

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 2003, the Group acquired an additional 8% equity interest in a subsidiary Shanghai Hangtong Govern Real Estate Co., Ltd. Consideration for the acquisition of this interest amounting to HK\$6,146,835 approximate the share in net attributable tangible asset of the company acquired.

In addition, the Group acquired equity interests in the following subsidiary and associated company when they were incorporated:

Company	Date of incorporation	Equity interests acquired	Cost of investment
Shanghai Skyway Oasis Garden Hotel and Condominium Co., Ltd. ("Skyway")	24th January 2003	56%	105,517,198
Shanghai New Housing Industry Technology Development Co., Ltd.	2nd January 2003	26%	24,397,110
			129,914,308

During the year ended 31st December 2003, Skyway was engaged in the development of residential and commercial properties for which pre-sale has not commenced. Therefore, the acquisition of this subsidiary has no significant impact to the Group's results for the year ended 31st December 2003.

As at 31st December 2003, the consolidated accounts of the Group include the accounts of the Company and the following subsidiaries and associated companies:

	Place and date of	Percentage of equity				
	incorporation or	interest attributable		Issued and	Authorised	
Name	establishment	to the Group		paid-up capital	share capital	Principal activities
		2003	2002			

Subsidiaries:

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

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION (continued)

	Place and date of incorporation or	Percentage of equity interest attributable		Issued and	Authorised	
Name	establishment	to the Group		paid-up capital	share capital	Principal activities
		2003	2002			
Subsidiaries: (continued)						
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%	97.5%	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
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 Wingo Infrastructure Co., Ltd. (Formerly known as "Shanghai Trans-Ocean Housing Technology Co., Ltd.") ("Wingo Infrastructure")	PRC 4th August 1999	95%	95%	US\$10,000,000	US\$10,000,000	Development of technology for housing and provision of construction services
Super-power.com Ltd.	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

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION (continued)

Name	Place and date of	Percentage of equity		Issued and	Authorised	Principal activities	
	incorporation or	interest attributable					paid-up capital
	establishment	to the Group					
		2003	2002		share capital		

Subsidiaries: (continued)

Shanghai Zhufu Property Development Co., Ltd. ("Zhufu")	PRC 11th August 2000	49.7%	48.45%	RMB10,000,000	RMB10,000,000	Property development
Anderson Land (Shanghai) Ltd.	BVI 29th September 2001	52%	52%	US\$100	US\$100	Investment holding
Kolsun Enterprises Ltd.	BVI 2nd January 2002	100%	100%	US\$1	US\$1	Investment holding
Onfair Holding Ltd.	BVI 27th March 2002	100%	100%	US\$1	US\$1	Investment holding
Shanghai Anderson Fuxing Land Co., Ltd. ("Anderson Fuxing")	PRC 16th April 2002	51.48%	51.48%	USD20,000,000	USD20,000,000	Property development
Shanghai Hangtuo Govern Real Estate Co., Ltd. ("Hangtuo Govern")	PRC 14th June 2002	98%	90%	USD10,000,000	USD10,000,000	Property development
Shanghai Jinwu Real Estate Co., Ltd. ("Shanghai Jinwu")	PRC 12th August 2002	76.63%	76.63%	RMB50,000,000	RMB50,000,000	Property development
Shanghai Skyway Oasis Garden Hotel and Condominium Co., Ltd. ("Skyway")	PRC 9th December 2002	56%	–	RMB200,000,000	RMB200,000,000	Property development

Associated companies:

Shanghai Internet Information Technology Co., Ltd. ("Shanghai Internet")	PRC 9th January 1995	47.5%	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 New Housing Industry Technology Development Co., Ltd. ("New Technology")	PRC 6th May 1997	26%	–	RMB100,000,000	RMB100,000,000	Research and development of housing technology

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
		2003	2002			

Associated companies: (continued)

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 network and construction of broad band fibre projects
Shanghai Jinluodian Real estate & Development Co., Ltd. ("Jinluodian")	PRC 26th September 2002	45.26%	45.26%	RMB393,642,300	RMB548,100,000	Land clearance and property development

All subsidiaries and associated companies located in the PRC are limited liability entities.

- (i) At the beginning of 2003, Shanghai Well Real Estate Co., Ltd., in which the Group had 98% equity interest, was dissolved as the property project it developed had been fully sold. Except a gain of HK\$ 960,929 that was realised from this dissolution, no other results of Shanghai Well Real Estate Co., Ltd. are included in the Group's consolidated profit and loss accounts. During the year ended 31st December 2002, the net profit of Shanghai Well Real Estate Co., Ltd. attributable to the Group was approximately HK\$ 24.5 million. Certain assets and liabilities of Shanghai Well Real Estate Co., Ltd. were assigned to a subsidiary of the Group at their carrying amounts when it was dissolved.

