

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation and presentation

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

In the current year, the Group adopted the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January, 2003.

The adoption of the revised SSAP 12 has no significant effect to the financial statements of the Group except that certain comparatives have been reclassified to conform with the presentation according to the revised SSAP 12.

- (ii) At 31st December, 2003, the Group's current liabilities, amounting to HK\$513,000,000, exceeded its current assets by HK\$303,404,000. The Group's current liabilities consisted of the following:
 - a. HK\$230,667,000 attributable to Beijing Lucky Building Company Limited ("Lucky Building"), a 61.1% owned subsidiary, including bank loans of HK\$188,501,000 which are overdue. The Group is actively seeking buyers or investors for the project undertaken by Lucky Building, and once such arrangements have become finalised, will negotiate with the banks for the renewal of the loans. In the Directors' opinion, the future of Lucky Building is dependent on the Group's ability to secure a buyer or investor to undertake the project and/or its ability to renew the overdue bank loans. Due to these uncertainties, a full provision of HK\$214,995,000 has been made in the Group's financial statements against the carrying value of the properties held under development, the major asset of Lucky Building. The amount provided represents the net asset value of Lucky Building attributable to the Group. The Directors are of the view that this provision fully reflects the potential financial impact to the Group in the event that Lucky Building is to cease operation.

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(a) Basis of preparation and presentation (Cont'd)

(ii) (Cont'd)

- b. HK\$194,309,000 attributable to Beijing Dan Yao Property Co., Ltd. ("Dan Yao"), a 85% owned subsidiary. This amount includes a total of HK\$84,186,000 which has resulted from the legal judgement against Dan Yao in respect of a litigation, as more fully disclosed in note 3(a) to the financial statements. Dan Yao is appealing against this judgement, and in the opinion of the Directors, the ability of Dan Yao to continue its operations is dependent on the outcome of this appeal. As the outcome of the appeal is uncertain, a provision of HK\$46,559,000 has been made in the Group's financial statements against the carrying value of the properties held for sale, the major asset of Dan Yao. The amount provided represents the net asset value of Dan Yao attributable to the Group. The Directors are of the view that this provision fully reflects the financial impact to the Group in the event that Dan Yao is to cease operation.
- c. HK\$88,024,000 attributable to the other operations of the Group. The Directors are of the view that the operations of the Group, other than that of Lucky Building and Dan Yao, together with its available banking facilities and other financial resources, can generate sufficient cash flows to enable the settlement of its liabilities as and when they fall due. Accordingly, the Directors are confident that these operations will continue and no adjustment to the financial statements has been made.

Based on the foregoing, the Directors believe that the Group will continue as a going concern. Consequently, the Directors have prepared the financial statements on a going concern basis.

(b) Basis of consolidation

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(b) Basis of consolidation *(Cont'd)*

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

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

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

(c) Associated companies

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Fixed assets

(i) *Investment properties*

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

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

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

(ii) *Properties held under development*

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

(iii) *Leasehold land and buildings and other fixed assets*

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

(iv) *Depreciation*

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Fixed assets (Cont'd)

(iv) Depreciation (Cont'd)

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

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

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

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

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

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

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

(e) Properties held for sale

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

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Investment securities

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

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

(g) Other assets

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

(h) Accounts receivables

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

(i) Borrowing costs

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

(j) Employee benefits

(i) *Employee leave entitlements*

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(j) Employee benefits (Cont'd)

(ii) Pension obligations

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

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

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

(k) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy and certain comparatives have been reclassified to conform with the presentation according to the revised SSAP 12. These reclassifications have no net effect on the results or financial position of the Group.

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(l) 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.

(m) Translation of foreign currencies

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

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

(n) Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks less bank overdrafts.

(o) Contingent liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(q) Segment reporting

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

Segment assets consist primarily of fixed assets, properties, receivables and operating cash, and mainly exclude associated companies and tax recoverable. Segment liabilities comprise operating liabilities and exclude items such as deferred tax liabilities and minority interests. Capital expenditure comprises additions to fixed assets. Unallocated costs represent corporate expenses.

In respect of geographical segment reporting, turnover is based on the country of operations. Segment assets and capital expenditure are where the assets are located.

(r) Revenue recognition

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

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

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

Estate management income is recognised on an accrual basis.

