## 1. CORPORATE INFORMATION AND DISPUTES WITH A JOINT VENTURER

The principal place of business of Junefield Department Store Group Limited is located at 13th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

During the year, the Group was principally engaged in the following activities:

- property development
- property investment
- provision of property management and agency services
- provision of design, decoration services and electrical and mechanical works

There were no significant changes in the nature of the Group's principal activities during the year.

During the year, Prime Century Investments Limited ("Prime Century"), a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Junefield (Holdings) Limited ("JHL"), a company incorporated in Hong Kong, made a general offer (the "General Offer") to purchase shares in the Company. Upon completion of the General Offer, Prime Century became the immediate holding company of the Company.

In the opinion of the directors, the Company's ultimate holding company is JHL.

**Disputes with the Joint Venturer**

Wuhan Department Store Group Company Limited (the "Joint Venturer") owns 49% equity interests in Wuhan Huaxin Real-Estate Development Co., Ltd. ("WHRED") and Wuhan Huaxin Management Limited, 51%-owned subsidiaries of the Company. In addition, the Joint Venturer also owns a 51% equity interest in Wuhan Plaza Management Co., Ltd. ("WPM"), a 49%-owned jointly-controlled entity of the Group. WHRED, Wuhan Huaxin Management Limited and WPM are collectively referred to as the "Wuhan Companies".

On 19 December 2003, the Group received two arbitration awards issued by the Arbitration Commission of Wuhan (the "Arbitration Awards") from the Joint Venturer. Based on the Arbitration Award made on 26 November 2003 (the "First Arbitration Award"), WHRED was ordered to repay approximately RMB231 million (equivalent to approximately HK$216 million) (the "Loan") together with the accrued interest and the relevant expenses in respect of the abritration to the Joint Venturer, and WPM was found to be liable for the Loan together with the accrued interest and the relevant expenses, under a certain guarantee agreement made by WPM in favour of the Joint Venturer (the "Guarantee Agreement").

Another arbitration award was made on 10 December 2003 (the "Second Arbitration Award") whereby WHRED, pursuant to a certain indemnity agreement made by WHRED in favour of WPM relating to the obligations of WPM under the Guarantee Agreement (the "Indemnity Agreement"), was ordered to transfer certain properties (the "Properties") to WPM in settlement of the amount ordered to be paid by WPM to the Joint Venturer. As at 31 December 2003, the carrying value of the Properties amounted to approximately HK$272 million, which were included in "Fixed assets" (note 12), "Investment properties" (note 13), "Properties contracted for sale" (note 19) and "Properties held for sale" (note 20) as to approximately HK$8 million, HK$250 million, HK$2 million and HK$12 million, respectively.

## 1. CORPORATE INFORMATION AND DISPUTES WITH A JOINT VENTURER (continued)

WPM executed the Guarantee Agreement in favour of the Joint Venturer in relation to the Loan and at the same time WHRED executed the Indemnity Agreement in favour of WPM in relation to its obligation under the Guarantee Agreement.

According to the directors, the Company as holding company and venturer of WHRED and WPM has no record of:

(i) any notice being given to convene board meetings of WHRED and WPM to approve the Guarantee Agreement and the Indemnity Agreement;

(ii) any minutes of the board meetings of WHRED and WPM to approve the Guarantee Agreement and the Indemnity Agreement; and

(iii) the Guarantee Agreement and/or Indemnity Agreement being signed.

The Guarantee Agreement and the Indemnity Agreement were not signed by any directors nominated by the Group. The Group had not been informed of the commencement or the conduct of the arbitration proceedings leading to the Arbitration Awards and only learned of the Arbitration Awards on 19 December 2003 when the Arbitration Awards were sent by post to the Group.

Based on the legal opinion obtained from the Group's legal advisor, the directors consider the Guarantee Agreement, the Indemnity Agreement, and the related arbitrations to be invalid and are currently in the process of taking legal action to reverse the Arbitration Award and, accordingly, have continued to record the Properties and the Loan in the Group's balance sheet.

In addition, following the closing of the General Offer, in October of 2003, the Group informed the Wuhan Companies and the Joint Venturer that the then existing directors nominated by the Group for the Wuhan Companies would be replaced by other persons nominated by the Group. As the request to nominate the directors had not been met, the Group commenced arbitration proceedings in Beijing, the PRC, in January of 2004 against the Joint Venturer relating to the above nomination of directors.

Currently, the arbitrations are still in progress. Based on a legal opinion from the Group's legal advisors, the directors are in the opinion that the Group has the legal and formal right to nominate directors to the Wuhan Companies. Accordingly, in the preparation of the Group's financial statements, the directors are satisfied that it is appropriate to continue to account for the Wuhan Companies as subsidiaries and a jointly-controlled entity, respectively.

The Group is currently in the process of taking legal actions against the Joint Venturer in relation to the above. The financial statements do not include any adjustment that may result due to a failure to reverse the Arbitration Awards and to execute its rights to nominate directors to the Wuhan Companies. Should the Group be unable to reverse the Arbitration Awards and to execute its rights to nominate directors to the Wuhan Companies, the Properties of HK$272 million would be set-off against the Loan of HK$216 million, resulting in a loss of approximately HK$67 million (which also includes the related expenses and taxes of approximately HK$11 million). In addition, the Wuhan Companies would cease to be accounted for as subsidiaries and a jointly-controlled entity respectively.

## 2. BASIS OF PRESENTATION

The Group recorded a net loss of HK$91,579,000 during the year ended 31 December 2003 and had deficiency in assets of approximately HK$28,915,000 at the balance sheet date. Notwithstanding that, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern for the foreseeable future.

In order to improve the financial position, immediate liquidity and cash flow position of the Group, the directors have implemented the following measures:

(a) Subsequent to the balance sheet date, JHL has advanced approximately HK$25 million to the Group for its general working capital purpose. As at the report date, the amount of approximately HK$32 million in aggregate due to JHL is unsecured and interest-free. JHL has undertaken not to demand repayment from the Group prior to 31 December 2005 and unless the Group has sufficient working capital in excess of its normal operational requirements.

(b) In January 2004, 63,726,000 new shares of HK$0.1 each in the Company were issued at the price of HK$0.12 per share to two independent third parties, to partly satisfy the consideration for acquisition of properties (note 40(a));

(c) The directors are in the process of finalising the negotiation with the lender to roll over a loan of HK$20 million granted to the Group, which was due in April 2004, for a term of not less than six months;

(d) The directors have been taking action to tighten cost controls over various general and administrative expenses; and

(e) The Group's commitment was kept at an immaterial level.

In the opinion of the directors, in light of the various measures/arrangements implemented to date and the ongoing support from the Group's ultimate holding company, bankers and creditors, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable concern. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial position and tight liquidity as at 31 December 2003.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in these financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**

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

**Impact of revised SSAP**

The revised SSAP 12 "Income taxes" is effective for the first time for the current year's financial statements.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 9 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

**Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

**Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

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

**Joint venture companies** (continued)

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, with other venturers over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's share or registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's share or registered capital and neither has joint control of, nor is in a position to exercise significant influence over, the joint venture company.