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 (the "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 (the "SSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2003:

SSAP12 (revised):	Income Taxes
SSAP35:	Government Grants and Disclosure of Government Assistance

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(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.

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.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associates; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Group accounting (continued)

(ii) Associated companies (continued)

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.

(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 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 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 are not depreciated except for those held on leases with unexpired periods of 20 years or less which 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 properties under construction and 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. Such impairment losses are recognised in the profit and loss 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 sales proceeds 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.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Government grant

A government grant is initially recognised as deferred income, when there is reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are recognised in the profit and loss account on a systematic basis to match with the related costs which they are intended to compensate. Grants relating to assets are recognised in the profit and loss account, on a systematic basis over the useful life of the asset.

Government grants relating to the purchase of fixed assets are included in non-current liabilities as deferred income and are credited to profit and loss account on a straight line basis over the expected lives of the related assets.

(e) 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.

(f) 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.

(g) Trading securities

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gain or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profit or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts are recognised in the profit and loss account as they arise.

(h) 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)

(i) 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.

(j) Cash and cash equivalents

For the purpose 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.

(k) Provision

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, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognises a provision for repairs of properties sold at the balance sheet date. This provision is calculated at a fixed rate stipulated by the local government.

(l) 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.

(m) 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 accounts. 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, associates and joint ventures, 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.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(m) Deferred taxation (continued)

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 accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy. Since the change has no material effect on the consolidated accounts of the Group, no retrospective adjustment was applied.

(n) 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.

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.

(o) Construction contracts in progress

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period; the stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total costs for the contract. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as construction contracts in progress, under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on construction contracts, under current liabilities.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(p) 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) Construction of infrastructure for intelligent network

Revenue from the construction of infrastructure for intelligent network is recognised in accordance with accounting policies for construction contracts in progress as stated in Note 2(o).

(iv) Rendering of other services

Service income is recognised as services are rendered.

(v) Operating rental income

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

(vi) Interest income

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

(vii) Dividend income

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

(q) 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.

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(r) 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, construction contracts in progress, inventories, receivables and operating cash, and mainly exclude interests in associated companies, deferred tax assets and trading securities. 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.

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(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.

An analysis by business segment is as follows:

	2003				
	Property development	Property leasing	High-tech	Inter-segment transactions	Total
Turnover					
Sales to external customers	648,417,850	212,748	176,431,384		825,061,982
Segment results					
Segment profit	159,664,262	159,561	23,088,912		182,912,735
Unallocated costs					(7,524,178)
Operating profit					175,388,557
Interest expense					(2,798,639)
Gain from dissolution of a subsidiary	960,929	–	–		960,929
Share of net (loss) profit of associated companies	(4,398,678)	–	475,718	(8,851,968)	(12,774,928)
Profit before taxation					160,775,919
Taxation	(48,336,348)	–	(3,684,785)		(52,021,133)
Profit after taxation					108,754,786
Minority interests	(17,976,291)	–	1,000,987		(16,975,304)
Profit attributable to shareholders					91,779,482
Other information					
Segment assets	1,716,327,769	140,262,634	148,358,236		2,004,948,639
Interests in associated companies	215,492,381	–	28,904,441	(8,851,968)	235,544,854
Deferred tax assets	5,160,200	–	73,764		5,233,964
Unallocated assets					53,775,448
Total assets					2,299,502,905
Segment liabilities	795,959,006	–	16,631,722		812,590,728
Deferred tax liabilities	80,822,470	–	–		80,822,470
Unallocated liabilities					180,184,924
Total liabilities					1,073,598,122
Capital expenditure	9,647,688	34,585,543	379,868		44,613,099
Depreciation	5,615,716	–	951,854		6,567,570

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. BUSINESS SEGMENT INFORMATION (continued)

	2002			
	Property development	Property leasing	High-tech	Inter-segment transactions
				Total
Turnover				
Sales to external customers	717,989,991	–	82,896,463	800,886,454
Segment results				
Segment profit	132,442,993	–	20,217,262	152,660,255
Unallocated costs				(15,258,084)
Operating profit				137,402,171
Interest expense				(266,264)
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
Other information				
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

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. TURNOVER

Revenues recognised during the year are as follows:

	2003	2002
Sales and pre-sales of properties held or under development	684,244,063	632,536,194
Sales of network hardware and installation of intelligent home equipment	42,979,401	79,026,061
Revenue from construction of infrastructure for intelligent network	134,126,209	3,990,041
Sales of land located in Hainan Province	–	123,833,757
Revenue from property leasing	223,945	–
	861,573,618	839,386,053
Less: Business tax and surtaxes (i)	(36,511,636)	(38,499,599)
Net	825,061,982	800,886,454

- (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 property leasing. And the Group is also subject to BT at 3% on the revenue (has excluded payment to subcontractors) from the construction of infrastructure for intelligent network. 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.