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2003 HK\$'000	2002 HK\$'000
Sale of properties	3,881	2,454
Gross rental income		
– investment properties	21,956	23,395
– other properties	11,339	14,152
Estate management fees	6,979	12,632
Interest income	13,244	13,717
Dividend income	371	746
	<hr/>	<hr/>
Total revenues and turnover	<u>57,770</u>	<u>67,096</u>

NOTES TO THE FINANCIAL STATEMENTS

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

Primary reporting – business segments

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

2003

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Estate management <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Unallocated costs <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover	<u>3,881</u>	<u>33,295</u>	<u>6,979</u>	<u>13,615</u>		<u>57,770</u>
Segment results	<u>(81,454)</u>	<u>(196,806)</u>	<u>4,047</u>	<u>12,211</u>		<u>(262,002)</u>
Unallocated corporate expenses					(17,456)	<u>(17,456)</u>
Operating loss						(279,458)
Finance costs						(14,321)
Share of results of associated companies	(65,176)	(1,033)	–	–		<u>(66,209)</u>
Loss before taxation						(359,988)
Taxation						<u>(491)</u>
Loss after taxation						(360,479)
Minority interests						<u>67,544</u>
Loss attributable to shareholders						<u>(292,935)</u>
Segment assets	193,155	808,013	2,740	14,344		1,018,252
Interests in associated companies	281,774	592,179	–	260,000		1,133,953
Unallocated assets						<u>7,019</u>
Total assets						<u>2,159,224</u>
Segment liabilities	264,137	240,018	6,470	9		510,634
Minority interests						129
Unallocated liabilities						<u>77,808</u>
Total liabilities						<u>588,571</u>
Capital expenditure	3,645	6,030	–	–	25	9,700
Depreciation	3,722	4,305	4	–	413	8,444
Provision	<u>139,558</u>	<u>214,995</u>	<u>–</u>	<u>1,406</u>	<u>–</u>	<u>355,959</u>

NOTES TO THE FINANCIAL STATEMENTS

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

Primary reporting – business segments (Cont'd)

2002

	Property development HK\$'000	Property investment HK\$'000	Estate management HK\$'000	Investment holding HK\$'000	Unallocated costs HK\$'000	Group HK\$'000
Turnover	<u>2,454</u>	<u>37,547</u>	<u>12,632</u>	<u>14,463</u>		<u>67,096</u>
Segment results	<u>(605)</u>	<u>11,593</u>	<u>7,097</u>	<u>13,617</u>		<u>31,702</u>
Unallocated corporate expenses					(19,031)	<u>(19,031)</u>
Operating profit						12,671
Finance costs						(7,239)
Share of results of associated companies	(1,488)	2,348	–	–		<u>860</u>
Profit before taxation						6,292
Taxation						<u>(5,401)</u>
Profit after taxation						891
Minority interests						<u>128</u>
Profit attributable to shareholders						<u>1,019</u>
Segment assets	230,477	1,074,008	1,611	15,452		1,321,548
Interests in associated companies	346,950	612,247	–	260,000		1,219,197
Unallocated assets						<u>7,375</u>
Total assets						<u>2,548,120</u>
Segment liabilities	227,107	229,617	4,259	–		460,983
Minority interests						67,673
Unallocated liabilities						<u>80,981</u>
Total liabilities						<u>609,637</u>
Capital expenditure	108	13,574	–	–	192	13,874
Depreciation	50	10,757	4	–	643	11,454
Provision	<u>–</u>	<u>–</u>	<u>–</u>	<u>830</u>	<u>27</u>	<u>857</u>

NOTES TO THE FINANCIAL STATEMENTS

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

Secondary reporting – geographical segments

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

	2003				2002			
	Turnover	Segment results	Total assets	Capital expenditure	Turnover	Segment results	Total assets	Capital expenditure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	42,448	31,150	582,819	25	50,490	30,272	644,043	192
Mainland China	15,322	(293,152)	435,433	9,675	16,606	1,430	677,505	13,682
	<u>57,770</u>	<u>(262,002)</u>	<u>1,018,252</u>	<u>9,700</u>	<u>67,096</u>	<u>31,702</u>	<u>1,321,548</u>	<u>13,874</u>
Unallocated corporate expenses		<u>(17,456)</u>				<u>(19,031)</u>		
Operating (loss)/profit		<u>(279,458)</u>				<u>12,671</u>		
Interests in associated companies			1,133,953				1,219,197	
Unallocated assets			<u>7,019</u>				<u>7,375</u>	
Total assets			<u>2,159,224</u>				<u>2,548,120</u>	