**Jointly-controlled entities**

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

**Associates**

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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

**Goodwill**

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not more than 20 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

**Negative goodwill**

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

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

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

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

**Fixed assets and depreciation**

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over the following estimated useful lives:

| | |
|---|---|
| Leasehold land | Over the remaining unexpired lease terms |
| Buildings | 25 years |
| Leasehold improvements | Shorter of the lease terms or 6 years |
| Furniture and fixtures | 5 years |
| Office equipment | 5 years |
| Motor vehicles | 3 to 6 years |

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

**Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

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

**Properties under development**

Properties under development are stated at cost less any impairment losses. Cost comprises land and other development costs, including capitalised interest, at the balance sheet date.

On completion of the properties, the relevant account balance will be reclassified to fixed assets, properties held for sale or investment properties for rental purposes, depending on the intended usage.

**Investments in securities**

Investment securities are non-trading investments which are intended to be held on a continuing strategic basis and are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Investments other than investment securities are classified as other investments and are stated at their fair values at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair values are credited or charged to the profit and loss account for the period in which they arise.

**Properties contracted/held for sale**

Properties contracted/held for sale are stated at the lower of cost and net realisable value. Net realisable value is based on the prevailing market value less further selling expenses expected to be incurred.

**Construction contracts**

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total costs of the relevant contract or certification by customers. Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

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

**Impairment of assets**

An assessment is made at each balance sheet date to determine whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

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

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised, in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

**Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

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

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

**Employee benefits**

*Retirement benefits scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

*Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

(ii) from the sale of properties, when a legally binding unconditional sale and purchase agreement has been executed;

(iii) rental income, on a time proportion basis over the lease terms;

(iv) from the rendering of property management and agency services, when such services are rendered;

(v) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(vi) dividend income, when the shareholders' right to receive payment has been established.

### Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

## 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the property development segment engages in the development of properties for sale;

(b) the property investment segment engages in property leasing;

(c) the property management and agency services segment provides property management and agency services; and

(d) the construction segment engages in construction contract work as a main contractor or sub-contractor, primarily in respect of design, decoration, electrical and mechanical work.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

## 4. SEGMENT INFORMATION (continued)

### (a) Business segments

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

**Group**

| | Property development | | Property investment | | Property management and agency services | | Construction | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Segment revenue: | | | | | | | | | | | | |
| Sales to/revenue from external customers | – | 424 | 7,892 | 27,714 | 7,037 | 8,427 | 15,561 | 37,145 | – | – | 30,490 | 73,710 |
| Intersegment sales | – | 1,743 | 1,298 | 117 | – | – | – | – | (1,298) | (1,860) | – | – |
| Total | – | 2,167 | 9,190 | 27,831 | 7,037 | 8,427 | 15,561 | 37,145 | (1,298) | (1,860) | 30,490 | 73,710 |
| Segment results | (1,146) | (29,742) | (2,915) | (55,981) | 1,453 | 3,114 | (21,070) | (11,277) | – | – | (23,678) | (93,886) |
| Interest income | | | | | | | | | | | 296 | 3,259 |
| Other unallocated revenue | | | | | | | | | | | 897 | 32 |
| Unallocated expenses | | | | | | | | | | | (80,120) | (44,096) |
| Loss from operating activities | | | | | | | | | | | (102,605) | (134,691) |
| Finance costs | | | | | | | | | | | (23,402) | (24,195) |
| Share of profits and losses of: | | | | | | | | | | | | |
| Jointly-controlled entities | – | (327) | – | – | – | – | – | – | – | – | – | (327) |
| Unallocated amounts on jointly-controlled entities | | | | | | | | | | | 43,817 | 43,096 |
| Associates | | | | | | | | | | | – | (216) |
| Loss before tax | | | | | | | | | | | (82,190) | (116,333) |
| Tax | | | | | | | | | | | (14,229) | (8,435) |
| Loss before minority interests | | | | | | | | | | | (96,419) | (124,768) |
| Minority interests | | | | | | | | | | | 4,840 | 5,836 |
| Net loss from ordinary activities attributable to shareholders | | | | | | | | | | | (91,579) | (118,932) |

## 4. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

Group

| | Property development 2003 HK$'000 | Property development 2002 HK$'000 | Property investment 2003 HK$'000 | Property investment 2002 HK$'000 | Property management and agency services 2003 HK$'000 | Property management and agency services 2002 HK$'000 | Construction 2003 HK$'000 | Construction 2002 HK$'000 | Eliminations 2003 HK$'000 | Eliminations 2002 HK$'000 | Consolidated 2003 HK$'000 | Consolidated 2002 HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Segment assets | 58,434 | 72,540 | 253,058 | 269,072 | 633 | 633 | 10,830 | 48,558 | – | – | 322,955 | 390,803 |
| Unallocated assets | | | | | | | | | | | 51,851 | 115,403 |
| Unallocated amount on a jointly-controlled entity | | | | | | | | | | | (22,853) | (70,048) |
| Total assets | | | | | | | | | | | 351,953 | 436,158 |
| Segment liabilities | 24,694 | 27,216 | 3,874 | 3,400 | 5,381 | 4,240 | 5,623 | 17,550 | – | – | 39,572 | 52,406 |
| Unallocated liabilities | | | | | | | | | | | 337,695 | 318,039 |
| Total liabilities | | | | | | | | | | | 377,267 | 370,445 |
| Other segment information: | | | | | | | | | | | | |
| Depreciation | – | – | – | – | 47 | 100 | 162 | 186 | – | – | 209 | 286 |
| Unallocated amounts | | | | | | | | | | | 1,391 | 2,314 |
| | | | | | | | | | | | 1,600 | 2,600 |
| Provision against doubtful debts and other receivables | – | – | – | – | – | – | 25,361 | 29 | – | – | 25,361 | 29 |
| Unallocated amounts | | | | | | | | | | | 41,649 | 6,912 |
| | | | | | | | | | | | 67,010 | 6,941 |
| Loss on disposal of investment properties | – | – | 3,155 | 15,001 | – | – | – | – | – | – | 3,155 | 15,001 |
| Revaluation deficit on investment properties | – | – | 3,486 | 42,901 | – | – | – | – | – | – | 3,486 | 42,901 |
| Impairment of properties contracted/held for sale | 880 | 1,659 | – | – | – | – | – | – | – | – | 880 | 1,659 |
| Gain on disposal of a subsidiary – unallocated | – | – | – | – | – | – | – | – | – | – | (739) | – |
| Loss on disposal of jointly-controlled entities | – | 27,165 | – | – | – | – | – | – | – | – | – | 27,165 |
| Capital expenditure | – | – | – | – | 41 | 47 | – | – | – | – | 41 | 47 |
| Unallocated amounts | | | | | | | | | | | 1,925 | 124 |
| | | | | | | | | | | | 1,966 | 171 |

## 4. SEGMENT INFORMATION (continued)

### (b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

**Group**

| | Hong Kong | | Elsewhere in the PRC | | Consolidated | |
|---|---|---|---|---|---|---|
| | 2003 HK$'000 | 2002 HK$'000 | 2003 HK$'000 | 2002 HK$'000 | 2003 HK$'000 | 2002 HK$'000 |
| Segment revenue: | | | | | | |
| Sales to external customers | – | 1,368 | 30,490 | 72,342 | 30,490 | 73,710 |
| Other segment information: | | | | | | |
| Segment assets | – | 38,697 | 351,953 | 397,461 | 351,953 | 436,158 |
| Capital expenditure | – | – | 41 | 47 | 41 | 47 |

