

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

1. CORPORATE INFORMATION

The Company is a public listed company incorporated in Bermuda and its shares are listed on the Stock Exchange. Its ultimate holding company is EVEI.

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

- marketing and distribution of left-hand drive motor vehicles
- property holding for rental income purposes

2. BASIS OF PRESENTATION

During the year, the trading conditions for the Group's principal business of the trading of motor vehicles were favorably affected by certain government regulations regarding the import of motor vehicles into the PRC.

For the year ended 31 December 2002, the Group incurred a consolidated net loss from ordinary activities attributable to shareholders of approximately HK\$2,515,000. As at 31 December 2002, the Group had consolidated net current liabilities of approximately HK\$33,029,000 and net liabilities of approximately HK\$13,428,000.

In September 2002, one of the Group's principal bankers withdrew its banking facilities granted to the Group and demanded the immediate repayment of an aggregate amount of approximately HK\$23,562,000. The Group then repaid partially the bank loan in the approximate amount of HK\$153,000 for the year ended 31 December 2002. Subsequent to the balance sheet date, the Group disposed of one of its investment properties at a consideration of HK\$2,800,000 for partial repayment of bank overdrafts and bank loans. In this regard, the banker did not demand immediate repayment of the bank loans up to the date of approval of the financial statements.

Having regard to this situation, in order to improve the Group's financial position, immediate liquidity, cash flows, profitability and operations, the Directors adopted the following measures:

- (a) the Directors are in active negotiations with the Group's bankers to secure new facilities to meet the immediate repayments of amounts demanded by its principal banker;
- (b) the Directors are considering to increase the capital base of the Group through various fund-raising exercises, including, but not limited to, private placements of the Company's new shares; and
- (c) the Directors have taken action to reduce costs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

2. BASIS OF PRESENTATION (continued)

In the opinion of the Directors, if the above measures accomplish the expected results, 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. Therefore, the Directors considered that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial position and tight cash flows as at 31 December 2002.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of all 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 the financial statements.

3. ADOPTION OF NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

The adoption of these new and revised SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has no material effect on the results for the current or prior accounting periods.

Where necessary, comparative figures have been reclassified to conform to the current year's presentation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with all applicable 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 remeasurement of investment properties and certain fixed assets as further explained below.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. 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 inter-company transactions and balances within the Group are eliminated on consolidation.

(c) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost less any impairment losses.

(d) Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and 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 an asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on a straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Medium term lease land	Over the remaining term of the lease
Medium term leasehold buildings	Over the unexpired lease term of the land
Leasehold improvements	Over their expected useful lives or the term of the relevant lease whichever shorter
Furniture and fixtures	30%
Office equipment	30%
Motor vehicles	30%

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment of assets

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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 recognized 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, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(f) Associates

An associate is defined as an entity, other than a subsidiary, in which the Group has a long-term interest and over which it has the ability to exercise significant influence but not control, over its management, including participation in financial and operating policy decisions.

Investments in associates are stated in the consolidated balance sheet at the Group's share of net assets other than goodwill less impairment losses and in the balance sheet of the Company at cost less any impairment losses.

The consolidated profit and loss account reflects the Group's share of the post acquisition results of the associates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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 its investment potential. Such properties with an unexpired lease term of more than 20 years 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 value 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.

(h) Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(i) Inventories

Inventories, comprising entirely finished goods, are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling price less any estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Deferred taxation

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that a liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

(k) Foreign currencies

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

On consolidation, the results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date.

(l) Revenue recognition

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

- (i) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) on the rendering of services, when services are rendered;
- (iii) rental income, on the straight-line basis over the lease terms; and
- (iv) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

(m) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

(o) Goodwill

Goodwill arising on consolidation of subsidiary companies and on acquisition of associated companies represents the excess purchase consideration paid for such companies over the fair values ascribed to the net underlying assets at the date of acquisition. For acquisitions before 1 January 2001, positive goodwill is written off on acquisition. For acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life.

On disposal of an investment in a subsidiary or associated company, the attributable amount of goodwill is included in calculating the gain and loss on disposal.