NOTES TO THE FINANCIAL STATEMENTS

3. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after crediting and charging the following:

	2003 HK\$'000	2002 HK\$'000
Crediting		
Gross rental income from investment properties	21,956	23,395
Less: outgoings	(7,076)	(10,052)
Net rental income from investment properties	14,880	13,343
Gross rental income from other properties	11,339	14,152
Less: depreciation	(4,207)	(10,517)
outgoings	(2,624)	(1,939)
Net rental income from other properties	4,508	1,696
Charging		
Cost of properties sold	2,558	1,159
Staff costs, including Directors' remuneration (note 8)	13,963	17,892
Depreciation of fixed assets, other than properties with rental income	4,237	937
Loss on disposal of fixed assets	—	54
Impairment loss of leasehold land and buildings	—	27
Provision for impairment loss of investment securities	1,406	830
Loss on disposal of investment properties	—	3,785
Operating leases in respect of office premises and staff quarters	2,770	3,343
Auditors' remuneration	856	856
Provision in respect of civil actions against a subsidiary (note (a))	28,816	—

Note (a): On 21st February, 2003, a buyer of the properties developed by Dan Yao, the Group's 85% owned subsidiary, has lodged a civil action against the subsidiary to claim for the refund of the purchase consideration of the properties of US\$8,879,000 (approximately HK\$69,256,000), and a penalty of US\$1,776,000 (approximately HK\$13,852,000) by reasons, among others, of not being able to obtain the property certificate within the timeframe as set out in the relevant sale and purchase agreement. The first court judgment was ruled unfavourable to the subsidiary. As a result, a full provision has been made to reflect the Group's losses resulting from the claim. The amount provided of HK\$28,816,000 mainly represents the penalty of HK\$13,854,000, the legal costs of HK\$1,834,000 and the profit previously recognised on the property sale of HK\$12,908,000.

NOTES TO THE FINANCIAL STATEMENTS

4. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on bank loans and overdrafts Wholly repayable within five years	18,610	18,525
Interest on other loans Wholly repayable within five years	—	4
Not wholly repayable within five years	196	542
Other incidental borrowing costs	381	369
Total borrowing costs incurred	19,187	19,440
Less: Interest capitalised	(4,866)	(12,201)
Total finance costs expensed during the year	<u>14,321</u>	<u>7,239</u>

The capitalisation rate applied to funds borrowed generally and used for property development projects in the People's Republic of China (the "PRC") is between 1.86% and 2.58% per annum.

NOTES TO THE FINANCIAL STATEMENTS

5. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. PRC income tax has been provided at the rate of 33% (2002: 33%) on the estimated assessable profit of the Group's subsidiary operating in the PRC.

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
(Under)/over-provision of Hong Kong profits tax in prior years	(20)	1,200
PRC income tax	—	(6,010)
Deferred taxation relating to the origination of temporary differences	(388)	(461)
Share of taxation attributable to associated companies	(83)	(130)
	<u>(491)</u>	<u>(5,401)</u>

The taxation on the Group's (loss)/profit before taxation differs from the theoretical amount that would arise using the profits tax rate of Hong Kong where the Company operates and the difference is set out below:

	2003	2002
	HK\$'000	HK\$'000
(Loss)/profit before taxation	<u>(359,988)</u>	<u>6,292</u>
Calculated at a taxation rate of 17.5% (2002: 16%)	(62,998)	1,007
Effect of different taxation rates in other countries	(47,441)	(3,038)
Income not subject to taxation	(799)	(2,948)
Expenses not deductible for taxation purposes	11,499	1,952
Utilisation of previously unrecognised tax losses	(2,091)	(6,172)
Deferred tax assets not recognised	102,301	15,800
Under/(over) provision for taxation in prior years	<u>20</u>	<u>(1,200)</u>
Taxation charge	<u>491</u>	<u>5,401</u>

NOTES TO THE FINANCIAL STATEMENTS

6. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The (loss)/profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of a loss of HK\$224,584,000 (2002: loss of HK\$28,968,000).

7. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to shareholders of HK\$292,935,000 (2002: profit HK\$1,019,000) and 1,135,606,132 (2002: 1,135,606,132) ordinary shares in issue during the year. No outstanding share options were granted by the Company in 2002 and 2003. Accordingly, diluted (loss)/earnings per share are not shown.

8. STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION)

	2003 HK\$'000	2002 HK\$'000
Wages and salaries	12,982	15,838
Unutilised annual leave	(15)	48
Social security costs	707	1,603
Pension costs – defined contribution plans (<i>note 9</i>)	289	403
	<u>13,963</u>	<u>17,892</u>

9. RETIREMENT BENEFIT COSTS

The Group operates a defined contribution provident fund scheme (the "Scheme") which is available to certain employees who joined the Group before 1st December, 2000. Contributions to the Scheme by the Group and the employees are calculated as a percentage of the employees' monthly payroll. The Group's contributions are reduced by contributions forfeited by those employees who leave the Scheme prior to vesting fully in the contributions. Forfeited contributions totalling HK\$15,000 (2002: HK\$40,000) were utilised during the year and no contribution was returned to the Group (2002: Nil). The remaining forfeited contributions of HK\$44,000 (2002: HK\$20,000) at the year end can be used to reduce future contributions.

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

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

NOTES TO THE FINANCIAL STATEMENTS

9. RETIREMENT BENEFIT COSTS (Cont'd)

The cost charged to the profit and loss account represents contributions payable by the Group to the schemes. Contributions totalling HK\$289,000 (2002: HK\$403,000) were paid during the year.

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

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

	2003 HK\$'000	2002 HK\$'000
Fees	660	660
Basic salaries, housing allowances, other allowances and benefits in kind	4,913	5,020
Discretionary bonuses	363	363
Pensions	24	24
	<u>5,960</u>	<u>6,067</u>

The fees payable to Independent Non-executive Directors of the Company during the year amounted to HK\$440,000 (2002: HK\$440,000).

The emoluments of the Directors fell within the following bands:

Emolument bands

	Number of Directors	
	2003	2002
HK\$Nil – HK\$1,000,000	3	3
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$3,000,001 – HK\$3,500,000	1	1
	<u>5</u>	<u>5</u>

NOTES TO THE FINANCIAL STATEMENTS

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

- (b) The five individuals whose emoluments were the highest in the Group for the year include two (2002: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2002: three) individuals during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	1,628	1,696
Discretionary bonuses	136	141
Pensions	78	82
	<u>1,842</u>	<u>1,919</u>

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

Emolument bands

	Number of individuals	
	2003	2002
HK\$Nil – HK\$1,000,000	2	2
HK\$1,000,001 – HK\$1,500,000	1	1
	<u>3</u>	<u>3</u>

NOTES TO THE FINANCIAL STATEMENTS

11. FIXED ASSETS

	Group							Company			
	Investment properties HK\$'000	Properties held under development HK\$'000	Leasehold land and buildings HK\$'000	Office equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000	Office equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation											
At 1st January, 2003	616,818	441,502	23,500	1,855	2,870	4,576	1,091,121	471	2,057	2,248	4,776
Additions	–	6,030	–	25	3,645	–	9,700	25	–	–	25
Reclassification	6,271	–	(6,271)	–	–	–	–	–	–	–	–
Revaluation	(57,759)	–	–	–	–	–	(57,759)	–	–	–	–
At 31st December, 2003	565,330	447,532	17,229	1,880	6,515	4,576	1,043,062	496	2,057	2,248	4,801
Accumulated depreciation and impairment											
At 1st January, 2003	–	–	13,390	1,367	2,451	3,480	20,688	370	1,676	1,755	3,801
Charge for the year	–	–	4,219	156	3,786	283	8,444	42	130	179	351
Impairment charge	–	214,995	–	–	–	–	214,995	–	–	–	–
Reclassification	729	–	(729)	–	–	–	–	–	–	–	–
Revaluation	(729)	–	–	–	–	–	(729)	–	–	–	–
At 31st December, 2003	–	214,995	16,880	1,523	6,237	3,763	243,398	412	1,806	1,934	4,152
Net book value											
At 31st December, 2003	565,330	232,537	349	357	278	813	799,664	84	251	314	649
At 31st December, 2002	616,818	441,502	10,110	488	419	1,096	1,070,433	101	381	493	975
	Group							Company			
	Investment properties HK\$'000	Properties held under development HK\$'000	Leasehold land and buildings HK\$'000	Office equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000	Office equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
The analysis of the cost or valuation of the above assets as at 31st December, 2003 is as follows:											
At cost	–	447,532	17,229	1,880	6,515	4,576	477,732	496	2,057	2,248	4,801
At 2003 professional valuation	565,330	–	–	–	–	–	565,330	–	–	–	–
	565,330	447,532	17,229	1,880	6,515	4,576	1,043,062	496	2,057	2,248	4,801
The analysis of the cost or valuation of the above assets as at 31st December, 2002 is as follows:											
At cost	–	441,502	23,500	1,855	2,870	4,576	474,303	471	2,057	2,248	4,776
At 2002 professional valuation	616,818	–	–	–	–	–	616,818	–	–	–	–
	616,818	441,502	23,500	1,855	2,870	4,576	1,091,121	471	2,057	2,248	4,776

