

Notes to the Financial Statements

For the year ended 31 December 2003

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of its subsidiaries, associates and joint ventures are set out in notes 27, 28 and 29 to the financial statements, respectively.

2. BASIS OF PREPARATION

In preparing the financial statements, the Group has considered its net current liabilities as at 31 December 2003 and the proceeds from disposal of an associate and trading securities as set out in notes 18 and 26 respectively. Accordingly, the financial statements have been prepared on a going concern basis.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted, for first time, the following Hong Kong Financial Reporting Standard (“HKFRS”) issued by the Hong Kong Society of Accountants (“HKSA”). The term of HKFRS is inclusive of Statements of Standard Accounting Practice (“SSAPs”) and Interpretations approved by the HKSA.

Income taxes

In the current year, the Group has adopted SSAP 12 (Revised) “Income taxes”. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised) the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current and prior accounting periods. Accordingly, no prior year adjustment has been required.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

All significant intercompany transactions and balances with the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, an associate or a jointly controlled entity at the date of acquisition.

Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill is capitalised and amortised on a straight line basis over its useful economic life.

On disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Turnover

Turnover represents the amount received and receivable for goods sold.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to principal outstanding and at the interest rate applicable.

Dividend income from investments in securities is recognised when the Group's rights to receive dividend payment have been established.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold improvements	20%
Furniture, fixtures and equipment	20%
Motor vehicles	25%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. Income from investments in subsidiaries is accounted for when the Company's right to receive the dividend payment has been established.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill in so far as it has not already been amortised, less any identified impairment loss.

Joint ventures

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The consolidated income statement includes the Group's share of post-acquisition results of jointly controlled entities for the year. The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost less any impairment loss. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at fair value at subsequent reporting dates.

When securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period.

Inventories

Inventories, which represent merchandise held for resale, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Convertible note payable

The convertible note payable is separately disclosed and regarded as a liability unless conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible note payable, including the premium payable upon the final redemption of the convertible note, is calculated so as to produce a constant periodic rate of change on the remaining balance of the convertible note payable for each accounting period.

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, income statement of subsidiaries, associates and joint ventures which are denominated in currencies other than the Hong Kong dollars are translated at the average exchange rates for the year and assets and liabilities are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease terms.

Retirement benefit scheme

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into four operating divisions - metals trading, sales of communication products, investments in securities and marketing consultancy services. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Metals trading	-	Trading of metals products.
Sales of communication products	-	Trading of communication products.
Investments in securities	-	Investment in securities to generate dividends and capital appreciation.
Marketing consultancy services	-	Provision of marketing consultancy services

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Segment information about these businesses is presented below:

Income statement

	2003					Total HK\$'000
	Metals trading HK\$'000	Sales of communication products HK\$'000	Investments in securities HK\$'000	Marketing consultancy services HK\$'000	Others HK\$'000	
Turnover	30	4,028		—	—	4,058
Segment result	(784)	(6,536)	15,152	—	—	7,832
Interest income		—	—	—	—	21
Unallocated corporate expenses	—	—	—	—	—	(14,291)
Loss from operations						(6,438)
Share of results of associates	—	—	(6,309)	—	—	(6,309)
Share of results of joint ventures	—	(292)	—	—	—	(292)
Amortisation of goodwill in respect of acquisition of associates	—	—	(26,294)	—	—	(26,294)
Impairment loss recognised in respect of interests in associates	—	—	(153,410)	—	—	(153,410)
Finance costs						(5,600)
Loss before taxation						(198,343)
Taxation						(1,081)
Net loss for the year						(199,424)

The directors of the Company consider that the Group will continue to engage in the business of provision of marketing consultancy services.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Income statement (Continued)

	2002					Total HK\$'000
	Metals trading	Sales of communication products	Investments in securities	Marketing consultancy services	Others	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Turnover	532	3,011	—	—	—	3,543
Segment result	(150)	(7,817)	(37,634)	—	—	(45,601)
Interest income	—	—	—	—	—	545
Unallocated corporate expenses	—	—	—	—	—	(16,660)
Loss from operations						(61,716)
Share of results of associates	—	—	(1,412)	—	—	(1,412)
Share of results of joint ventures	—	(238)	—	—	—	(238)
Amortisation of goodwill in respect of acquisition of associates	—	—	(28,684)	—	(6,333)	(35,017)
Impairment loss recognised in respect of goodwill arising from the acquisition of an associate	—	—	—	—	(24,806)	(24,806)
Finance costs						(4,560)
Loss before taxation						(127,749)
Taxation						(462)
Net loss for the year						(128,211)