(p) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Employee benefits

- (i) Contributions to MPF as required under the Hong Kong MPF Ordinance, are recognised as an expense in the profit and loss account as incurred.
- (ii) Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

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

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment assets consist primarily of fixed assets, investment properties, inventories, receivables and operating cash, and mainly exclude interest in an associate and tax recoverable. Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions of subsidiaries. Unallocated costs represent mainly corporate and inactive subsidiaries' expenses.

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

(t) Accounts receivable

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Post balance sheet events

Post balance sheet events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Post balance sheet events that are not adjusting events are disclosed in the notes when material.

5. TURNOVER

Turnover represents the invoiced value of inventories sold, net of discounts and returns, and rental income.

The amount of each significant category of revenue recognized in turnover during the years is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Sales of motor vehicles	33,193	15,677
Gross rental income	240	741
	33,433	16,418

6. OTHER REVENUE

	Group	
	2002 HK\$'000	2001 HK\$'000
Interest income	30	308
Foreign exchange gain	–	90
Others	397	235
Written back of accruals for expenses and compensation (note 27ii)	2,703	–
Written back of PRC tax provision no longer required	223	–
	3,353	633

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

7. LOSS FROM OPERATING ACTIVITIES

Loss from operating activities is arrived at after charging/(crediting) the following:

	Group	
	2002 HK\$'000	2001 HK\$'000
Auditors' remuneration		
– under/(over) provision in respect of previous year	5	(5)
– current year	272	268
Depreciation	234	285
Loss on disposal of fixed assets	–	29
Impairment loss on land and buildings (Note 14)	1,487	232
Deficit arising from revaluation of investment properties (Note 15)	2,500	800
Provision for bad and doubtful debts	–	45
Staff costs (including Directors' remuneration) (Note 9)	2,621	3,968
MPF contribution (Note 31)	42	85
Bad debt recovered	(192)	–
Cost of inventories	31,646	15,404
Interest income	(30)	(308)
Net rental income	(236)	(741)
Foreign exchange losses/(gains), net	50	(90)

8. FINANCE COSTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Interest on:		
Bank loans, overdrafts and trust receipt loans		
– wholly repayable within 5 years	2,060	2,041
Other loans	–	953
	2,060	2,994

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9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive Directors	–	–
Non-executive Director	100	100
Independent non-executive Directors	200	200
	300	300
Other emoluments – executive Directors:		
Salaries and allowances	755	1,622
MPF contribution	23	24
	1,078	1,946

The emoluments of the Directors fell within the following bands:

	Group	
	2002 Number of Directors	2001 Number of Directors
Nil – HK\$1,000,000	5	4
HK\$1,000,001 – HK\$1,500,000	–	1
	5	5

During the year, no emoluments were paid by the Group to the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a Director waived or agreed to waive any remuneration during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

10. SENIOR EXECUTIVES' EMOLUMENTS

The five highest paid employees during the year included two (2001: two) Directors, details of whose remuneration are set out in note 9 to the financial statements. Details of the remuneration of the remaining three (2001: three) highest paid, non-director employees during the year are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Salaries and allowances	881	869
MPF contribution	30	28
Long service payment	–	102
	911	999

The remuneration of the above non-director, highest paid employees fell within the band of Nil to HK\$1,000,000 in both years.

During the year, no emoluments were paid by the Group to the highest paid, non-director employees as an inducement to join, or upon joining the Group, or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

11. TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	Group	
	2002 HK\$'000	2001 HK\$'000
Hong Kong:		
Provision for the year	–	(4)
Overprovision in prior years	3,741	–
	3,741	(4)

The provision for Hong Kong profits tax is calculated at 16 per cent (2001: 16 per cent) of the estimated assessable profits for the year ended 31 December 2002. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

At the balance sheet date, the Group had an unprovided deferred tax asset in respect of accumulated tax losses claimed of approximately HK\$16,077,000 (2001: HK\$15,972,000).

The revaluation of the Group's land and buildings and investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

(b) Taxation in the balance sheet represents:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Balance of profits tax provision in respect of prior years	(2)	3,739	–	–
Provisional tax paid	(11)	–	–	–
Tax (recoverable)/payable	(13)	3,739	–	–

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$10,440,000 (2001: HK\$5,352,000).