NOTES TO THE FINANCIAL STATEMENTS

11. FIXED ASSETS (Cont'd)

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

	Group	
	2003 HK\$'000	2002 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	349	593,160
Leases of between 10 to 50 years	558,600	22,800
Leases of less than 10 years	170	200
In the PRC, held on:		
Leases of over 50 years	2,691	2,690
Leases of between 10 to 50 years	236,406	449,580
	<u>798,216</u>	<u>1,068,430</u>

Investment properties in Hong Kong and in the PRC were revalued at 31st December, 2003 on the basis of their open market value by independent firms of professional surveyors, Vigers Hong Kong Limited and DTZ Debenham Tie Leung Limited, respectively.

At 31st December, 2003, the net book value of fixed assets pledged as security for the Group's long term loans amounted to HK\$535,800,000 (2002: HK\$592,800,000).

12. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Investments in unlisted shares, at cost	1,904	1,904
Amounts due from subsidiaries, net of provision	877,118	1,107,991
Amounts due to subsidiaries	(800)	(442)
	<u>878,222</u>	<u>1,109,453</u>

NOTES TO THE FINANCIAL STATEMENTS

12. INTERESTS IN SUBSIDIARIES (Cont'd)

The particulars of principal subsidiaries of the Group as at 31st December, 2003 are set out on pages 60 to 61.

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment, except for an amount of HK\$449,057,000 (2002: HK\$451,027,000) due from a subsidiary which is interest bearing at prime rate less 0.75% per annum (2002: prime rate less 0.75% per annum).

13. INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets other than goodwill, after revaluation	747,229	834,113
Amounts due from associated companies, net of provision	397,139	394,519
Amounts due to associated companies	(10,415)	(9,435)
	<u>1,133,953</u>	<u>1,219,197</u>

The interests in associated companies represent unlisted shares in Hong Kong and the PRC. The details of principal associated companies of the Group as at 31st December, 2003 are set out on page 62.

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

The amounts due from associated companies are unsecured, interest free and have no fixed terms of repayment, except for an amount of HK\$260 million (2002: HK\$260 million) due from an associated company which is interest bearing at prime rate (2002: prime rate). The Group received interest income totalling HK\$13,000,000 (2002: HK\$13,277,000) in this respect.

Information on material associated companies

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

NOTES TO THE FINANCIAL STATEMENTS

13. INTERESTS IN ASSOCIATED COMPANIES (Cont'd)

Information on material associated companies (Cont'd)

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

	Zeta	
	2003 HK\$'000	2002 HK\$'000
Profit and loss account – year ended 31st December		
Turnover	71,014	84,572
(Loss)/profit after taxation	<u>(5,431)</u>	<u>4,327</u>
(Loss)/profit attributable to the Group	<u>(1,810)</u>	<u>1,442</u>
Balance sheet – as at 31st December		
Investment properties	7,299	7,261
Long term receivables	542	556
Current assets	876,267	878,559
Current liabilities	(73,997)	(70,833)
Long term liabilities	<u>(780,000)</u>	<u>(780,000)</u>
Shareholders' funds	30,111	35,543
Surplus arising from revaluation, based on the market value of the underlying properties of the associated company	<u>1,523,562</u>	<u>1,576,779</u>
Adjusted net assets	<u>1,553,673</u>	<u>1,612,322</u>
Net assets attributable to the Group	<u>517,891</u>	<u>537,441</u>

NOTES TO THE FINANCIAL STATEMENTS

13. INTERESTS IN ASSOCIATED COMPANIES (Cont'd)

Information on material associated companies (Cont'd)