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Other information

	2003 HK\$'000	2002 HK\$'000
Capital additions		
Metals trading	21	298
Sales of communication products	398	73
	<u> </u>	<u> </u>
Depreciation		
Metals trading	635	611
Sales of communication products	67	323
	<u> </u>	<u> </u>
Amortisation of goodwill in respect of acquisition of associates		
Investments in securities	26,294	28,684
Others	—	6,333
	<u> </u>	<u> </u>
Impairment loss recognised of goodwill in associates		
Others	—	24,806
	<u> </u>	<u> </u>
Gain on disposal of property, plant and equipment		
Sales of communication products	120	—
	<u> </u>	<u> </u>
Impairment loss recognised in respect of interests in associates		
Investments in securities	153,410	—
	<u> </u>	<u> </u>
Net unrealised gain (loss) on investments in securities	10,638	(32,337)
	<u> </u>	<u> </u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Balance sheet

	2003		2002	
	Segment	Segment	Segment	Segment
	assets	liabilities	assets	liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Metals trading	10,518	5,331	2,735	4,550
Sales of communication products	15,961	12,029	13,832	5,729
Investments in securities	43,841	15	28,902	—
Interests in associates	78,000	—	248,839	—
Interests in joint ventures	6,513	—	6,805	—
Other corporate assets/liabilities	—	82,750	4,293	57,250
	<u>154,833</u>	<u>100,125</u>	<u>305,406</u>	<u>67,529</u>

(b) Geographical segments

- (i) The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Turnover		Profit (loss) from operations	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The People's Republic of China, excluding Hong Kong (the "PRC")	4,028	3,011	(6,518)	(7,470)
Hong Kong	30	532	80	(54,246)
	<u>4,058</u>	<u>3,543</u>	<u>(6,438)</u>	<u>(61,716)</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(b) Geographical segments (Continued)

(ii) The following table is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	31.12.2003	31.12.2002	Year ended 31.12.2003	Year ended 31.12.2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC	9,448	7,504	399	73
Hong Kong	60,872	42,258	21	298
	<u>70,320</u>	<u>49,762</u>	<u>420</u>	<u>371</u>

6. OTHER OPERATING INCOME

	2003	2002
	HK\$'000	HK\$'000
Interest on bank deposits	21	545
Dividends from investments in securities	1,620	165
Gain on disposal of property, plant and equipment	120	—
Others	—	240
	<u>1,761</u>	<u>950</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

7. LOSS FROM OPERATIONS

	2003	2002
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Directors' emoluments	5,204	7,893
Contributions to retirement benefit scheme	115	88
Other staff costs	4,196	4,989
	<u>9,515</u>	<u>12,970</u>
Auditors' remuneration	800	770
Reversal of allowance for bad and doubtful debts	—	(2,364)
Cost of inventories recognised	2,629	2,783
Depreciation	702	934
Write-down of inventories	939	—
Minimum lease payments under operating leases in respect of		
Rented premises	3,054	2,892
Motor vehicles	247	511
	<u>247</u>	<u>511</u>

(i) Information regarding directors' emoluments

	2003	2002
	HK\$'000	HK\$'000
Directors' emoluments:		
Directors' fees		
Executive	—	—
Non-executive	—	—
Independent non-executive	300	300
	<u>300</u>	<u>300</u>
Other emoluments to executive directors		
Salaries and other benefits	4,838	7,510
Contributions to retirement benefit scheme	66	83
	<u>4,904</u>	<u>7,593</u>
Total emoluments	<u>5,204</u>	<u>7,893</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

7. LOSS FROM OPERATIONS (Continued)

(i) Information regarding directors' emoluments (Continued)

The emoluments of the directors were within the following bands:

	Number of directors	
	2003	2002
HK\$nil to HK\$1,000,000	7	7
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	—	1
	<u> </u>	<u> </u>

(ii) Information regarding employees' emoluments

The five highest paid individuals in the Group in 2003 and 2002 were all directors of the Company and details of their emoluments are included in note 7(i) above.