## 5. TURNOVER AND REVENUE

An analysis of the turnover and other revenue of the Group is as follows:

| | 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| **Turnover** | | |
| Construction contract revenue | 15,561 | 37,145 |
| Sale of properties | 3,789 | 23,161 |
| Gross rental income | 4,103 | 4,977 |
| Property management and agency fees | 7,037 | 8,427 |
| | 30,490 | 73,710 |
| **Other revenue** | | |
| Interest income | 296 | 3,259 |
| Others | 3,050 | 474 |
| | 3,346 | 3,733 |
| | 33,836 | 77,443 |

## 6. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

| | Notes | 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|---|
| Staff costs (excluding directors' remuneration, note 7): | | | |
| Wages and salaries | | 7,387 | 15,076 |
| Pension scheme contributions | | 29 | 297 |
| | | 7,416 | 15,373 |
| Amortisation of goodwill * | 15 | 250 | 500 |
| Minimum lease payments under operating leases in respect of land and buildings | | 783 | 2,098 |
| Auditors' remuneration: | | | |
| Current year provision | | 900 | 800 |
| Under/(over) provision in prior years | | (100) | 300 |
| | | 800 | 1,100 |
| Loss/(gain) on disposal of fixed assets | | (70) | 3 |
| Write off of fixed assets | | 37 | 559 |
| Loss on disposal of investment properties ** | | 3,155 | 15,001 |
| Revaluation deficit/(surplus) and impairment of properties: | | | |
| Revaluation deficit/(surplus) of leasehold land and buildings | 12 | 465 | (203) |
| Revaluation deficit on investment properties | 13 | 3,486 | 42,901 |
| Impairment of properties contracted/held for sale | | 880 | 1,659 |
| | | 4,831 | 44,357 |
| Gain on disposal of subsidiaries | 35(b) | (739) | – |
| Loss on disposal of jointly-controlled entities | | – | 27,165 |
| Unrealised loss on other investments | | – | 753 |
| Loss/(gain) on disposal of other investments | | 318 | (272) |
| Impairment of investment securities | | 178 | – |
| Compensation on guaranteed profits * | | 720 | 5,263 |
| Arrangement fee for debt settlement | 17, 35(c) | 13,738 | – |
| Provision for doubtful debts **** | | 23,585 | – |
| Provision against other receivables **** | | 43,425 | 6,941 |
| Provision against amounts due from associates | | – | 10,437 |
| Net rental income *** | | (3,761) | (4,977) |

## 6. LOSS FROM OPERATING ACTIVITIES (continued)

* The amortisation of goodwill for the year and compensation on guaranteed profits are included in "Other operating expenses" on the face of the consolidated profit and loss account.

** The corresponding revenue from sales of investment properties and cost of investment properties sold are included in "Turnover" and "Cost of properties sold", respectively, as presented on the face of the consolidated profit and loss account.

*** The gross rental income is included in "Turnover" as presented on the face of the consolidated profit and loss account.

**** As disclosed in the Group's announcement dated 13 June 2003 and its financial statements for the year ended 31 December 2002, the Group was then undergoing a corporate restructuring exercise, pursuant to which, in June 2003, the Group entered into a conditional sale and purchase agreement (the "Agreement") to acquire (the "Acquisition") from an independent third party (the "Vendor") a 17.95% equity interest (approximately) in a company which indirectly holds controlling interests in a property investment company, which owns certain properties situated in Beijing, the PRC, for a consideration of HK$47 million. The consideration is to be satisfied by the transfer of a 60% equity interest in Huaxia Finance Company Limited (formerly Hudson Finance Company Limited) ("Huaxia Finance"), a wholly-owned subsidiary, and the transfer of a 60% interest in the Huaxia Finance shareholder's loan due to the then immediate holding company of Huaxia Finance. In addition, pursuant to the Agreement, the Group is entitled to require the Vendor to purchase all of its remaining 40% equity interest in Huaxia Finance and its remaining 40% interest in the Huaxia Finance shareholder's loan for an aggregate cash consideration of HK$31.4 million at any time following the completion of the Acquisition up to 31 March 2004.

The principal assets of Huaxia Finance are receivable balances (the "Receivables") of approximately HK$78 million as at 31 December 2002.

As the conditions precedent to the Agreement were not fulfilled and after several meetings and discussions with the Vendors, the directors considered the Agreement will lapse. In this regard, the directors reassessed the recoverability of the Receivables and provision for doubtful debts and provisions against other receivables of HK$24 million and HK$43 million, respectively, have been charged to the profit and loss account during the year.

## 7. REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

**Directors' remuneration**

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Companies Ordinance, is as follows:

| | Group | |
|---|---|---|
| | 2003 HK$'000 | 2002 HK$'000 |
| Fees: | | |
| Independent non-executive directors | 140 | 360 |
| Other emoluments for executive directors: | | |
| Salaries, allowances and benefits in kind | 1,075 | 3,258 |
| Compensation for loss of office | 962 | – |
| Pension scheme contributions | 23 | 36 |
| | 2,200 | 3,654 |

The number of directors whose remuneration fell within the following bands is as follows:

| | Number of directors | |
|---|---|---|
| | 2003 | 2002 |
| Nil to HK$1,000,000 | 11 | 7 |
| HK$1,000,001 to HK$1,500,000 | 1 | 2 |
| | 12 | 9 |

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

## 7. REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES (continued)

**Five highest paid employees**

The five highest paid employees during the year included three (2002: three) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining two (2002: two) non-director, highest paid employees are as follows:

| | Group | |
|---|---|---|
| | 2003 HK$'000 | 2002 HK$'000 |
| Salaries, allowances and benefits in kind | 578 | 1,448 |
| Pension scheme contributions | 18 | 24 |
| | 596 | 1,472 |

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

| | Number of employees | |
|---|---|---|
| | 2003 | 2002 |
| Nil to HK$1,000,000 | 2 | 2 |

## 8. FINANCE COSTS

| | Group | |
|---|---|---|
| | 2003 HK$'000 | 2002 HK$'000 |
| Interest on: | | |
| Bank loans, overdrafts and other loans wholly repayable within five years | 5,467 | 5,465 |
| Loans from a jointly-controlled entity and a joint venturer | 17,935 | 18,730 |
| | 23,402 | 24,195 |

## 9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| Group: | | |
| Current – Hong Kong | | |
| Charge for the year | 10 | – |
| Under/(over) provision in prior years | – | 2,348 |
| Current – Elsewhere | 217 | (12,587) |
| Deferred (note 31) | – | 50 |
| | 227 | (10,189) |
| Share of tax attributable to a jointly-controlled entity | 14,002 | 18,624 |
| Total tax charge for the year | 14,229 | 8,435 |

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company, its subsidiaries and a jointly-controlled entity are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

**Group – 2003**

| | **Hong Kong** | | **PRC** | | **Total** | |
|---|---|---|---|---|---|---|
| | HK$'000 | % | HK$'000 | % | HK$'000 | % |
| Loss before tax | (82,275) | | 85 | | (82,190) | |
| Tax at the statutory tax rate | (14,398) | 18 | 28 | 33 | (14,370) | 18 |
| Income not subject to tax | (185) | – | (122) | (144) | (307) | – |
| Expenses not deductible for tax | 14,593 | (18) | 14,313 | 16,839 | 28,906 | (35) |
| Tax charge at the Group's effective rate | 10 | – | 14,219 | 16,728 | 14,229 | (17) |