As at 31st December, 2003, Zeta had the following contingent liability:

The Commissioner of Inland Revenue raised additional profits tax assessments of HK\$120,465,000 (2002: HK\$87,852,000) on Zeta for the years of assessment 1998/1999, 1999/2000, 2000/2001 and 2001/2002, resulting in additional tax of HK\$18,693,000 (2002: HK\$14,056,000) being payable. These additional assessable profits arose from non-acceptance of part of the interest on unsecured loans paid by Zeta during these years as allowable deductions in computing the assessable profits. Zeta objected to these assessments, and as at 31st December, 2003, the result of the dispute was still not known. The share of this tax liability by the Group amounting to HK\$6,231,000 (2002: HK\$4,685,000) was not provided for as at 31st December, 2003.

	Jing Yuan	
	2003 HK\$'000	2002 HK\$'000
Profit and loss account – year ended 31st December		
Turnover	467,290	222,023
Loss after taxation	<u>(221,688)</u>	<u>(5,063)</u>
Loss attributable to the Group	<u>(65,176)</u>	<u>(1,488)</u>
Balance sheet – as at 31st December		
Properties held under development for sale	1,754,800	1,967,198
Fixed assets	181,200	245,349
Long term receivables	2,922	1,885
Current assets	457,917	419,218
Current liabilities	(63,378)	(59,651)
Long term liabilities	<u>(1,737,440)</u>	<u>(1,756,290)</u>
Shareholders' funds	<u>596,021</u>	<u>817,709</u>
Net assets attributable to the Group	<u>175,230</u>	<u>240,406</u>

NOTES TO THE FINANCIAL STATEMENTS

14. INVESTMENT SECURITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Investment securities		
Unlisted investments, at cost	18,712	18,712
Provision	(9,866)	(8,460)
Advances to investee companies	4,947	5,200
	<u>13,793</u>	<u>15,452</u>

Advances to investee companies are unsecured, interest free and have no fixed terms of repayment.

15. OTHER ASSETS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Club debentures, at cost	<u>2,218</u>	<u>2,218</u>	<u>1,405</u>	<u>1,405</u>

16. LOAN TO A SUBSIDIARY

The loan to a subsidiary is unsecured, interest bearing at 6.5% per annum (2002: 7% per annum) and repayable on demand.

17. TRADE RECEIVABLES

At 31st December, 2003, the ageing analysis of the trade receivables was as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 30 days	1,215	1,102
31 – 60 days	1,157	659
61 – 90 days	498	476
Over 90 days	2,863	14,482
	<u>5,733</u>	<u>16,719</u>

NOTES TO THE FINANCIAL STATEMENTS

17. TRADE RECEIVABLES (Cont'd)

The Group's trade receivables in the current year represented rental charges due from tenants which are due on presentation of invoices and the sales of properties held for sale, the repayment of which is in accordance with respective contract terms.

18. TRADE PAYABLES

At 31st December, 2003, the ageing analysis of the trade payables was as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 30 days	302	470
31 – 60 days	468	612
61 – 90 days	375	123
Over 90 days	76,653	82,655
	<u>77,798</u>	<u>83,860</u>

19. SHARE CAPITAL

	Company Ordinary shares of HK\$0.50 each	
	Number of shares	HK\$'000
Authorised:		
At 1st January, 2002, 2003 and 31st December, 2003	<u>1,600,000,000</u>	<u>800,000</u>
Issued and fully paid:		
At 1st January, 2002, 2003 and 31st December, 2003	<u>1,135,606,132</u>	<u>567,803</u>