8. FINANCE COSTS

	2003	2002
	HK\$'000	HK\$'000
Interest on borrowings wholly repayable within five years:		
Convertible note payable	(4,060)	(4,060)
Other borrowings	(1,040)	—
	<u> </u>	<u> </u>
	(5,100)	(4,060)
Amortisation of the issue costs of convertible note payable	(500)	(500)
	<u> </u>	<u> </u>
	<u>(5,600)</u>	<u>(4,560)</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

9. TAXATION

	2003 HK\$'000	2002 HK\$'000
Share of taxation attributable to associates	<u>(1,081)</u>	<u>(462)</u>

No provision for Hong Kong Profits Tax has been made since the Company and its subsidiaries had no assessable profits for the year.

The charge for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	<u>(198,343)</u>	<u>(127,749)</u>
Tax credit at the domestic income tax rate of 17.5% (2002: 16%)	34,710	20,440
Tax effect of share of results of associates	(2,185)	(688)
Tax effect of share of results of joint ventures	(51)	(38)
Tax effect of expenses not deductible for tax purpose	(32,554)	(3,403)
Tax effect of income not taxable for tax purpose	284	114
Tax effect of tax losses not recognised	(3,869)	(17,457)
Tax effect of utilisation of losses not previously recognised	2,360	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>224</u>	<u>570</u>
Taxation charge for the year	<u>(1,081)</u>	<u>(462)</u>

10. DEFERRED TAXATION

At the balance sheet date, the Group had unused tax losses of approximately HK\$204,200,000 (2002: HK\$197,300,000) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of approximately HK\$199,424,000 (2002: HK\$128,211,000) and 6,837,422,389 (2002: 6,837,422,389) shares in issue.

No diluted loss per share figures have been presented for either 2003 or 2002 because the exercise of the convertible note payable would result in a decrease in the loss per share.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP				
COST				
At 1 January 2003	428	1,183	2,988	4,599
Additions	—	420	—	420
Disposal	—	—	(526)	(526)
At 31 December 2003	428	1,603	2,462	4,493
DEPRECIATION				
At 1 January 2003	257	797	1,423	2,477
Provided for the year	85	133	484	702
Eliminated on disposal	—	—	(315)	(315)
At 31 December 2003	342	930	1,592	2,864
NET BOOK VALUES				
At 31 December 2003	86	673	870	1,629
At 31 December 2002	171	386	1,565	2,122
THE COMPANY				
COST				
At 1 January 2003	428	315	1,934	2,677
Additions	—	21	—	21
At 31 December 2003	428	336	1,934	2,698
DEPRECIATION				
At 1 January 2003	257	155	579	991
Provided for the year	85	64	485	634
At 31 December 2003	342	219	1,064	1,625
NET BOOK VALUES				
At 31 December 2003	86	117	870	1,073
At 31 December 2002	171	160	1,355	1,686

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	65,822	65,822
Amounts due from subsidiaries	697,486	689,150
	<u>763,308</u>	<u>754,972</u>
Impairment losses	(607,983)	(386,626)
	<u>155,325</u>	<u>368,346</u>

In the opinion of directors, the amounts due from subsidiaries will not be demanded for repayment within the next twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current.

The impairment losses are recognised with reference to the recoverable amounts of interest in subsidiaries.

Details of the Company's subsidiaries at 31 December 2003 are set out in note 27.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

14. INTERESTS IN ASSOCIATES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	<u>231,410</u>	<u>222,545</u>
Goodwill		
At cost		
Balance at the beginning of the year and at the end of the year	<u>124,050</u>	<u>124,050</u>
Amortisation and impairment		
Balance at the beginning of the year	97,756	37,933
Amortisation for the year	26,294	35,017
Impairment loss recognised	—	24,806
Balance at the end of the year	<u>124,050</u>	<u>97,756</u>
Unamortised goodwill	—	26,294
Impairment loss recognised in respect of interests in associates	<u>153,410</u>	<u>—</u>
	<u><u>78,000</u></u>	<u><u>248,839</u></u>

Goodwill arising from the acquisitions of associates is amortised over its economic life of three years.

The impairment loss in 2002 was recognised for the unamortised goodwill of an associate which was inactive. During the year, an impairment loss was recognised for an associate which was disposed of subsequent to the year end to the extent of the shortfall between the proceeds from disposal and the carrying amount.