5. OTHER REVENUE

	2003	2002
EIT refund in connection with reinvestment (i)	13,999,627	–
Interest income on bank deposit	2,163,348	2,488,319
Others	3,802,051	–
	19,965,026	2,488,319

- (i) Shanghai Well Real Estate Co., Ltd. was dissolved at the beginning of 2003. The Group contributed the profit derived from Shanghai Well Real Estate Co., Ltd. as part of its capital injection in Jinluodian, which is located in Mainland China. According to relevant tax regulations, the Group received EIT refund of HK\$ 13,999,627 in 2003 for reinvesting in China the profits derived from domestic investments.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. FINANCE COSTS

	2003	2002
Interest expense		
Interest on bank loans – wholly repayable within five years	26,526,205	8,056,279
Interest on bank loans – not wholly repayable within five years	212,188	248,438
Interest on loans from related party– wholly repayable within five years (Note 29(a))	4,135,592	3,700,877
Other incidental borrowing costs	2,541,199	1,982,500
Total borrowing costs incurred	33,415,184	13,988,094
Less: Amount capitalised in properties under development for sale	(30,616,545)	(13,721,830)
Interest expense charged into profit and loss account	2,798,639	266,264

7. PROFIT BEFORE TAXATION

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

	2003	2002
Crediting:		
EIT refund in connection with reinvestment (Note 5 (i))	13,999,627	–
Revaluation reserve realised	–	538,083
Gain on dissolution/disposal of a subsidiary (Note 1(ii))	960,929	453,804
Gain on disposal of an associated company	–	530,324
Gain on disposal of fixed assets	–	1,743,416
Charging:		
Depreciation of fixed assets	6,567,570	4,897,282
Staff costs (excluding directors)		
– Salaries and wages	16,193,914	10,003,695
– Pension	1,842,816	1,065,958
Charging:		
Cost of inventories		
– Cost of properties under development for sale	440,338,468	535,552,016
– Cost of construction of infrastructure	112,722,905	2,474,137
– Cost of inventory	37,155,967	58,617,826
Operating lease expenses for offices	2,593,229	2,328,248
Auditors' remuneration	1,200,000	1,040,000
Provisions for maintenance fund	5,869,412	4,373,786
Amortisation of goodwill (Note 15)	322,775	327,962
Loss on disposal of fixed assets	365,594	–
Exchange loss, net	788,702	163,608

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

8. TAXATION

(a) Income tax

	2003	2002
Current – PRC taxation	18,978,341	54,719,513
Deferred taxation (Note 16)	32,513,141	(5,974,968)
Share of taxation attributable to associated companies	529,651	–
Taxation charge	52,021,133	48,744,545

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 Wingo Infrastructure, 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 forward from previous years (at most five years).

As Wingo Infrastructure is established within the technological economic development zone of an old urban district of a city, the EIT rate is 27%. 2003 was the fourth profitable year of operation for Wingo Infrastructure 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.

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%, analysed as follows:

	2003		2002	
Profit before taxation	160,775,919	100%	136,268,773	100%
Calculated at a taxation rate of 33% (2002: 33%)	53,056,053	33%	44,968,695	33%
Effect of expenses/losses not deductible	7,717,833	5%	7,439,794	5%
Effect of income not subject to taxation	(4,619,877)	(3%)	–	–
Effect of different taxation rate of a subsidiary	(4,132,876)	(3%)	(3,663,944)	(2%)
Taxation charge	52,021,133	32%	48,744,545	36%

(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. The Group is also subject to BT as 3% on revenue (has excluded payment to subcontractors) from the construction of intelligent infrastructure.

(c) Value-added Tax (“VAT”)

The Group is subject to VAT, which is levied at a 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.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

8. TAXATION (continued)

(d) Land appreciation tax ("LAT")

Under the Provisional Regulations on Land Appreciation Tax ("LAT") issued on 27 January 1995, all gains arising from the transfer of real estate properties in the PRC effective from 1 January 1994 are subject to LAT at progressive rates of up to 60 percent.

For the year ended 31 December 2003, no provision for LAT had been made as the Group had not been required by the relevant authorities to pay LAT and the directors consider that the Group is unlikely to receive demands from the tax authorities for payment of LAT.

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$24,641,151 (2002: HK\$27,297,795).

10. DIVIDENDS

	2003	2002
Dividends proposed and paid		
– 2002 final dividend of HK\$0.0199 per share (2002: 2001 final dividend of HK\$0.0159 per share)	26,957,137	17,999,754

Pursuant to a resolution made by the Board of Directors on 26th April 2004, the Company proposed a final dividend of HK\$0.0166 per share for 2003, totalling approximately HK\$22,489,680 based on outstanding ordinary shares at the end of 23rd April 2004. 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 2004.