## 9. TAX (continued)

Group – 2002

| | Hong Kong | | PRC | | Total | |
|---|---|---|---|---|---|---|
| | HK$'000 | % | HK$'000 | % | HK$'000 | % |
| Loss before tax | (45,315) | | (71,018) | | (116,333) | |
| Tax at the statutory tax rate | (7,250) | 16 | (23,435) | 33 | (30,685) | 26 |
| Adjustments in respect of current tax of previous years | 4 | – | (12,591) | 18 | (12,587) | 11 |
| Income not subject to tax | (2,360) | 5 | (13,608) | 19 | (15,968) | 14 |
| Expenses not deductible for tax | 9,659 | (21) | 58,016 | (82) | 67,675 | (58) |
| Tax charge at the Group's effective rate | 53 | – | 8,382 | (12) | 8,435 | (7) |

## 10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, was HK$91,455,000 (2002: HK$118,958,000).

## 11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$91,579,000 (2002: HK$118,932,000), and the weighted average of 355,530,604 (2002: 304,374,867) ordinary shares in issue during the year.

A diluted loss per share amount for the year ended 31 December 2003 has not been disclosed as no diluting events existed during the year.

A diluted loss per share amount for the year ended 31 December 2002 has not been disclosed, as the share options and warrants outstanding during that year had an anti-dilutive effect on the basic loss per share.

## 12. FIXED ASSETS

### Group

| | Leasehold land and buildings HK$'000 | Leasehold improvements HK$'000 | Furniture and fixtures HK$'000 | Office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Cost or valuation: | | | | | | |
| At beginning of year | 19,650 | 4,007 | 1,740 | 3,782 | 4,289 | 33,468 |
| Additions | 1,550 | – | 8 | 408 | – | 1,966 |
| Disposals | – | – | (1) | (179) | (2,459) | (2,639) |
| Write off | – | – | (108) | (271) | – | (379) |
| Revaluation deficit | (792) | – | – | – | – | (792) |
| Disposal of subsidiaries | (12,838) | (1,278) | (193) | (313) | (1,311) | (15,933) |
| At 31 December 2003 | 7,570 | 2,729 | 1,446 | 3,427 | 519 | 15,691 |
| Accumulated depreciation: | | | | | | |
| At beginning of year | – | 3,290 | 1,231 | 2,784 | 3,463 | 10,768 |
| Provided during the year | 583 | 400 | 174 | 379 | 64 | 1,600 |
| Disposals | – | – | (1) | (124) | (2,038) | (2,163) |
| Write off | – | – | (75) | (267) | – | (342) |
| Reversal upon revaluation | (327) | – | – | – | – | (327) |
| Disposal of subsidiaries | (256) | (1,278) | – | (273) | (1,311) | (3,118) |
| At 31 December 2003 | – | 2,412 | 1,329 | 2,499 | 178 | 6,418 |
| Net book value: | | | | | | |
| At 31 December 2003 | 7,570 | 317 | 117 | 928 | 341 | 9,273 |
| At 31 December 2002 | 19,650 | 717 | 509 | 998 | 826 | 22,700 |
| Analysis of cost or valuation: | | | | | | |
| At cost | – | 2,729 | 1,446 | 3,427 | 519 | 8,121 |
| At 31 December 2003 valuation | 7,570 | – | – | – | – | 7,570 |
| | 7,570 | 2,729 | 1,446 | 3,427 | 519 | 15,691 |

## 12. FIXED ASSETS (continued)

The Group's leasehold land and buildings are situated in the PRC and are held under medium lease terms.

The leasehold land and buildings were revalued individually at 31 December 2003 by RHL Appraisal Ltd. ("RHL"), independent professionally qualified valuers, at an aggregate open market value of HK$7,570,000 (2002: HK$19,650,000) based on their existing use. Revaluation deficit of HK$465,000 arising there from has been charged to the profit and loss account (note 6).

Had these leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$8,268,000 (2002: HK$20,430,000).

Certain of the Group's leasehold land and buildings are currently under the arbitration from the Arbitration Commission of Wuhan, further details of which are set out in note 1 above.

## 13. INVESTMENT PROPERTIES

| | Group<br>HK$'000 |
|---|---|
| At beginning of year | 264,100 |
| Additions | 5,148 |
| Disposals | (14,028) |
| Transfer to properties contracted for sale | (1,298) |
| Revaluation deficit | (3,486) |
| At 31 December 2003 | 250,436 |

The Group's investment properties are situated in the PRC and are held under medium term leases.

The Group's investment properties were revalued on 31 December 2003 by RHL at HK$250,436,000 on an open market, existing use basis. A revaluation deficit of HK$3,486,000 arising therefrom has been charged to the profit and loss account (note 6).

Further particulars of the Group's investment properties are included on page 72.

The Group's investment properties are currently under the arbitration from the Arbitration Commission of Wuhan, further details of which are set out in note 1 above.

## 14. PROPERTIES UNDER DEVELOPMENT

| | Group | |
|---|---|---|
| | 2003 | 2002 |
| | HK$'000 | HK$'000 |
| At beginning of year | 9,444 | 5,484 |
| Additions | 10 | 62 |
| Acquisition of subsidiaries (note 35(a)) | – | 3,898 |
| Disposal of subsidiaries (note 35(b)) | (9,454) | – |
| At 31 December | – | 9,444 |

## 15. GOODWILL

The amount of goodwill capitalised as an asset arising from the acquisition of subsidiaries is as follows:

| | Group |
|---|---|
| | HK$'000 |
| Cost: | |
| At beginning of year | 2,520 |
| Disposal of subsidiaries (note 35(b)) | (2,520) |
| | – |
| Accumulated amortisation: | |
| At beginning of year | 500 |
| Provided during the year | 250 |
| Disposal of subsidiaries (note 35(b)) | (750) |
| At 31 December 2003 | – |
| Net book value: | |
| At 31 December 2003 | – |
| At 31 December 2002 | 2,020 |

## 16. INVESTMENTS IN SUBSIDIARIES

| | Company 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| Unlisted investments, at cost | 182,079 | 182,079 |
| Provision for impairment | (171,405) | (111,784) |
| | 10,674 | 70,295 |

The balances with subsidiaries were unsecured, interest-free and had no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share/ registered capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Directly held** | | | | |
| Huaxia Group Limited (formerly Hudson Group Limited) | British Virgin Islands/ Hong Kong | US$50,000 | 100 | Investment holding |
| **Indirectly held** | | | | |
| Beijing Urban Construction Hudson Decoration Engineering Co., Ltd. (note (a)) | PRC | RMB8,000,000 | 51 | Provision of decoration services and electrical and mechanical works |
| Huaxia Construction Limited (formerly Hudson Construction Limited) | Hong Kong | HK$13,000,000 | 100 | Investment holding |