NOTES TO THE FINANCIAL STATEMENTS

20. RESERVES

Group

	Share premium account HK\$'000	Investment properties revaluation reserve HK\$'000	Other properties revaluation reserve HK\$'000	Exchange difference reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2002	694,070	393,321	642,886	3,483	(250,012)	1,483,748
Revaluation deficit realised upon disposal of the Group's investment properties	—	2,268	—	—	—	2,268
Revaluation surplus realised upon disposal of properties of an associated company	—	—	(1,645)	—	—	(1,645)
Deficit arising from revaluation of the Group's investment properties	—	(4,034)	—	—	—	(4,034)
Deficit arising from revaluation of the Group's interests in associated companies based on the market value of their underlying properties	—	—	(110,676)	—	—	(110,676)
Profit attributable to shareholders for the year	—	—	—	—	1,019	1,019
At 31st December, 2002	<u>694,070</u>	<u>391,555</u>	<u>530,565</u>	<u>3,483</u>	<u>(248,993)</u>	<u>1,370,680</u>
Dealt with by:						
Company and subsidiaries	694,070	391,555	—	3,483	(225,534)	863,574
Associated companies	—	—	530,565	—	(23,459)	507,106
At 31st December, 2002	<u>694,070</u>	<u>391,555</u>	<u>530,565</u>	<u>3,483</u>	<u>(248,993)</u>	<u>1,370,680</u>
At 1st January, 2003	694,070	391,555	530,565	3,483	(248,993)	1,370,680
Revaluation surplus realised upon disposal of properties of an associated company	—	—	(3,595)	—	—	(3,595)
Deficit arising from revaluation of the Group's investment properties	—	(54,303)	—	—	—	(54,303)
Deficit arising from revaluation of the Group's interests in associated companies based on the market value of their underlying properties	—	—	(16,997)	—	—	(16,997)
Loss attributable to shareholders for the year	—	—	—	—	(292,935)	(292,935)
At 31st December, 2003	<u>694,070</u>	<u>337,252</u>	<u>509,973</u>	<u>3,483</u>	<u>(541,928)</u>	<u>1,002,850</u>
Dealt with by:						
Company and subsidiaries	694,070	337,252	—	3,483	(452,177)	582,628
Associated companies	—	—	509,973	—	(89,751)	420,222
At 31st December, 2003	<u>694,070</u>	<u>337,252</u>	<u>509,973</u>	<u>3,483</u>	<u>(541,928)</u>	<u>1,002,850</u>

NOTES TO THE FINANCIAL STATEMENTS

20. RESERVES (Cont'd)

Company

	Share premium account HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2002	694,070	(197,451)	496,619
Loss for the year	—	(28,968)	(28,968)
At 31st December, 2002	<u>694,070</u>	<u>(226,419)</u>	<u>467,651</u>
At 1st January, 2003	694,070	(226,419)	467,651
Loss for the year	—	(224,584)	(224,584)
At 31st December, 2003	<u>694,070</u>	<u>(451,003)</u>	<u>243,067</u>

As at 31st December, 2003, the Company does not have any distributable reserve calculated under section 79B of the Hong Kong Companies Ordinance (2002: HK\$Nil).

21. BANK LOANS AND OVERDRAFTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank overdrafts (note a)	49,828	15,940	49,828	15,224
Short term bank loans – secured (note b)	197,926	228,087	—	—
Long term bank loans, secured (note c)				
– current portion	60,905	87,470	20,000	46,000
– non-current portion	—	20,000	—	20,000
	60,905	107,470	20,000	66,000
	<u>308,659</u>	<u>351,497</u>	<u>69,828</u>	<u>81,224</u>

NOTES TO THE FINANCIAL STATEMENTS

21. BANK LOANS AND OVERDRAFTS (Cont'd)

At 31st December, 2003, the Group and the Company's bank loans and overdrafts were repayable as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	308,659	331,497	69,828	61,224
In the second year	—	20,000	—	20,000
	<u>308,659</u>	<u>351,497</u>	<u>69,828</u>	<u>81,224</u>

- (a) The Group has a bank overdraft facility of HK\$100 million (2002: HK\$100 million) which is secured by first legal charges over the properties held by a wholly-owned subsidiary of the Company and share charges over the issued shares of certain subsidiaries of the Company.
- (b) The short term bank loans comprise:
- (i) A short term bank loan of RMB200 million (HK\$188.5 million) (2002: RMB200 million (HK\$188.5 million)) granted to Lucky Building is secured by the properties held under development of Lucky Building.
 - (ii) A short term bank loan of RMB10 million (HK\$9.4 million) (2002: RMB10 million (HK\$9.4 million)) granted to Dan Yao is secured by the properties of Dan Yao.
- (c) The long term bank loans comprise:
- (i) A loan granted to the Company amounted to HK\$20 million (2002: HK\$66 million) is wholly repayable in the year 2004 (2002: HK\$46 million). The loan is secured by first legal charges over the properties held by a wholly-owned subsidiary of the Company and share charges over the issued shares of certain subsidiaries of the Company.
 - (ii) A loan amounted to RMB43.4 million (HK\$40.9 million) (2002: RMB44 million (HK\$41.5 million)) granted to Dan Yao is secured by properties of Dan Yao.