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$91,779,482 (2002: HK\$90,188,807). The basic earnings per share is based on the weighted average of 1,354,513,562 (2002: 1,231,969,726) ordinary shares in issue during the year. The diluted earnings per share is based on 1,354,513,562 (2002: 1,231,969,726) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average of 11,821,147 (2002: 3,304,911) 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)

12. 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:

	2003	2002
Non-executive directors		
Fees	–	–
Other emoluments	470,000	310,000
	470,000	310,000
Executive directors		
Fees	–	–
Other emoluments:		
– Basic salaries, housing allowances, share options, other allowances and benefits in kind	6,815,040	7,705,146
– Discretionary bonuses	–	–
– Inducement fees	–	–
– Pension scheme	–	–
– Compensation for loss of office as director	–	–
	6,815,040	7,705,146
Total	7,285,040	8,015,146

No directors waived the right to receive emoluments except one executive director. The amount waived was less than HK\$1 million.

The emoluments of the directors fell within the following bands:

	Number of directors	
	2003	2002
Emoluments bands		
Nil– HK\$1,000,000	8	5
HK\$1,000,001 – HK\$1,500,000	2	5
HK\$1,500,001 – HK\$2,000,000	1	1

(b) Five highest paid individuals

The five highest paid individuals in the Group were all directors of the Company, the emoluments of whom are included above.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. FIXED ASSETS

GROUP

	2003						2002	
	Furniture, Leasehold fixtures and improve- office equipment							
	Investment properties	Building	ments		Motor vehicles	Construction -in-progress	Total	Total
Cost or valuation								
Beginning of year	106,099,404	61,314,652	1,532,959	5,314,894	12,257,560	-	186,519,469	193,951,210
Additions	6,267,027	-	172,592	1,874,498	7,980,516	28,318,466	44,613,099	47,668,034
Disposal of a subsidiary	-	-	-	-	-	-	-	(22,872,445)
Other disposals	-	-	-	(883,781)	(1,593,238)	-	(2,477,019)	(32,141,064)
Exchange adjustment	(422,263)	(249,420)	(6,236)	(21,620)	(49,862)	-	(749,401)	(86,266)
End of year	111,944,168	61,065,232	1,699,315	6,283,991	18,594,976	28,318,466	227,906,148	186,519,469
Accumulated depreciation and impairment losses								
Beginning of year	-	3,883,951	419,373	1,808,058	3,528,493	-	9,639,875	16,174,728
Charge for the year	-	1,872,526	649,833	1,103,818	2,941,393	-	6,567,570	4,897,282
Disposal of a subsidiary	-	-	-	-	-	-	-	(10,356,265)
Other disposals	-	-	-	(749,155)	(1,180,401)	-	(1,929,556)	(1,068,360)
Exchange adjustment	-	(15,799)	(1,706)	(7,355)	(12,668)	-	(37,528)	(7,510)
End of year	-	5,740,678	1,067,500	2,155,366	5,276,817	-	14,240,361	9,639,875
Net book value								
Balance, end of year	111,944,168	55,324,554	631,815	4,128,625	13,318,159	28,318,466	213,665,787	176,879,594
Balance, beginning of year	106,099,404	57,430,701	1,113,586	3,506,836	8,729,067	-	176,879,594	177,776,482

The analysis of the cost or valuation as at 31st December 2003 and 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
31st December 2003							
At cost	-	61,065,232	1,699,315	6,283,991	18,594,976	28,318,466	115,961,980
At valuation	111,944,168	-	-	-	-	-	111,944,168
	111,944,168	61,065,232	1,699,315	6,283,991	18,594,976	28,318,466	227,906,148
31st December 2002							
At cost	-	61,314,652	1,532,959	5,314,894	12,257,560	-	80,420,065
At valuation	106,099,404	-	-	-	-	-	106,099,404
	106,099,404	61,314,652	1,532,959	5,314,894	12,257,560	-	186,519,469

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. FIXED ASSETS (continued)

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.

The Group's investment properties were revalued at 31st December 2003 on the basis of their open market value by Vigers Hong Kong Limited, independent professional valuers.