NOTES TO THE FINANCIAL STATEMENTS

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13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$2,515,000 (2001: HK\$10,857,000) and the weighted average of 239,481,000 (2001: 145,891,000) ordinary shares in issue during the year.

No diluted loss per share for the years ended 31 December 2002 and 2001 have been presented as the exercise of the potential ordinary shares would result in a reduction in loss per share.

14. FIXED ASSETS

GROUP

	Medium term leasehold land and buildings in Hong Kong HK\$'000	Leasehold improvement HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:						
At 1 January 2002 and at 31 December 2002	9,800	69	567	1,104	4,654	16,194
Accumulated depreciation:						
As at 1 January 2002	–	69	567	1,082	4,654	6,372
Provided during the year	213	–	–	21	–	234
Written back on revaluation – note 7	(213)	–	–	–	–	(213)
Impairment loss – note 7	1,700	–	–	–	–	1,700
At 31 December 2002	1,700	69	567	1,103	4,654	8,093
Net book value:						
At 31 December 2002	8,100	–	–	1	–	8,101
At 31 December 2001	9,800	–	–	22	–	9,822

The Group's medium term leasehold land and buildings carried at a net book value of HK\$8,100,000 (2001: HK\$9,800,000) have been pledged to secure banking facilities as set out in note 23.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

14. FIXED ASSETS (continued)

The Group's land and buildings as at 31 December 2002 were written down to HK\$8,100,000 (2001: HK\$9,800,000), being the open market value of the property based on a valuation report prepared by Vigers.

Other fixed assets are stated at cost.

15. INVESTMENT PROPERTIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Balance at 1 January	14,000	14,800
Revaluation deficit, net – note 7	(2,500)	(800)
Balance at 31 December	11,500	14,000

At 31 December 2002, the Group's investment properties were revalued by Vigers at HK\$11,500,000 on an open market, existing use basis. The deficit arising on revaluation of HK\$2,500,000 was charged to the profit and loss account.

The Group's investment properties have been pledged to secure banking facilities as set out in note 23.

Subsequent to the balance sheet date, the Group disposed of one of its investment properties with carrying value of HK\$2,800,000 at an arm's length consideration of HK\$2,800,000.

Details of the investment properties which are situated in Hong Kong are as follows:

Location	Lease term	Use	Saleable floor area (sq. ft.)	Group's interest
Flat A on 13th Floor Champion Building, Nos. 301-309 Nathan Road, Yau Ma Tei, Kowloon	Long lease	Commercial	1,350	100%
Room 1607, New East Ocean Centre, No. 9 Science Museum Road, Tsimshatsui East, Kowloon	Medium lease	Commercial	2,235	100%

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16. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	76,309	76,309
Amount due from subsidiaries	61,380	52,134
	137,689	128,443
Impairment loss	(137,689)	(128,443)
	-	-

The amounts due from subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

16. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operation	Nominal value of issued/registered share capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Victory Group (BVI) Limited#	British Virgin Islands	Ordinary HK\$100,000	100%	–	Investment holding
Victory Motors Centre Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred HK\$3,000,000	–	100%	Trading of motor vehicles
Victory Realty Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Property holding
Hong Kong Waho Development Limited	Hong Kong	Ordinary HK\$1,000,000	–	100%	Property holding
Waret Investment Limited	Hong Kong	Ordinary HK\$2	–	100%	Property holding
華多利（天津） 國際貿易有限公司 (Victory (Tianjian) International Trading Limited)*#	The PRC	US\$1,000,000	–	100%	Dormant
Victory H-Tech Company Limited	Hong Kong	Ordinary HK\$100,000	–	100%	Investment holding

Wholly foreign-owned enterprise

* Not audited by Fan, Mitchell & Co.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affect 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.

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17. INTEREST IN A FORMER ASSOCIATE

	Group	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	21,000	21,000
Goodwill written off to the profit and loss account	(21,000)	(21,000)
Carrying amount	–	–

The former associate, eSolutions Holdings Limited (“eSolutions”) is being wound up by court order dated 9 January 2002. On this date eSolutions ceased to be an associate as the Group ceased to have significant influence over it.

The Group’s share of loss up to the date of the court order of the associate exceeds the carrying amount of the investment, which is reported at nil value, and therefore, the Group has not included its share of loss of the associate, which is in accordance with paragraph 20 of SSAP No. 10. The Group has no commitment to provide financial support to eSolutions.