NOTES TO THE FINANCIAL STATEMENTS

22. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using tax rates substantively enacted by the balance sheet date.

The movement on the deferred tax liabilities/(assets) during the year is as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1st January	77,921	77,460	—	—
Deferred taxation charged to profit and loss account	248	461	(1,298)	—
Deferred taxation on revaluation of investment properties	(2,727)	—	—	—
At 31st December	<u>75,442</u>	<u>77,921</u>	<u>(1,298)</u>	<u>—</u>

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

Deferred income tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31st December, 2003, the Group and the Company has unrecognised deferred tax assets in respect of tax losses of HK\$41,706,000 (2002: HK\$53,049,000) and HK\$Nil (2002: HK\$11,976,000) respectively, which have no expiry date, to carry forward.

NOTES TO THE FINANCIAL STATEMENTS

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating (loss)/profit to net cash generated from operations

	Group	
	2003 HK\$'000	2002 HK\$'000
Operating (loss)/profit	(279,458)	12,671
Impairment loss of leasehold land and buildings	–	27
Provision for impairment loss of investment securities	1,406	830
Depreciation	8,444	11,454
Loss on disposal of investment properties	–	3,785
Loss on disposal of fixed assets	–	54
Provision in respect of properties held under development	214,995	–
Provision in respect of properties held for sale	46,559	–
Interest income	(13,244)	(13,717)
Dividend income	(371)	(746)
Operating (loss)/profit before working capital changes	(21,669)	14,358
Increase in properties held for sales	(62,114)	(11,840)
Decrease in trade receivables, other receivables, prepayments and deposits	11,823	5,842
Increase/(decrease) in trade payables, other payables and accrued charges	111,924	(8,157)
Net cash generated from operations	<u>39,964</u>	<u>203</u>

NOTES TO THE FINANCIAL STATEMENTS

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

(b) Analysis of changes in financing during the year

	Bank and other loans		Minority interests	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1st January	339,276	378,406	67,673	67,801
Cash items:				
– New loans raised	–	9,425	–	–
– Repayment of bank loans	(76,726)	(48,036)	–	–
– Repayment of loan from a third party	(548)	(519)	–	–
Non-cash items:				
– Loss for the year attributable to minority shareholders	–	–	(67,544)	(128)
At 31st December	<u>262,002</u>	<u>339,276</u>	<u>129</u>	<u>67,673</u>

(c) Analysis of cash and cash equivalents

	2003 HK\$'000	2002 HK\$'000
Bank balances and cash	8,328	36,621
Bank overdrafts	<u>(49,828)</u>	<u>(15,940)</u>
	<u>(41,500)</u>	<u>20,681</u>

NOTES TO THE FINANCIAL STATEMENTS

24. LEASE COMMITMENTS

(a) Commitments under operating leases

At 31st December, 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Not later than one year	1,050	2,665
Later than one year and not later than five years	1,567	338
	<u>2,617</u>	<u>3,003</u>

(b) Future minimum rental receivables

At 31st December, 2003, the Group had future minimum lease payments receivable under non-cancellable operating leases in respect of investment properties and properties held for sale as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Not later than one year	15,717	17,482
Later than one year but not later than five years	31,721	18,643
Later than five years	16,105	14,149
	<u>63,543</u>	<u>50,274</u>

NOTES TO THE FINANCIAL STATEMENTS

25. RELATED PARTY TRANSACTION

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

On 21st November, 2000, Dan Yao entered into respective agreements (the “Agency Agreements”) with Mr. Zhao Sheng Li and Mr. Hua Ming, being two connected persons of the Company, to act as their property management agent of the properties owned by them for a period from 1st July, 2001 to 30th June, 2009. Under the Agency Agreements, Dan Yao is entitled to all the net income arising from leasing the properties and in return, Dan Yao has undertaken the repayments of mortgage loans amounted to RMB5,090,000 (HK\$4,797,000) and the interest accrued thereon and provided corporate guarantees to the bank on the mortgage loans. As at 31st December, 2003, such mortgage loans amounted to RMB3,364,000 (HK\$3,171,000) (2002: RMB3,946,000 (HK\$3,719,000)).

26. ULTIMATE HOLDING COMPANY

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

27. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 19th April, 2004.