COMPANY

		2003				2002
		Furniture, fixtures and office equipment				
	Leasehold improvements	Building		Motor vehicles	Total	Total
Cost						
Beginning of year	943,005	10,122,250	522,231	1,315,248	12,902,734	10,875,245
Additions	–	–	13,035	2,017,973	2,031,008	2,027,489
End of year	943,005	10,122,250	535,266	3,333,221	14,933,742	12,902,734
Accumulated depreciation						
Beginning of year	141,450	273,884	231,715	298,712	945,761	235,286
Additions	169,740	252,815	96,801	507,281	1,026,637	710,475
End of year	311,190	526,699	328,516	805,993	1,972,398	945,761
Net book value						
Balance, end of year	631,815	9,595,551	206,750	2,527,228	12,961,344	11,956,973
Balance, beginning of year	801,555	9,848,366	290,516	1,016,536	11,956,973	10,639,959

As at 31st December 2003, approximately HK\$10 million (2002: HK\$10 million) of the Company's buildings were mortgaged as collateral for the Company's short-term and long-term bank loans (Note 24).

As at 31st December 2003, approximately HK\$0.7 million (2002: HK\$0.8 million) of the Company's motor vehicles was mortgaged as collateral for the Company's long-term bank loans (Note 24).

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES

COMPANY

(a) Investments in subsidiaries

	2003	2002
Unlisted equity interests, at cost	430,995,394	395,308,736

Details of the subsidiaries as at 31st December 2003 are set out in Note 1.

(b) Advances to subsidiaries

Except for advances amounting to approximately HK\$74 million (2002: nil) which bear interest at 3% per annum, the advances to subsidiaries were unsecured, interest free and without fixed repayment terms.

15. INTERESTS IN ASSOCIATED COMPANIES

GROUP

	2003	2002
Investments (unlisted), at cost		
– Trans-Ocean Property Management	225,204	226,180
– Broadband	18,767,008	18,848,365
– Orda	9,008,164	9,047,215
– Shanghai Internet	9,383,504	9,424,182
– Jinluodian	186,677,763	46,800,000
– New Technology	24,397,110	–
	248,458,753	84,345,942
Representing:		
– Share of net assets at time of acquisition	241,927,834	77,783,619
– Goodwill on acquisition	6,530,919	6,562,323
	248,458,753	84,345,942
Accumulated amortisation of goodwill	(1,142,911)	(820,136)
Accumulated share of post acquisition results less distributions	(2,919,020)	1,215,048
Elimination of unrealised profit from transactions with an associated company	(8,851,968)	–
	235,544,854	84,740,854

Details of the associated companies as at 31st December 2003 are set out in Note 1.

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 2003.

COMPANY

	2003	2002
Investments (unlisted), at cost	211,074,873	46,800,000

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. DEFERRED TAXATION

GROUP

	2003	2002
Balance, beginning of year	(43,262,103)	(49,260,283)
Deferred taxation (charge)/credit to profit and loss account (Note 8)	(32,513,141)	5,974,968
Translation differences	186,738	23,212
Balance, end of year	(75,588,506)	(43,262,103)
Representing:		
Deferred tax assets	5,233,964	112,736
Deferred tax liabilities	(80,822,470)	(43,374,839)
	(75,588,506)	(43,262,103)

Deferred tax assets mainly represent the tax effect of temporary differences arising from tax losses carried forward.

Deferred tax liabilities represent the tax effect of temporary 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 2003.

17. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

GROUP

	2003		
	Included in current assets	Included in current liabilities	Total
At cost	1,238,821,796	179,896,101	1,418,717,897
Add: Attributable profits on pre-sold properties	44,757,228	89,190,423	133,947,651
	1,283,579,024	269,086,524	1,552,665,548
Less: Sale instalments and deposits received and receivable	(57,595,655)	(309,646,887)	(367,242,542)
	1,225,983,369	(40,560,363)	1,185,423,006

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE (continued)

GROUP

	2002		
	Included in	Included in	
	current assets	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

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

As at 31st December 2003, land of approximately HK\$671 million and buildings under development of approximately HK\$52 million were mortgaged as collateral for the Group's long-term loans and banking facilities (Note 24,30). As at 31st December 2002, land of approximately HK\$64 million and land of approximately HK\$356 million were mortgaged as collateral for the Group's short-term bank loans, long-term bank loans and banking facilities respectively.

18. CONSTRUCTION CONTRACTS IN PROGRESS

GROUP

	2003	2002
Contract costs	117,832,259	–
Add: Attributable profit	21,403,304	–
Less: Progress billings	(135,434,907)	–
	3,800,656	–

19. ACCOUNTS RECEIVABLE

GROUP

	2003	2002
Accounts receivable	72,035,069	104,568,585
Less: Provision for doubtful accounts	–	(15,131)
	72,035,069	104,553,454

An aging analysis of accounts receivable is set out below:

	2003	2002
0– 360 days	50,139,915	70,641,863
361– 720 days	13,794,239	20,029,913
Over 720 days	8,100,915	13,896,809
Less: Provision for doubtful debts	–	(15,131)
	72,035,069	104,553,454

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. ACCOUNTS RECEIVABLE (continued)

GROUP

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 made partial payment without entering into mortgage financing arrangements. Progress billings were made in accordance with the terms of the sales agreements.