Details of the Group’s interest in the former associate are as follows:

Name of the former associate	Place of incorporation & operation	Particulars of issued & paid up capital	Proportion of ownership interest		
			Group’s effective interest	Held by the Company	Held by subsidiary
eSolutions (In winding up)	Hong Kong	100 ordinary shares of HK\$1 each	48%	–	48%

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18. INVENTORIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Finished goods	824	2,941

The carrying amount of inventories that are carried at net realisable value was HK\$Nil (2001: HK\$140,000).

19. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trade receivables, prepayments, deposits and other receivables	360	429	59	266

All of the trade receivables, prepayments, deposits and other receivables are expected to be recovered within one year.

Included in trade and other receivables are trade receivables (net of specific provisions for bad and doubtful debts) with the following aging analysis:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Current	163	–	–	–
More than 1 year	27	27	–	–
	190	27	–	–
Prepayments, deposits and other receivables	170	402	59	266
	360	429	59	266

Normally, debts are due within 28 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

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20. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trade payables, other payables and accruals	2,744	5,941	447	709

All of the trade payables, other payables and accruals are expected to be settled within one year.

Included in trade payables, other payables and accruals are trade payables with the following aging analysis:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
More than 1 year	–	203	–	–
Other payable and accruals	2,744	5,738	447	709
	2,744	5,941	447	709

21. AMOUNTS DUE TO DIRECTORS

The amounts due to Directors are unsecured, interest free and have no fixed terms of repayment.

22. AMOUNTS DUE TO RELATED PARTY

The amount due to a related party is unsecured, interest free and has no fixed terms of repayment.

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23. INTEREST-BEARING BANK BORROWINGS, SECURED

	Group	
	2002 HK\$'000	2001 HK\$'000
Bank overdrafts, secured	15,092	20,120
Bank loans, secured	8,317	8,827
	23,409	28,947
Bank overdrafts repayable within one year, or on demand	15,092	20,120
Bank loans repayable:		
Within one year	8,317	519
In the second year	–	503
In the second to fifth years inclusive	–	1,655
Beyond five years	–	6,150
	8,317	8,827
Portion classified as current liabilities	23,409 (23,409)	28,947 (20,639)
Non-current portion	–	8,308

The Group's banking facilities are secured by the leasehold land and buildings and investment properties of the Group with an aggregate carrying value of HK\$19,600,000 (2001: HK\$23,800,000) at 31 December 2002.

During the year, the banker of the Group has frozen the banking facilities granted to the Company and certain subsidiaries due to their failure to keep up with the repayment schedules. As a result, all the outstanding balance of the interest-bearing bank borrowing are therefore classified as current liabilities, which are repayable within one year, or on demand.

Subsequent to the balance sheet date, the Group disposed of one of its investment properties at a consideration of HK\$2,800,000 for partial repayment of bank overdrafts and bank loans. In this regard, the banker did not demand for immediate repayment of the bank loans up to the date of approval of the financial statements. Under this circumstance, the bank loans were not classified as short-term bank loans with maturity within three months in the consolidated cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

24. SHARE CAPITAL

	Company			
	No. of shares		Share capital	
	2002	2001	2002 HK\$'000	2001 HK\$'000
Authorised:				
At the beginning of the year				
Ordinary shares of HK\$0.01 (2001: HK\$0.02) each	2,205,586,400	2,500,000,000	22,056	50,000
Shares Consolidation	–	(2,250,000,000)	–	–
Capital reduction	–	–	–	(27,944)
Shares subdivision	–	1,955,586,400	–	–
At the end of the year				
Ordinary shares of HK\$0.01	2,205,586,400	2,205,586,400	22,056	22,056
Issued and fully paid:				
At the beginning of the year				
Ordinary shares of HK\$0.01 (2001: HK\$0.02) each	147,074,400	1,230,744,000	1,471	24,615
Placing	44,000,000	240,000,000	440	4,800
Shares consolidation	–	(1,323,669,600)	–	–
Capital reduction	–	–	–	(27,944)
Rights issue	73,537,200	–	735	–
At the end of the year				
Ordinary shares of HK\$0.01 each	264,611,600	147,074,400	2,646	1,471