## 16. INVESTMENTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share/ registered capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Indirectly held** | | | | |
| Huaxia Development Worldwide Limited (formerly Hudson Development Worldwide Limited) | Hong Kong | HK$100 | 100 | Investment holding |
| Hudson Development (H.K.) Limited ("HDHK") (note (c)) | Hong Kong | HK$10 ordinary shares; HK$1,000,000 non-voting deferred shares (note (b)) | 100 | Investment holding |
| Huaxia Finance | Hong Kong | HK$30,000,000 | 100 | Provision of financial services |
| Hudson International Hong Kong Limited | Hong Kong | HK$2 | 100 | Investment holding |
| Huaxia Investment Worldwide Limited (formerly Hudson Investment Worldwide Limited) | Hong Kong | HK$100 | 100 | Investment holding |
| International Management Company Limited ("IMC") (note (c)) | Hong Kong | HK$1,500,000 | 100 | Investment holding |
| Wuhan Huaxin Management Limited (note (a)) | PRC | RMB3,000,000 | 51 | Property management |
| WHRED (note (a)) | PRC | US$8,000,000 | 51 | Property development and investment |

## 16. INVESTMENTS IN SUBSIDIARIES (continued)

Notes:

(a) These subsidiaries are registered as contractual joint ventures under the PRC law.

(b) The non-voting deferred shares do not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of HDHK by virtue or in respect of their holdings of such non-voting deferred shares, except at a general meeting convened for any resolution varying or abrogating any of the rights or privileges of the said non-voting deferred shares, or when the resolution to be submitted at a general meeting directly affects the rights and privileges of such holders, or is for the purpose of reducing share capital. The holders of the non-voting deferred shares are not entitled to any dividends of HDHK unless the profit available for distribution for the financial year exceeds HK$100,000,000,000,000 and are not entitled to any participation in the profits or assets of HDHK. On a winding-up, the holders of the non-voting deferred shares are entitled, out of the surplus assets of HDHK, to a return of the capital paid-up on the non-voting deferred shares held by them after a total sum of HK$500,000,000,000,000 has been distributed in such winding-up in respect of the ordinary shares of HDHK.

(c) As at 31 December 2003, the entire issued share capital of IMC and HDHK, and their joint venture rights in WPM (a 49% jointly-controlled entity) and WHRED, respectively, were pledged for a loan of HK$20 million (note 29(c)).

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 17. INTEREST IN A JOINTLY-CONTROLLED ENTITY

| | Group | |
|---|---|---|
| | 2003<br>HK$'000 | 2002<br>HK$'000 |
| Share of net assets | 81,602 | 66,438 |
| Loan from a jointly-controlled entity | (104,455) | (136,486) |
| | (22,853) | (70,048) |

## 17. INTEREST IN A JOINTLY-CONTROLLED ENTITY (continued)

Particulars of the Group's jointly-controlled entity are as follows:

| Name | Business structure | Place of registration and operations | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| WPM | Corporate | PRC | 49 | Operation and management of a department store |

WPM is an equity joint venture company established by IMC, an indirectly held subsidiary of the Company, and a PRC joint venturer for a period of 20 years commencing from 29 December 1993. The registered capital of WPM amounted to US$21,000,000.

The amount due from WPM of HK$195,000 included in "Due from a jointly-controlled entity" in current assets as at 31 December 2003 was unsecured, interest-free and had no fixed term of repayment. The amount due to WPM of HK$9,149,000 at 31 December 2002 was fully repaid during the year ended 31 December 2003.

Pursuant to a debt settlement agreement entered into between certain subsidiaries of the Company, a joint venturer and WPM on 13 February 2003, the parties agreed to restructure the loan from WPM into a term loan at an interest rate equivalent to that of a one-year term loan quoted by the People's Bank of China, and repayable over five years through dividend distributions by WPM for the period up to December 2007. In consideration for the joint venture giving consent to and arranging the debt settlement agreement, the Group agreed to pay to the joint venturer an arrangement fee of HK$13,738,000, which will also be settled through the dividend distribution from WPM and was charged to the Group's profit and loss account during the year (notes 6 and 35(c)).

## 17. INTEREST IN A JOINTLY-CONTROLLED ENTITY (continued)

Extracts of the results and financial position of WPM, which are based on WPM's unaudited management accounts prepared under accounting principles generally accepted in Hong Kong and on the basis that the Arbitration Award (note 1) will not be implemented, are as follows:

| | 2003<br>HK$'000 | 2002<br>HK$'000 |
|---|---|---|
| Turnover | 273,248 | 279,418 |
| Net profit for the year | 60,846 | 49,943 |
| Fixed assets | 56,165 | 77,354 |
| Other non-current assets | 104,506 | 146,033 |
| Current assets | 233,989 | 162,394 |
| Current liabilities | 206,569 | 220,640 |

## 18. INVESTMENT SECURITIES

| | Group | |
|---|---|---|
| | 2003<br>HK$'000 | 2002<br>HK$'000 |
| Unlisted equity investments, at cost | | |
| In Hong Kong | – | 178 |
| Outside Hong Kong | 9,580 | 9,580 |
| | 9,580 | 9,758 |

Pursuant to an agreement dated 21 December 2003, WPM agreed to assume the bank loans of approximately HK$10 million from the Group and in consideration of this, the investment securities were agreed to be transferred to WPM. Subsequent to the balance sheet date, the bank loans have been fully repaid by WPM on behalf of the Group and the share transfer is in progress (notes 29(a) and 40(c)).

## 19. PROPERTIES CONTRACTED FOR SALE

The balance represents properties pre-sold in prior years which are the subject of legal disputes with the purchasers. The sale and profits attributable to these properties have not been recognised in the Group's financial statements. Sales deposits received from these purchasers have been recorded as "Customer deposits received" under current liabilities (note 28).

In addition, certain of these properties are currently under the arbitration from the Arbitration Commission of Wuhan, which are set out in greater details in note 1 to the financial statements.

## 20. PROPERTIES HELD FOR SALE

The balance represents properties pre-sold in prior years, which were completed during the year ended 31 December 1998, but for which the balance of the sale consideration has not yet been received and the legal completion of the respective sale and purchase agreements has not yet been effected. The Group has, in accordance with the sale and purchase agreements and based on an opinion from a PRC lawyer, seized the pre-sale deposits received.

Certain of these properties are currently under the arbitration from the Arbitration Commission of Wuhan, which are set out in greater details in note 1 to the financial statements.

## 21. CONSTRUCTION CONTRACTS

| | Group | |
|---|---|---|
| | 2003<br>HK$'000 | 2002<br>HK$'000 |
| Gross amount due from contract customers | 1,331 | 7,228 |
| Contract costs incurred plus recognised profits less recognised losses to date | 14,594 | 19,176 |
| Less: Progress billings | (13,263) | (11,948) |
| | 1,331 | 7,228 |

As at 31 December 2003, retentions held by customers for contract works amounted to approximately HK$988,000 (2002: HK$4,584,000).

## 22. ACCOUNTS RECEIVABLE

An aged analysis of the Group's accounts receivable as at the balance sheet date, based on invoice date and net of any provisions, is as follows:

| | 2003<br>HK$'000 | 2002<br>HK$'000 |
|---|---|---|
| Current | 2,760 | 7,987 |
| One month | – | 168 |
| Two to three months | – | 23 |
| More than three months | 4,287 | 37,670 |
| | 7,047 | 45,848 |

Receivables from construction contracts and the sale of properties are predetermined in accordance with the provisions of relevant agreements and are contractually payable to the Group within a specified period.