20. TRADING SECURITIES

The trading securities represent investments in mutual funds listed outside Hong Kong, and are stated at market value.

21. SHARE CAPITAL

GROUP AND COMPANY

	2003		2002	
	Number of shares	Nominal value	Number of shares	Nominal value
Ordinary shares of HK\$0.10 each				
Authorised:	2,000,000,000	200,000,000	2,000,000,000	200,000,000
Issued and fully paid:				
– Beginning of year	1,352,930,000	135,293,000	1,032,060,000	103,206,000
– Issue of shares	–	–	326,000,000	32,600,000
– Exercise of options (i)	1,700,000	170,000	870,000	87,000
– Buy back	–	–	(6,000,000)	(600,000)
– End of year	1,354,630,000	135,463,000	1,352,930,000	135,293,000

- (i) During the year ended 31st December 2003, a total of 1,700,000 shares were issued in connection with the exercise of share options at HK\$0.45 per share and HK\$0.59 per share (Note 22). The net proceeds from this exercise amounted to HK\$905,000, of which HK\$170,000 was credited against share capital and HK\$735,000 credited to share premium. These shares rank pari passu with the existing shares.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

22. SHARE OPTION SCHEME

A share option scheme was approved by a special general meeting dated 23rd May 2002. According to this 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	Total
Beginning of year	870,000	50,000,000	50,870,000
Granted during the year	50,000,000	–	50,000,000
Exercised during the year (Note 21)	(700,000)	(1,000,000)	(1,700,000)
Cancelled/ lapsed during the year	–	(49,000,000)	(49,000,000)
End of year	50,170,000	–	50,170,000
Including:			
– Directors	–	–	–
– Employees	50,170,000	–	50,170,000
	50,170,000	–	50,170,000

23. RESERVES

GROUP

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

- Share premium represents proceeds from the issuance of shares in excess of their par value, net of underwriting commissions, organisation costs and professional fees.
- 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.

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.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. RESERVES (continued)

COMPANY

Movements in reserves of the Company were as follows:

	Share premium	Retained earnings	Total
Balance as at 1st January 2003	595,063,605	27,939,920	623,003,525
Shares issued (Note 21 (i))	735,000	–	735,000
Profit attributable to shareholders	–	24,641,151	24,641,151
Dividends (Note 10)	–	(26,957,137)	(26,957,137)
Balance as at 31st December 2003	595,798,605	25,623,934	621,422,539

24. BANK LOANS

GROUP AND COMPANY

	Group		Company	
	2003	2002	2003	2002
Short-term bank loans				
– Secured	124,218,542	171,577,702	21,000,000	1,000,000
Long-term bank loans				
– Secured	530,820,491	143,701,688	127,329,827	7,051,042
– Unsecured	37,534,015	132,696,730	–	95,000,000
	568,354,506	276,398,418	127,329,827	102,051,042
The long-term bank loans are repayable as follows:				
– Within one year	294,216,329	57,242,762	12,711,215	697,667
– In the second year	98,676,458	175,803,218	61,142,443	95,697,667
– In the third to fifth year	171,703,551	39,218,058	49,718,001	1,521,328
– After the fifth year	3,758,168	4,134,380	3,758,168	4,134,380
	568,354,506	276,398,418	127,329,827	102,051,042
Less: Amount due within one year shown under current liabilities	(294,216,329)	(57,242,762)	(12,711,215)	(697,667)
	274,138,177	219,155,656	114,618,612	101,353,375

(a) Short-term bank loans

As at 31st December 2003, except for approximately HK\$21 million (2002: approximately HK\$1 million) of short-term bank loans that were denominated in HK\$, which bore interest from 2.634% to 3.625% per annum (2002: 3.625%), all short-term bank loans were denominated in RMB, and bore interest at rates ranging from 5.0448% to 6.039% (2002: from 5.0448% to 6.039%) per annum.

As at 31st December 2003, short-term bank loans of approximately HK\$1 million (2002: HK\$1 million) were secured by pledges of the Company's buildings (Note 13), approximately HK\$20 million of loan were secured by a standby letter of credit arranged by the Company via the pledge of a fixed deposit of HK\$12 million (Note 28(c)). In addition approximately HK\$ 103 million of loans were guaranteed by subsidiaries within the Group.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

24. BANK LOANS (continued)

(b) Long-term bank loans

As at 31st December 2003, except for approximately HK\$127 million (2002: approximately HK\$ 102 million) of long-term bank loans that were denominated in HK\$, which bore interest ranging from 2.634% to 3.125% per annum (2002: 3.125% to 3.556%), all long-term bank loans were denominated in RMB, and bore interest at rates ranging from 5.022% to 6.039% (2002: 5.022% to 6.039%) per annum.