Details of the changes in the Company's share capital which occurred between 1 January 2002 and 31 December 2002 are as follows:

Rights issue

Pursuant to a resolution passed in the meetings of the Board on 18 December 2001 and 28 January 2002, the Company issued 73,537,200 new ordinary shares of HK\$0.01 each on the basis of one rights share for every two existing ordinary shares held by members of the Company on 30 January 2002 by way of a rights issue at a price of HK\$0.10 per rights share. The aggregate nominal value of the issued share is HK\$735,000, the share premium arising on the issue of shares is HK\$6,618,000 and the share issue expenses amounted to HK\$1,169,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

24. SHARE CAPITAL (continued)

Placing

Pursuant to a resolution passed in the meeting of the Board on 5 June 2002 and by means of placing, the Company issued a total of new ordinary shares of 44,000,000 of HK\$0.01 each at a price of HK\$0.115 on 10 June 2002 to six independent investors. The aggregate nominal value of the issued shares was HK\$440,000, the share premium arising on the issue of shares was HK\$4,620,000 and the share issue expenses amounted to HK\$698,000.

Share options

The Company operates a share option scheme ("the Scheme") for the purpose of providing incentives and rewards to employees including the executive directors of the Company or of its subsidiaries ("Eligible Participants") who contribute to the success of the Group's operations.

On 22 January 1998, the Company conditionally approved the Scheme under which the Directors may, at their discretion, grant options to Eligible Participants, to subscribe for shares of the Company during the 10 years from its date of approval. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 16 February 1998 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. No options have been granted since the approval of the Scheme.

Under the Scheme, the Directors may at their discretion grant options at HK\$1.00 per option to Eligible Participants to subscribe for shares at a price calculated in accordance with paragraph below.

The subscription price of the options may be determined by the Directors and shall be the higher of the nominal value of a share and 80 per cent of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the grant date of the options. The maximum number of shares over which options may be granted must not exceed 10 per cent of the issued share capital of the Company from time to time, excluding for this purpose shares issued pursuant to the Scheme. No options 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 per cent of the aggregate number of shares subject to the Scheme, at the time it is proposed to grant the relevant option to such person.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

25. RESERVES

Group

	Share premium account HK\$'000	Contributed Surplus# HK\$'000	Enterprise expansion fund* HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2001	29,349	710	429	(27)	(70,637)	(40,176)
Arising on issue of shares	720	–	–	–	–	720
Share issue expenses	(439)	–	–	–	–	(439)
Exchange realignments	–	–	–	27	–	27
Capital reduction	–	–	–	–	27,944	27,944
Loss for the year	–	–	–	–	(10,857)	(10,857)
At 31 December 2001 and at 1 January 2002	29,630	710	429	–	(53,550)	(22,781)
Arising on issue of shares	11,238	–	–	–	–	11,238
Share issue expenses	(1,867)	–	–	–	–	(1,867)
Exchange realignments	–	–	16	(165)	–	(149)
Loss for the year	–	–	–	–	(2,515)	(2,515)
At 31 December 2002	39,001	710	445	(165)	(56,065)	(16,074)

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the reorganisation on 22 January 1998, over the nominal value of the Company's shares issued in exchange.

* The enterprise expansion fund is maintained, and annual allocations to the fund are made, in accordance with the Joint Venture Law of the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

25. RESERVES (continued)

COMPANY

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2001	29,349	64,809	(118,938)	(24,780)
Capital reduction	–	–	27,944	27,944
Arising on issue of shares	720	–	–	720
Share issue expenses	(439)	–	–	(439)
Loss for the year	–	–	(5,352)	(5,352)
At 31 December 2001 and at 1 January 2002	29,630	64,809	(96,346)	(1,907)
Arising on issue of shares	11,238	–	–	11,238
Share issue expenses	(1,867)	–	–	(1,867)
Loss for the year	–	–	(10,440)	(10,440)
At 31 December 2002	39,001	64,809	(106,786)	(2,976)

The Company's contributed surplus represents the excess of the fair value of the subsidiary's shares acquired pursuant to the reorganisation on 22 January 1998, over the nominal value of the Company's shares issued in exchange. Under the Companies Act 1981 of Bermuda, a distribution may be made out of the contributed surplus in certain circumstances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Cash and cash equivalents