## 23. BALANCES WITH JOINT VENTURERS

Included in the loan from a joint venturer of HK$271,599,000 (2002: HK$233,876,000) as at 31 December 2003 is an amount of HK$54,687,000 (2002: HK$18,294,000) which is interest-free. Other than this, the loan from the joint venturer is unsecured and bears interest at the interest rate applicable to one-year term loans quoted by the People's Bank of China. In prior years, the joint venturer had agreed not to demand repayment of the loan on or prior to 31 December 2004. During the year, part of the loan from the joint venturer was subject to the arbitration from the Arbitration Commission of Wuhan, which are set out in greater details in note 1 to the financial statements.

During the year, the Group's interest expense paid to the joint venturer amounted to approximately HK$11,680,000 (2002: HK$14,003,000).

All other balances with joint venturers (except for an amount due to a joint venturer of HK$374,000 as at 31 December 2002 which bore interest at 7.8% per annum) are unsecured, interest-free and have no fixed terms of repayment.

## 24. OTHER INVESTMENTS

| | Group | |
|---|---|---|
| | 2003 | 2002 |
| | HK$'000 | HK$'000 |
| Listed equity investments in Hong Kong, at market value | – | 716 |

## 25. PLEDGED BANK DEPOSITS

As at 31 December 2002, the Group's pledged bank deposits were pledged as security for a bank loan granted to a jointly-controlled entity disposed of during the year ended 31 December 2002. During the year ended 31 December 2003, the bank loan was repaid and the pledge was released accordingly.

## 26. RESTRICTED BANK BALANCE

As at 31 December 2003, due to legal proceedings as described in note 38(c) to the financial statements, the bank balance was frozen for the period from 24 September 2003 to 24 March 2004, and the restriction was released subsequently.

## 27. ACCOUNTS PAYABLE

An aged analysis of the Group's accounts payable as at the balance sheet date, based on invoice date, is as follows:

| | 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| Current | 2,069 | 1,309 |
| Two to three months | – | 731 |
| More than three months | 5,935 | 6,210 |
| | 8,004 | 8,250 |

## 28. CUSTOMER DEPOSITS RECEIVED

Customer deposits received represents deposits received on properties pre-sold in prior years which are the subject of legal disputes as at the date of this report (note 19). Further details of the litigation are set out in note 38(a) to the financial statements.

## 29. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | 2003 HK$'000 | 2002 HK$'000 | 2003 HK$'000 | 2002 HK$'000 |
| Bank overdrafts repayable on demand: | | | | |
| Secured | – | 3,066 | – | – |
| Bank loans repayable within one year: | | | | |
| Secured | – | 4,996 | – | – |
| Unsecured | 9,903 | 14,968 | – | – |
| | 9,903 | 19,964 | – | – |
| Other loans repayable within one year or on demand: | | | | |
| Secured | 20,000 | 5,000 | 20,000 | 5,000 |
| Unsecured | 4,630 | 4,630 | 4,630 | 4,630 |
| | 24,630 | 9,630 | 24,630 | 9,630 |
| | 34,533 | 32,660 | 24,630 | 9,630 |

## 29. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

As at 31 December 2003, the Group's banking facilities were secured by the following:

(a) As at 31 December 2003, the Group's bank loans were supported by corporate guarantees executed by WPM and a joint venturer. Pursuant to an agreement dated 21 December 2003, WPM agreed to assume the bank loans from the Group and in consideration of this, the investment securities were agreed to be transferred to WPM. Subsequent to the balance sheet date, the bank loans were fully repaid by WPM on behalf of the Group and the share transfer is in progress (notes 18 and 40(c)).

(b) The Company's and the Group's other loan of HK$4,630,000 is unsecured and bears interest at 9.5% per annum.

(c) The Company's and the Group's other loan of HK$20,000,000 bears interest at the higher of (i) 2% per month; or (ii) the aggregate of the annual rate announced or applied by the Hongkong and Shanghai Banking Corporation Limited as its prime rate of interest in Hong Kong for lending of Hong Kong Dollar(s) to its prime corporate customers plus 19% per annum; or (iii) 3-month HIBOR plus 22.596% per annum, and is secured by:

(i) A debenture incorporating a floating charge on all assets of the Company and a first legal charge on the entire issued capital of IMC and HDHK, subsidiaries of the Company;

(ii) A debenture incorporating a floating charge on all assets of IMC and a first legal charge on its 49% shareholding in WPM;

(iii) A first legal charge on the 49% joint venture rights in WPM including all cash, dividends, distribution, bonuses, interests or other monies derived from the rights in WPM;

(iv) A debenture incorporating a floating charge on all assets of HDHK and a first legal charge on its 51% shareholding in WHRED; and

(v) A first legal charge on the 51% joint venture rights in WHRED, including all cash, dividends, distribution, bonuses, interests on other monies derived from the rights in WHRED.

The other loan of HK$20,000,000 was due for repayment on 9 April 2004 and the directors are currently in the process of finalising the negotiation with the lender to roll over the loan for a term of not less than six months.

## 30. DUE TO ULTIMATE HOLDING COMPANY

The amount due to the ultimate company is unsecured and interest-free. The ultimate holding company has undertaken not to demand repayment from the Group prior to 31 December 2005 and unless the Group has sufficient working capital in excess of its normal operational requirements.

## 31. DEFERRED TAX

| | Group 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| At beginning of year | 50 | – |
| Charge for the year (note 9) | – | 50 |
| Disposal of subsidiaries (note 35(b)) | (50) | – |
| At 31 December | – | 50 |

The provision for deferred tax was made in respect of accelerated depreciation allowances.

The Company has tax losses arising in Hong Kong of HK$27,239,000 (2002: HK$27,239,000) that are available indefinitely for offsetting against future profits of the Company. Deferred tax assets have not been recognised in respect of these losses as the Company has been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and a jointly-controlled entity as the Group has no liability to additional tax should such amounts be remitted.

## 32. SHARE CAPITAL

**Shares**

| | 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| Authorised: | | |
| 25,000,000,000 (2002: 1,000,000,000) ordinary shares of HK$0.10 each | 2,500,000 | 100,000 |
| Issued and fully paid: | | |
| 358,208,200 (2002: 309,208,200) ordinary shares of HK$0.10 each | 35,821 | 30,921 |

## 32. SHARE CAPITAL (continued)

During the year, the movements in share capital were as follows:

(a) Pursuant to a placing agreement entered into between Koffman Securities Limited, the placing agent, and the Company on 21 January 2003, 49,000,000 shares of HK$0.10 each in the Company were placed to several investors who are not connected persons as defined in the Listing Rules, at a price of HK$0.225 per share (the "Placing"). The proceeds, net of related expenses, received by the Company from the Placing amounted to approximately HK$10,594,000 and were used as general working capital of the Group. The excess of the consideration received over the nominal value of the shares issued, in the amount of HK$6,125,000, was credited to the share premium account (note 34).

(b) Pursuant to an ordinary resolution passed on 29 December 2003, the authorised share capital of the Company was increased from HK$100,000,000 to HK$2,500,000,000 by the creation of 24,000,000,000 additional shares of HK$0.10 each, ranking pari passu in all respects with the existing shares of the Company.