Details of the Group's associates at 31 December 2003 are set out in note 28.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

14. INTERESTS IN ASSOCIATES (Continued)

The Group has an approximately 34.87% interest in the issued ordinary share capital of Beauforte Investors Corporation Limited, a company which is incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited. The Group's share of net assets in Beauforte Investors Corporation Limited and its subsidiaries was approximately HK\$231,410,000 (2002: HK\$222,545,000). The following details have been extracted from the audited consolidated financial statements of Beauforte Investors Corporation Limited:

	2003 HK\$'M	2002 HK\$'M
Result for the year		
Turnover	<u>35.4</u>	<u>21.8</u>
Loss before taxation	(18.1)	(4.1)
Taxation	<u>(3.1)</u>	<u>(1.3)</u>
Net loss for the year	<u>(21.2)</u>	<u>(5.4)</u>
Share of post-acquisition results by the Group during the year	<u>(6.3)</u>	<u>(1.4)</u>
Financial position		
Non-current assets	674.4	621.5
Current assets	30.3	18.1
Current liabilities	(15.5)	(1.3)
Non-current liabilities	<u>(25.5)</u>	<u>—</u>
Net assets	<u>663.7</u>	<u>638.3</u>
Net assets attributable to the Group	<u>231.4</u>	<u>222.5</u>

15. INTERESTS IN JOINT VENTURES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	<u>6,513</u>	<u>6,805</u>

Details of the Group's joint ventures at 31 December 2003 are set out in note 29.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

16. INVENTORIES

THE GROUP

At the balance sheet dates, all of the Group's inventories were carried at net realisable value.

17. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Trade receivables	2,584	4,943
Other receivables, deposits and prepayments	2,597	3,171
	<u>5,181</u>	<u>8,114</u>

The Group has adopted a credit policy of allowing invoices to be payable within 180 days from the date of issuance for sales of communication products and 30 days from the date of issuance for metals trading. The Group also allows a longer credit period to major customers.

The following is an ageing analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Not yet due	2,560	1,916
Overdue 0 - 60 days	—	1
Overdue 61 - 90 days	—	160
Overdue over 90 days	24	2,866
	<u>2,584</u>	<u>4,943</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

18. INVESTMENTS IN SECURITIES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Trading securities		
Listed equity securities in Hong Kong, at market value	<u>49,440</u>	<u>35,137</u>

Subsequent to 31 December 2003, trading securities with carrying amount of approximately HK\$25 million were disposed of for approximately HK\$25 million.

19. TRADE AND OTHER PAYABLES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Trade payables	4,868	1,280
Other payables and accrued charges	<u>12,507</u>	<u>8,999</u>
	<u>17,375</u>	<u>10,279</u>

The following is an ageing analysis of trade payables at the balance sheet date:

Overdue over 90 days	<u>4,868</u>	<u>1,280</u>
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20. SHORT-TERM BORROWINGS

	THE GROUP AND THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Other loans, unsecured	<u>25,000</u>	<u>—</u>

The loans bear interest at 8% per annum and are repayable within one year from the balance sheet date. The loans were subsequently repaid on 13 January 2004.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

21. CONVERTIBLE NOTE PAYABLE

	THE GROUP AND THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Convertible note payable		
Balance at the beginning of the year and at the end of the year	58,000	58,000
Issue costs		
Balance at the beginning of the year	750	1,250
Amortised during the year	(500)	(500)
Balance at the end of the year	250	750
Carrying value at the end of the year	<u>57,750</u>	<u>57,250</u>

On 30 May 2001, the Company entered into an agreement (the "Agreement") with a placing agent for the placement of convertible notes issued by the Company up to an aggregate principal amount of HK\$60,000,000 (the "Convertible Note"). The Convertible Note is unsecured and bears interest at 7% per annum, accrued on a daily basis and payable every year in arrears. The Convertible Note may be converted into ordinary shares of the Company at an initial price of HK\$0.028 per share and the conversion prices are HK\$0.031 and HK\$0.034 per share respectively for the period from the date immediately following the first anniversary from the date of issue of the Convertible Note (the "Issue Date") to the second anniversary from the Issue Date and for the period from the date immediately following the second anniversary from the Issue Date to the third anniversary of the Issue Date. These conversion prices are subject to adjustments in accordance with the relevant provisions in the Agreement. The Convertible Note can only be repaid at its face value upon maturity on 3 July 2004 to the extent of the amount not previously converted. On 4 July 2001, Convertible Note amounting to HK\$2,000,000 was converted into ordinary shares.

