365,161	6,760,423
Balance as at 31st December 2001	382,428,780	50,965,746	6,760,423
Minority interests' share of losses	–	(2,664,579)	–
Disposal of a subsidiary (Note 26(c))	–	(1,287,077)	–
Dividends paid to minority shareholder of a subsidiary	–	(1,743,447)	–
Purchase of a subsidiary (Note 26(b))	–	4,617,849	–
Cash flows from financing activities	347,927,825	10,773,764	269,637,995
Balance as at 31st December 2002	730,356,605	60,662,256	276,398,418

(e) Analysis of cash and cash equivalents:

	2002	2001
Cash on hand	<b>69,762</b>	86,407
Demand deposits	<b>459,971,612</b>	140,364,735
Time deposit with a term of less than three months	<b>32,703,092</b>	2,000,623
Cash and cash equivalents	<b>492,744,466</b>	142,451,765
Pledged bank deposits (Note 22)	<b>85,000,000</b>	–
Restricted bank deposits (Note 29)	<b>13,496,020</b>	15,409,033
Cash and bank balances	<b>591,240,486</b>	157,860,798



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 26. CONSOLIDATED CASH FLOW STATEMENT (continued)

(f) Segment information:

	Property development	Property leasing	High-tech	Total
Cash flows from:				
Operating activities	(373,478,877)	–	(28,830,953)	(402,309,830)
Investing activities	(47,595,305)	(38,467,979)	18,416,504	(67,646,780)
Financing activities	773,296,151	–	47,120,912	820,417,063
	352,221,969	(38,467,979)	36,706,463	350,460,453

## 27. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	2002	2001
Acquisition of an associated company from a related company (i)	<b>9,424,182</b>	–
Gain from disposal of an associated company to a related company (ii)	<b>530,324</b>	–
Loans borrowed from a related company (iii)	<b>75,393,459</b>	–
Interest expense paid/payable to a related company (iii)	<b>3,700,877</b>	–
Loan guarantee provided by a related company (iv)	<b>47,120,912</b>	–
Sales of goods to an associated company	<b>27,713,414</b>	31,502,490
Purchase from an associated company	–	5,694,748

(i) On 4th December 2002, the Group acquired 47.5% equity interest in Shanghai Internet from Shanghai Trans ocean (Group) Co., Ltd (“Transocean Group”) at a consideration of approximately HK\$ 9.42 million. Transocean Group is an associate of Mr. Shi Jian as he has the power to exercise, in aggregate, control over 40% of the voting rights of Transocean Group. Mr. Shi Jian is the Chairman and a director of the Company.

(ii) On 4th December 2002, the Group disposed of its entire 48.25% interest in an associated company – Shanghai No. 1 Hardware Trans-Ocean Chain Co., Ltd. to Transocean Group, for a total consideration of approximately HK\$4.7 million. The Group realised a gain of HK\$530,324 from this transaction.



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 27. RELATED PARTY TRANSACTIONS (continued)

### (a) Transactions with related parties (continued)

(iii) In April 2002, the Group borrowed approximately HK\$75.4 million of short-term loans from Transocean Group. The loan is unsecured and bears interest at a rate of 5.31% per annum. The loan is due for repayment in March 2003.

(iv) As at 31st December 2002, the Group's short-term bank loans of approximately HK\$47.1 million (Note 22) were guaranteed by Shanghai Youpu Real Estate Co., Ltd. ("Youpu"). Youpu is a 60% subsidiary of Transocean Group and is thus a related company.

(b) As at 31st December 2002, the Group had the following material balances with related parties:

	2002	2001
Advances to related companies		
– Jinluodian	5,445,522	–
– Broadband	2,468,754	–
– No.1 Hardware	2,356,046	–
– Trans-Ocean Property Management	1,588,113	2,512,389
	<b>11,858,435</b>	2,512,389
Advances from related companies		
– Transocean Group	77,749,505	–
– Shanghai Internet	3,607,577	–
– No.1 hardware	–	942,863
	<b>81,357,082</b>	942,863

Other than the loans from Transocean Group (Note 27(a)(iii)), the remaining balances with related parties mainly arose from the above related party transactions, and are unsecured, interest free and are receivable or repayable within one year.

## 28. BANKING FACILITIES

As at 31st December 2002, the Group had aggregate bank loan facilities of approximately HK\$573 million (2001: approximately HK\$42 million), HK\$448 of which have been utilised (2001: fully utilised). These facilities are secured by certain land and buildings with an aggregate net book value of HK\$430 million (2001: approximately HK\$43 million).



# Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 29. CONTINGENT LIABILITIES

In respect of certain of the Group's properties for sale, Cosco-Xin Dong, Well Real Estate, TransOcean Construction and Tranceocean Development assisted buyers in obtaining mortgage loans from banks. These companies are obliged to assist buyers to complete mortgage procedures, and will stand as guarantor prior to the submission of property title by the buyer to the lender banks for mortgage purposes. As at 31st December 2002, the outstanding guarantees amounted to approximately HK\$150 million. Part of the Group's bank deposits amounting to HK\$13,496,020 have been restricted (Note 26(e)) in connection with such guarantees.

## 30. COMMITMENTS

### (a) Commitments for properties under development

The Group had outstanding commitments in respect of construction costs for properties under development as follows:

	2002	2001
Authorised and contracted for	<b>396,604,000</b>	174,765,000
Authorised but not contracted for	<b>1,282,877,000</b>	1,238,480,000
	<b>1,679,481,000</b>	1,413,245,000

In addition, the Group had outstanding commitments in respect of uncalled paid-in capital pertaining to Jinluodian, an associated company, amounting to approximately HK\$187 million.

### (b) Commitment under operating leases

As at 31st December 2002 and 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases of buildings as follows:

	2002	2001
Not later than one year	–	358,050
Later than one year and not later than five years	–	–
Later than five years	–	–
	–	358,050



## Notes to the Accounts

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 31. SUBSEQUENT EVENTS

- (a) On 21st January 2003, the Company entered into a joint venture agreement with some third party PRC companies for the establishment of a project company to jointly develop the Shanghai Oasis Skyway Garden Hotel and Condominium Project, a property development. The project company's registered capital would be RMB200 million and the Group will finally hold 56% equity interest in the project company.
- (b) On 28th February 2003, the Company reached an agreement with some third party PRC companies on the equity structure for Jinluodian, whose principal activity would be to carry out land clearance and preparation as well as property development. According to the joint venture agreement, Jinluodian's registered capital would be increased from RMB398.1 million to RMB548.1 million (equivalent to HK\$517.08 million), and the Company's equity interest would decrease from 62% to 45.26% accordingly (See Note 1).

### 32. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in accordance with the new presentation and disclosure requirements of the newly introduced HK SSAPs (Note 2(a)).

### 33. ULTIMATE HOLDING COMPANY

The directors regarded Good Time Resources Limited, a company incorporated in British Virgins Island, as being the ultimate holding company.

### 34. DATE OF APPROVAL

The accounts were approved by the board of directors on 25th April 2003.