Subsequent to the balance sheet date, in January 2004, 63,726,000 new shares of HK$0.1 each in the Company were issued at HK$0.12 per share, for the purpose of satisfying the consideration for the acquisition of certain properties (note 40(a)).

### Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements.

## 33. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include full-time employees of the Company or any of its subsidiaries, including any executive directors of the Company or any of its subsidiaries. The Scheme became effective on 10 November 1999 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time.

The subscription price of the share options is determined by the directors and notified to each relevant director and employee. The subscription price should not be less than the greater of an amount equal to 80% of the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the option or the nominal value of the Company's shares.

## 33. SHARE OPTION SCHEME (continued)

On 1 September 2001, the Stock Exchange amended the requirements for share option schemes under the Listing Rules. If the Company wishes to grant options under the Scheme, it will also comply with the requirements under the Listing Rules.

No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25% of the aggregate number of shares issued and issuable under the Scheme for the time being.

Share options do not confer rights on the holders either to dividends or to vote at shareholders' meetings.

During the year, there were no share options outstanding under the Scheme.

Subsequent to the balance sheet date, on 12 March 2004, 27,416,000 share options were granted under the Scheme to certain directors and employees of the Group. The exercise price of the share options is HK$0.13 per share and the exercise period commenced on 12 September 2004 and will expire on 12 September 2006. The price of the Company's shares at the date of grant was HK$0.13 (note 40(b)).

## 34. RESERVES

| Group | Share premium account | Contributed surplus | Capital reserve | Property revaluation reserve | Exchange fluctuation reserve | Retained profits/ (accumulated losses) | Total |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2002 | 25,563 | 230 | 29,180 | – | 4,786 | 70,332 | 130,091 |
| Issue of shares | 10,000 | – | – | – | – | – | 10,000 |
| Share issue expenses | (108) | – | – | – | – | – | (108) |
| Net loss for the year | – | – | – | – | – | (118,932) | (118,932) |
| Utilised by a jointly-controlled entity | – | – | (659) | – | – | – | (659) |
| Revaluation surplus of leasehold land and buildings | – | – | – | 757 | – | – | 757 |
| At 31 December 2002 | 35,455 | 230 | 28,521 | 757 | 4,786 | (48,600) | 21,149 |
| Reserves retained by: | | | | | | | |
| Company and subsidiaries | 35,455 | 230 | 27,432 | 757 | 4,786 | (46,013) | 22,647 |
| A jointly-controlled entity | – | – | 1,089 | – | – | (183) | 906 |
| Associates | – | – | – | – | – | (2,404) | (2,404) |
| | 35,455 | 230 | 28,521 | 757 | 4,786 | (48,600) | 21,149 |

## 34. RESERVES (continued)

| Group | Share premium account | Contributed surplus | Capital reserve | Property revaluation reserve | Exchange fluctuation reserve | Retained profits/ (accumulated losses) | Total |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2003 | 35,455 | 230 | 28,521 | 757 | 4,786 | (48,600) | 21,149 |
| Issue of shares – note 32(a) | 6,125 | – | – | – | – | – | 6,125 |
| Share issue expenses | (431) | – | – | – | – | – | (431) |
| Net loss for the year | – | – | – | – | – | (91,579) | (91,579) |
| Release of reserves upon disposal of subsidiaries | – | – | (1,790) | (757) | (62) | 2,609 | – |
| At 31 December 2003 | 41,149 | 230 | 26,731 | – | 4,724 | (137,570) | (64,736) |
| Reserves retained by: | | | | | | | |
| Company and subsidiaries | 41,149 | 230 | 25,642 | – | 4,724 | (148,633) | (76,888) |
| A jointly-controlled entity | – | – | 1,089 | – | – | 11,063 | 12,152 |
| | 41,149 | 230 | 26,731 | – | 4,724 | (137,570) | (64,736) |

| Company | Share premium account | Contributed surplus | Accumulated losses | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2002 | 25,563 | 178,927 | (74,399) | 130,091 |
| Issue of shares | 10,000 | – | – | 10,000 |
| Share issue expenses | (108) | – | – | (108) |
| Net loss for the year | – | – | (118,958) | (118,958) |
| At 31 December 2002 and 1 January 2003 | 35,455 | 178,927 | (193,357) | 21,025 |
| Issue of shares – note 32(a) | 6,125 | – | – | 6,125 |
| Share issue expenses | (431) | – | – | (431) |
| Net loss for the year | – | – | (91,455) | (91,455) |
| At 31 December 2003 | 41,149 | 178,927 | (284,812) | (64,736) |

## 34. RESERVES (continued)

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation on 10 November 1999, over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

## 35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Acquisition of subsidiaries

| | 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| Net assets acquired: | | |
| Fixed assets | – | 193 |
| Properties under development | – | 3,898 |
| Prepayments, deposits and other receivables | – | 257 |
| Cash and bank balances | – | 6 |
| Accruals and other payables | – | (2,696) |
| Minority interests | – | (578) |
| | – | 1,080 |
| Goodwill on acquisition | – | 2,520 |
| | – | 3,600 |
| Satisfied by: | | |
| Other receivables | – | 3,600 |

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

| | 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| Cash and bank balances acquired and net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries | – | 6 |

The subsidiaries acquired during the year ended 31 December 2002 made no significant contribution to the Group in respect of turnover or contribution to the consolidated loss from operating activities for that year.

## 35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (b) Disposal of subsidiaries

| | 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| Net assets disposed of: | | |
| Fixed assets | 12,815 | – |
| Properties under development | 9,454 | – |
| Goodwill | 1,770 | – |
| Due from contract customers | 550 | – |
| Accounts receivable | 9,780 | – |
| Tax recoverable | 21 | – |
| Prepayments, deposits and other receivables | 11,840 | – |
| Cash and bank balances | 144 | – |
| Tax payables | (16,473) | – |
| Accounts payable | (2,673) | – |
| Accruals and other payables | (10,421) | – |
| Due to joint venturers | (374) | – |
| Interest-bearing bank borrowings | (9,553) | – |
| Deferred tax | (50) | – |
| Minority interests | (5,202) | – |
| | 1,628 | – |
| Gain on disposal of subsidiaries (note 6) | 739 | – |
| | 2,367 | – |
| Satisfied by: | | |
| Cash | 47 | – |
| Other receivables | 5,521 | – |
| Other payables | (3,201) | – |
| | 2,367 | – |

## 35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

**(b) Disposal of subsidiaries** (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

| | 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| Cash consideration | 47 | – |
| Cash and bank balances disposed of | (144) | – |
| Bank overdrafts disposed of | 4,557 | – |
| Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary | 4,460 | – |

The subsidiaries disposed of during the year ended 31 December 2003 had no significant impact on the Group's consolidated turnover or profit after tax for the year.

**(c) Major non-cash transactions**

(i) During the year, an arrangement fee for debt settlement of HK$13,738,000 charged to the profit and loss account was settled through the dividend distribution from WPM (notes 6 and 17).

(ii) During the year, loan from WPM of HK$2,913,000 and HK$33,354,000 were settled through the dividend distribution from WPM and the current account with a joint venturer, respectively.