As at 31st December 2003, included in the above loans are long-term bank loans of HK\$120.9 million, which were borrowed under a syndicate loan facility agreement dated 23rd May 2003. The total loan facility granted was HK\$ 120.9 million for a period of 3 years from the date of the agreement. The rate of interest under this facility agreement is 1.5% above the HongKong Interbank Offered Rate. The syndicated loan was mortgaged by ordinary shares in a subsidiary held by the Group.

As at 31st December 2003, long-term bank loans of approximately HK\$0.4 million (2002: approximately HK\$ 0.6 million) were secured by pledges of the Company's motor vehicles (Note 13), approximately HK\$6 million (2002: approximately HK\$6.4 million) were secured by pledges of the Company's buildings (Note 13), and approximately HK\$403.5 million (2002: approximately HK\$ 136.7) were secured by the Group's land and buildings under development for sale (Note 17) and pledged bank deposits of HK\$ 37,583,683 (Note 28 (c)).

25. ACCOUNTS PAYABLE

GROUP

	2003	2002
Accounts payable	108,496,592	86,050,643
An aging analysis of accounts payable is set out below:		
	2003	2002
0– 360 days	108,374,658	86,050,643
361– 720 days	121,934	–
	108,496,592	86,050,643

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. OTHER PAYABLES AND ACCRUALS

GROUP

	Group		Company	
	2003	2002	2003	2002
Payable for purchase of land (i)	13,324,575	–	13,324,575	–
Advance from a third party (ii)	7,008,800	14,013,387	7,008,800	12,299,226
Proceeds from sale of properties on behalf of beneficial owners (iii)	14,846,533	18,424,121	–	–
Deposits received from a construction company	4,691,752	–	–	–
Dividends payable to minority shareholders of subsidiaries	4,305,145	3,186,155	–	–
Accrued maintenance fund	1,114,501	287,900	–	–
Accrued advertising fee	–	1,206,295	–	–
Others	20,184,997	20,265,568	483,033	–
	65,476,303	57,383,426	20,816,408	12,299,226

- (i) The amount represents payable for the purchase of usage rights for a parcel of land located in Shanghai.
- (ii) The advance is unsecured, interest free and without fixed repayment term.
- (iii) The amount represents proceeds from sale of properties, which the Group collects on behalf of the beneficial owners in its capacity as their agent.

27. TAXATION PAYABLE

GROUP

	2003	2002
EIT payable	53,366,526	91,747,279
BT payable	21,426,237	34,948,168
VAT payable	1,196,881	3,480,664
Other taxes payable	108,945	328,098
	76,098,589	130,504,209

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. CONSOLIDATED CASH FLOW STATEMENT

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

	2003	2002
Profit before taxation	160,775,919	136,268,773
Adjustments for:		
Depreciation of fixed assets	6,567,570	4,897,282
Loss (gain) on disposal of fixed assets	365,594	(1,743,416)
Gain on dissolution/disposal of a subsidiary	(960,929)	(453,804)
Gain on disposal of an associated company	–	(530,324)
Realisation of revaluation reserve	–	(538,083)
Share of results of associated companies	12,774,928	1,851,262
Interest income	(2,163,348)	(2,488,319)
Interest expense	2,798,639	266,264
Operating profit before working capital Changes	180,158,373	137,529,635
Decrease in restricted bank deposits	6,199,921	1,913,013
Decrease (increase) in accounts receivable	32,518,385	(21,884,442)
Decrease (increase) in other receivables	5,284,464	(3,855,687)
Decrease (increase) in prepayments and other current assets	80,592,798	(1,154,934)
Increase in amount due from related companies	(2,631,984)	(9,346,046)
Increase in properties held or under development for sale	(324,413,750)	(248,099,625)
Increase in construction contracts in progress	(3,800,656)	–
Decrease (increase) in inventories	3,383,953	(2,575,071)
Increase (decrease) in accounts payable	22,445,949	(7,211,412)
Increase (decrease) in other payables and accruals	4,860,612	(160,957,718)
(Decrease) increase in taxation payable	(16,024,867)	16,278,124
Increase in amount due to related companies	3,607,134	5,020,760
Net cash outflow from operations	(7,819,668)	(294,343,403)

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. CONSOLIDATED CASH FLOW STATEMENT (continued)

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

	Share capital (Including Premium)	Minority interests	Long term bank loans
Balance as at 1st January 2002	382,428,780	50,965,746	6,760,423
Minority interests' share of losses	—	(2,664,579)	—
Disposal of a subsidiary	—	(1,287,077)	—
Dividends paid to minority shareholders of a subsidiary	—	(1,743,447)	—
Purchase of a subsidiary	—	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
Minority interests' share of profit	—	16,975,304	—
Dividends declared to minority shareholder of a subsidiary	—	(1,118,990)	—
Dissolution of a subsidiary (Note 1 (i))	—	(3,074,204)	—
Acquisition of additional 8% interest in a subsidiary (Note 1)	—	(6,146,835)	—
Cash flows from financing activities	905,000	82,598,480	291,956,088
Others	232,785	—	—
Balance as at 31st December 2003	731,494,390	149,896,011	568,354,506