No Convertible Note was converted during both years.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

22. SHARE CAPITAL

	2003 & 2002
	HK\$'000
Authorised:	
50,000,000,000 ordinary shares of HK\$0.01 each	500,000
Issued and fully paid:	
6,837,422,389 ordinary shares of HK\$0.01 each	68,374

There were no changes in the Company's share capital during both years.

Share options

The Company has a share option scheme (the "Scheme") which was adopted on 27 May 2002 to replace the old scheme adopted in 1998. The Scheme is valid and effective for a period of ten years from the date of adoption.

Pursuant to the Scheme, the Company may grant options to employees (including existing and proposed directors), adviser, consultant, agent, contractor, client and supplier of any members of the Group (collectively the "Participants"). The purpose of the Scheme is to recognise and motivate the contribution of Participants and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company. The total number of Shares available for issue under the Scheme is 683,742,238 which represents 10% of the issued share capital of the Company as at the date of this annual report. No Participant shall be granted an option if the total number of Shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised and outstanding options) in twelve month period up to and including the date of grant to such Participant would exceed 1% of the Shares for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed grantee and his associates abstaining from voting. An option may be exercised in accordance with the terms of the Scheme at any time during a period as the board of the directors of the Company (the "Board") may determine which shall not be more than ten years from the date of grant of the option subject to the provisions of early termination thereof and the Board may provide restrictions on the exercise of an option during the period an option may be exercised. The subscription price of the option shall be determined by the Board but in any case shall not be less than the higher of (i) the closing price of the Shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited on the date of grant which must be a trading day, (ii) the average closing price of the Shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of grant; or (iii) the nominal value of a Share. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

No share options have been granted by the Company since the adoption of the Scheme.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

23. RESERVES

THE GROUP

Details of changes in reserves of the Group are set out in the consolidated statement of changes in equity in page 16.

The capital reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital and share premium of the companies now forming the Group pursuant to the group reorganisation prior to the listing of the Company's shares in 1998. The contributed surplus of the Group represents the amount arising from cancelling the paid up capital to the extent of HK\$0.09 on each issued share in the Company from HK\$0.10 each to HK\$0.01 each pursuant to the reorganisation taken place in 2001.

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY				
At 1 January 2002	135,369	488,503	(405,395)	218,477
Net loss for the year	—	—	(56,769)	(56,769)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2002 and 1 January 2003	135,369	488,503	(462,164)	161,708
Net loss for the year	—	—	(240,306)	(240,306)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2003	<u>135,369</u>	<u>488,503</u>	<u>(702,470)</u>	<u>(78,598)</u>

The contributed surplus of the Company represents the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company pursuant to the group reorganisation taken place in 1998 and the amount arising from cancelling the paid-up capital to the extent of HK\$0.09 on each issued share in the Company from HK\$0.10 each to HK\$0.01 each pursuant to the reorganisation taken place in 2001.

Under the Companies Act 1981 of laws in Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

23. RESERVES (Continued)

At the balance sheet date, the Company's reserves were as follows:

	2003 HK\$'000	2002 HK\$'000
Contributed surplus	488,503	488,503
Accumulated losses	(702,470)	(462,164)
	<u>(213,967)</u>	<u>26,339</u>

In the opinion of the directors, the Company did not have any reserves available for distribution (2002: HK\$26,339,000 available for distribution).

Included in the Group's reserves are the following amounts attributable to the Group's associates and joint ventures:

	2003 HK\$'000	2002 HK\$'000
Associates		
- investment revaluation reserve	1,913	(13,435)
- investment property revaluation reserve	11,368	10,461
- accumulated (losses) profits	(1,867)	5,523
	<u>11,414</u>	<u>2,549</u>
Joint ventures		
- translation reserve	5	5
- accumulated losses	(3,492)	(3,200)
	<u>(3,487)</u>	<u>(3,195)</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

24. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

The retirement benefit cost charged to the income statement represents contributions payable to the scheme by the Group at rate specified in the rules of the scheme.

25. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments payable under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
In respect of rented premises:				
Within one year	1,586	3,452	748	821
In the second to fifth year inclusive	1,174	3,398	665	1,412
	<u>2,760</u>	<u>6,850</u>	<u>1,413</u>	<u>2,233</u>

Operating lease payments represent rentals payable by the Group and the Company for their rented premises. Leases are negotiated for an average term of two to three years.

26. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Group disposed of its entire equity interest in the issued share capital of Beauforte Investors Corporation Limited to independent third parties for an aggregate consideration of HK\$78,000,000. This transaction was negotiated before the balance sheet date. The agreement was signed on 5 January 2004 and completed on 4 March 2004.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

27. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2003 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Able King Investment Limited	British Virgin Islands*	1 ordinary share of US\$1 each	100%	—	Investment holding
Acewell Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Ample Asset Investment Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Securities investment
Beijing Tetra Digital Technology Communication Co Ltd (foreign investment enterprise)	PRC	Registered capital HK\$5,000,000	—	100%	Developing and trading of communication equipment
Cache Up Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Calculation Assets Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Securities investment

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

27. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Century Power Investment Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
China Digital Communication Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Trading of communication equipment and provision of marketing consulting service
E-Tech Pacific Limited	British Virgin Islands*	1 ordinary share of US\$1 each	100%	—	Investment holding
Excel Capital Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Gain Star Group Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Gold Castle Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	100%	—	Investment holding
MetalsTrack Holdings Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Investment holding

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

27. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
MetalsTrack International Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Metals trading
MetalsTrack Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Metals trading
Northlink Holdings Limited	British Virgin Islands*	200 ordinary shares of US\$1 each	100%	—	Investment holding
Ocean Empire International Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Ocean Vision Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Profit Linkage Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive
Sun Ace Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Swanpak Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

27. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Target Millennium Limited	British Virgin Islands*	1 ordinary share of US\$1 each	100%	—	Investment holding
Vaford Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Investment holdings
Wealth Convergence Petroleum and Mechanical Facilities Company Limited	Hong Kong	100 ordinary shares of HK\$1 each	—	51%	Inactive
Wealth Prospect Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive
Winford Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Woodbridge Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive

* The companies are engaged in investment business and have no specific principal place of operation.

None of the subsidiaries had any debt securities at 31 December 2003 or at any time during the year.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

28. PARTICULARS OF ASSOCIATES

Particulars of the Group's associates as at 31 December 2003 are as follows:

Name of associate	Place of incorporation/ operation	Issued share capital/ registered capital	Nominal value of issued share capital/ registered capital held by the Group	Principal activities
Accurate City Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Investment holding
Active Chance Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Securities investment
Asiawell Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Investment holding
Autopower Technology Limited	British Virgin Islands*	4 ordinary shares of US\$1 each	50%	Investment holding
Beauforte Investors Corporation Limited	Hong Kong	29,282,000 ordinary shares of HK\$4 each	34.87%	Investment holding
Chinachem Industries Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	49%	Investment holding
Digital Faith Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Investment holding
Eastern Good Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Property investment
Elite City Investment Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Investment holding

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

28. PARTICULARS OF ASSOCIATES (Continued)

Name of associate	Place of incorporation/ operation	Issued share capital/ registered capital	Nominal value of issued share capital/ registered capital held by the Group	Principal activities
Everlink Pacific Limited	British Virgin Islands*	2 ordinary shares of US\$1 each	50%	Inactive
Grand Noble Group Limited	British Virgin Islands *	2 ordinary shares of US\$1 each	34.87%	Property investment
Max Margin Group Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Property investment
Noble Congress Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Investment holding
Ocean Pearl Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Investment holding
Profit Guidance Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Investment holding
Qinyang Chinachem Aluminium Company Limited	People's Republic of China	Registered capital RMB154,000,000	29.40%	Metals manufacture
Rosedale Investments Trading Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Investment holding
Sincere Leader Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Investment holding

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

28. PARTICULARS OF ASSOCIATES (Continued)

Name of associate	Place of incorporation/ operation	Issued share capital/ registered capital	Nominal value of issued share capital/ registered capital held by the Group	Principal activities
Toprich International Investments Limited	Hong Kong	6,160,000 ordinary shares of US\$1 each	34.87%	Investment holding
Up Global Limited	Hong Kong	2 ordinary shares of HK\$1 each	34.87%	Treasury

* These companies are engaged in investment business and have no specific principal place of operation.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2003

29. PARTICULARS OF JOINT VENTURES

Particulars of the Group's joint ventures as at 31 December 2003 are as follows:

Name of joint venture	Place of incorporation/ operation	Issued share capital/ registered capital	Nominal value of issued share capital/ registered capital held by the Group	Principal activities
PTAC Cyber E-Biz Limited	Hong Kong	4 ordinary shares of HK\$1 each	50%	Investment holding
PTAC Cyber E-Biz (Tianjin) Limited	PRC	Registered capital HK\$2,000,000	50%	Trading of communication products