## 36. OPERATING LEASE ARRANGEMENTS

**(a) As lessor**

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to two years. The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | Group | |
|---|---|---|
| | 2003 HK$'000 | 2002 HK$'000 |
| Within one year | 2,391 | 2,353 |
| In the second to fifth years, inclusive | 81 | 2 |
| | 2,472 | 2,355 |

## 36. OPERATING LEASE ARRANGEMENTS (continued)

**(b) As lessee**

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for a term of one year.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | 2003 HK$'000 | 2002 HK$'000 |
| Within one year | 14 | 1,926 |
| In the second to fifth years, inclusive | – | 1,459 |
| | 14 | 3,385 |

At the balance sheet date, the Company did not have any significant operating lease commitments.

In addition, the Group's share of a jointly-controlled entity's own total future minimum lease payments under non-cancellable operating lease commitments, payable to a joint venturer, which was not included in the above, were as follows:

| | Group | |
|---|---|---|
| | 2003 HK$'000 | 2002 HK$'000 |
| Within one year | 28,793 | 27,614 |
| In the second to fifth years, inclusive | 61,124 | 89,917 |
| | 89,917 | 117,531 |

## 37. CONTINGENT LIABILITIES

As at 31 December 2003, guarantees to the extent of approximately HK$20 million were given by the Group to two banks for mortgage loan facilities granted by the banks to the buyers of properties developed by the Group. During the year, in September 2003, due to the default in payments by certain borrowers, one of the banks (the "Bank") commenced legal action against WHRED requesting WHRED to pay the guaranteed amount of approximately HK$6.4 million (including a principal of HK$4.2 million and an interest of HK$2.2 million as calculated by the Bank). Based on the legal opinion from a PRC lawyer, the amount payable by the Group would be limited to the outstanding loans after the sales proceeds from the mortgaged properties. As at 31 December 2003, the current market value of the subject mortgaged properties amounted to approximately HK$4.5 million. In addition, according to the PRC lawyer, the calculation of the interest payable of HK$2.2 million is not in accordance with the PRC laws. The directors estimated that the actual amount of interest payable in this regard would not be more than HK$1.3 million. In addition, the directors consider that it is probable for the Group and/or the Bank to recover the shortfall from the buyers. Accordingly, the directors do not expect significant outflow of resources at this stage and no provision has been made.

## 38. LITIGATION

(a) During 1997, buyers of certain pre-sold units of the Group's properties under development alleged that the Group had breached certain terms of the relevant property sale and purchase agreements and, as a result, claimed against the Group for, inter alia, a refund of the pre-sale deposits paid, legal expenses incurred and any other resulting financial loss. Based on the legal advice from the Group's lawyer, the directors were in the opinion that such claims were unfounded and the Group had strong grounds for defending the claims and had thus proceeded to defend them vigorously.

In prior years, the plaintiffs have filed applications to appeal to courts at different levels. During the year, court judgements have been awarded in favour of certain buyers. Based on the judgements, deposits and compensation payable to these buyers amounted to approximately HK$12 million, which are fully covered by the amount included in "Customer deposits received" as at 31 December 2003 in respect of these buyers. Nevertheless, the Group has appealed the cases to a higher court.

(b) In December 2002, a former director of a wholly-owned subsidiary commenced litigation in the PRC against the Group, and claimed that an alleged bonus of RMB19 million was due to him, according to a supplementary agreement attached to the employment contract entered into with the Group in 1995. Currently, the litigation is still in progress and no conclusion has been drawn on the litigation.

Based on the legal opinion from the PRC lawyer, the directors are in the opinion that the court will ultimately decline such claim and accordingly, no provision has been made.

## 38. LITIGATION (continued)

(c) During the year, a PRC entity (the "Plaintiff") claimed WHRED and a wholly-owned subsidiary disposed of during the year for an outstanding construction costs for the properties developed by WHRED in prior years in the amount of HK$1.4 million. In addition, according to the request made by the Plaintiff, a bank account of WHRED (with bank balance of HK$1.9 million as at 31 December 2003) was frozen for the period from 24 September 2003 to 24 March 2004 as ordered by the court. Based on the legal opinion obtained from the PRC lawyer, the directors are in the opinion that such claim was unfounded. No provision was made accordingly.

(d) On 26 September 2003, the Company was aware that several newspapers reported that Mr. Wong Cheung Leung, a former executive director of the Company, had initiated a legal action against the Company claiming of approximately HK$3 million. As at the date of these financial statements, the Company had not received a writ of summons or any legal documents in relation to such action. In addition, the Group has no record regarding the amount claimed. The directors are of the view that such action by Mr. Wong Cheung Leung is of no ground and accordingly no provision has been made in the financial statements.

## 39. CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

(a) In addition to those disclosed elsewhere in the financial statements, the Group had the following significant transactions with related parties during the year:

| | 2003<br>HK$'000 | 2002<br>HK$'000 |
|---|---|---|
| Interest expense paid to a jointly-controlled entity | 6,255 | 4,727 |

Interest was paid to WPM, a jointly-controlled entity of the Group in respect of the loans granted to certain subsidiaries of the Company. Further details of the loans, including the terms thereof, are set out in note 17 to the financial statements.

(b) As at 31 December 2003, the Group's bank loans were supported by corporate guarantees executed by a jointly-controlled entity and a joint venturer (note 29(a)).

(c) On 13 February 2003, a debt settlement agreement was entered into between certain subsidiaries of the Company, a joint venturer and a jointly-controlled entity of the Group. In addition, an arrangement fee of HK$13,738,000 was payable to the joint venturer. Details of which are set out in note17 to the financial statements and in the "Connected transactions" section of the Report of the Directors.

## 40. POST BALANCE SHEET EVENTS

The following significant events occurred subsequent to the balance sheet date:

(a) According to an announcement made by the Company on 31 December 2003, in late December 2003, the Group has entered into two conditional agreements with two independent third parties (the "Landlords") to acquire certain properties situated in Beijing, the PRC for a total consideration of RMB21 million (approximately HK$20 million) of which HK$12 million is to be satisfied in cash within 18 months from completion and HK$8 million is to be satisfied by issuance of new shares in the Company. The acquisitions were completed subsequent to the balance sheet date.

In January 2004, 63,726,000 new shares of HK$0.1 each in the Company were issued at HK$0.12 per share, for the purpose of satisfying the consideration of HK$8 million as mentioned above (note 32).

In March 2004, two deed of assignments were entered into between the Landlords and the Group whereby the Landlords have agreed to take up certain receivable balances of HK$18 million of the Group in aggregate as full settlement for the cash portion of the sales proceeds of HK$12 million.

(b) Subsequent to the balance sheet date, on 12 March 2004, 27,416,000 share options were granted under the Scheme to certain directors and employees of the Group. The exercise price of the share options is HK$0.13 per share and the exercise period commenced on 12 September 2004 and will expire on 12 September 2006. The price of the Company's shares at the date of grant was HK$0.13 (note 33).

(c) Pursuant to an agreement dated 21 December 2003, WPM agreed to assume the bank loans from the Group and in consideration of this, the investment securities were agreed to be transferred to WPM. Subsequent to the balance sheet date, the bank loans were fully repaid by WPM on behalf of the Group and the share transfer is in progress. (notes 18 and 29(a)).

## 41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 April 2004.