(c) Analysis of cash and cash equivalents:

	2003	2002
Cash on hand	180,951	69,762
Demand deposits	434,798,811	459,971,612
Time deposit with a term of less than three months	—	32,703,092
Cash and cash equivalents	434,979,762	492,744,466
Pledged bank deposits (Note 24)	49,583,683	85,000,000
Restricted bank deposits (Note 31)	7,296,099	13,496,020
Cash and bank balances	491,859,544	591,240,486

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

29. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	2003	2002
Acquisition of an associated company from a related company	–	9,424,182
Gain from disposal of an associated company to a related company	–	530,324
Loans (repaid to)/borrowed from a related company (i)	(75,393,459)	75,393,459
Interest expense paid/ payable to a related company	4,135,592	3,700,877
Loan guarantee provided by a related company	–	47,120,912
Sales of goods to an associated company	25,059,649	27,713,414
Construction of infrastructure for intelligent network for Jinluodian	132,025,898	–
Purchase of services from an associated company	1,501,925	–

- (i) In April 2002, the Group borrowed approximately HK\$75.4 million of loans from Transocean Group. The loan was unsecured and bore interest at a rate of 5.31% per annum. The loan was renewed in 2003, bore interest at a rate of 5.841% per annum and was repaid at year-end.

(b) As at 31st December 2003, the Group had the following material balances with related parties:

	2003	2002
Due from related companies		
– Jinluodian	–	5,445,522
– Broadband	11,836,999	2,468,754
– No.1 Hardware	–	2,356,046
– Trans-Ocean Property Management	2,352,337	1,588,113
– New Technology	301,084	–
	14,490,420	11,858,435
Due to related companies		
– Transocean Group	7,769,855	77,749,505
– Shanghai Internet	1,432,840	3,607,577
– Jinluodian	368,062	–
	9,570,757	81,357,082

Other than the loans from Transocean Group (Note 29(a)(i)), 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.

30. BANKING FACILITIES

As at 31st December 2003, the Group had aggregate bank loan facilities of approximately HK\$852 million (2002: approximately HK\$573 million), HK\$692 million of which have been utilised (2002: HK\$448 utilised). These facilities are secured by certain land (2002: secured by certain land and buildings) (Note 17).

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. CONTINGENT LIABILITIES

In respect of certain of the Group's properties for sale, Trans Ocean Construction, Tranceocean Development and Hangtoun Govern 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 2003, the outstanding guarantees amounted to approximately HK\$146 million (2002: HK\$ 150 million). Part of the Group's bank deposits amounting to HK\$7,296,099 (2002: 13,496,020) (Note 28 (c)) have been restricted in connection with such guarantees.

32. COMMITMENTS

(a) Commitments for properties under development

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

	2003	2002
Authorised and contracted for	357,697,342	396,604,000
Authorised but not contracted for	1,479,990,195	1,282,877,000
	1,837,687,537	1,679,481,000

In addition, the Group had outstanding commitments in respect of uncalled paid-in capital pertaining to Jinluodian, an associated company, amounting to approximately HK\$ 46 million.

(b) Commitments under operating leases

As at 31st December 2003 and 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases for buildings, payable as follows:

	2003	2002
Within one year	1,685,759	—
Later than one year and not later than five years	437,242	—
	2,123,001	—

33. SUBSEQUENT EVENTS

On 22nd March 2004, the Company and J.P. Morgan Securities Ltd. entered into a subscription agreement whereby J.P. Morgan Securities Ltd. agreed to subscribe, or procure subscribers to subscribe, for the convertible bonds of principal amount of HK\$ 302 million subject to the terms and conditions of the Subscription Agreement. The initial conversion price is HK\$ 1.116. The bondholders will have the right to convert their bonds into shares at any time on and after 2nd June 2004 up to the close of business on 3rd April 2009. Unless previously redeemed or converted or purchased and cancelled, the bonds will be redeemed at 111.63% of their principal amount on the maturity date.

The closing date for this subscription agreement is 3rd May 2004 or such other date on or before 17th May 2004 as J.P. Morgan Securities Ltd. and the Company shall agree. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the bonds and conversion shares.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

34. 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)) and also to conform with current year's presentation.

35. ULTIMATE HOLDING COMPANY

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

36. DATE OF APPROVAL

The accounts were approved by the board of directors on 26th April 2004.