	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	3,360	1,471
Bank overdrafts, secured	(15,092)	(20,120)
	(11,732)	(18,649)

As explained in note 23, the bank loan of approximately HK\$8,317,000 at the balance sheet date was classified as current liabilities and was repayable within one year, or on demand. Because the Group, subsequent to the balance sheet date, has repaid partially the bank loan with the proceeds of disposal of one of the Group's investment properties, the banker did not demand immediate repayment of the bank loan up to the date of approval of the financial statements. Under this circumstance, the bank loan was not classified as a bank loan with maturity within three months.

If the Group had failed to keep up with the repayment schedule, the banker would demand immediate repayment of the bank loan. Consequently, the bank loan would be classified as a short-term bank loan with maturity within three months and the cash and cash equivalents as at 31 December 2002 would be as follows:

	2002 HK\$'000
Cash and bank balances	3,360
Bank overdrafts, secured	(15,092)
Bank loan with maturity within 3 months	(8,317)
	(20,049)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing:

	Share capital (including share premium) HK\$'000	Trust receipt loans, bank loans and overdrafts HK\$'000	(Repayment to)/Advance from a related party HK\$'000	(Repayment to)/Advance from Directors HK\$'000
Balance at 1 January 2001	53,964	46,743	–	2,513
Net cash inflow/(outflow) from financing	5,081	(17,796)	14,649	(347)
Capital reduction	(27,944)	–	–	–
Balance at 31 December 2001 and at 1 January 2002	31,101	28,947	14,649	2,166
Net cash inflow/(outflow) from financing	10,546	(5,538)	(6,873)	34
Balance at 31 December 2002	41,647	23,409	7,776	2,200

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

27. CONTINGENT LIABILITIES

- (a) At the balance sheet date, contingent liabilities not provided for in the audited financial statements were as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Banking facilities guaranteed by the Company which were utilized by the subsidiaries	–	–	23,409	28,947

- (b) In 1999, the Group failed to honour a number of purchase contracts signed with two vendors for the purchase of motor vehicles due to an unanticipated contraction in demand. The aggregated contracted amount was approximately HK\$125 million.

The vendors took legal action to enforce the contracts and to seek compensation, the Group agreed to pay compensation totaling HK\$4,971,000. An amount of HK\$2,321,000 was paid in the year ended 31 December 1999 and a provision for the remaining balance of HK\$2,650,000 was included in as trade payables, other payables and accruals as at 31 December 2001. Moreover, one of the vendors was seeking additional compensation of approximately HK\$7.6 million.

However, the Group made a counter-claim against the vendor for not delivering motor vehicles to satisfy the purchase orders placed by the Group. The action was finally disposed of in September 2001 and the Group was not subject to any liability under or by virtue of this legal action. Nevertheless, the Group paid a sum of HK\$275,000 for full and final settlement of the legal costs award to the defendants. As a result, the provision of the expenses and compensation being included in other payables and accruals are written back this year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

28. LEASING ARRANGEMENT

The Group leases out one of the investment properties under operating leases. The original terms of the lease ran for two years for the period from 1 December 2000 to 30 November 2002. The lease term was early terminated during the year.

During the current year, HK\$240,000 (2001: HK\$741,000) were recognized as rental income in the profit and loss account in respect of operating lease.

At 31 December 2002, the total future minimum lease payments under non-cancelable operating leases are receivable as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within 1 year	–	330
After 1 year but within 5 years	–	–
	–	330

29. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

In respect of geographical segment reporting, turnover is based on the country in which the customers are located.

(a) Business segments

The Group is comprised of the following main business segments:

- Trading of motor vehicles – Purchase and sales of motor vehicles
- Property investment – leasing of office premises

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

29. SEGMENT REPORTING (continued)

(a) Business segments (continued)

	Trading of motor vehicles HK\$'000	Property investment HK\$'000	2002 Unallocated HK\$'000	Inter-segment elimination HK\$'000	Group HK\$'000
Segment revenue					
Revenue from external customer	33,193	240	-	-	33,433
Inter-segment revenue	-	720	-	(720)	-
Other revenue from external customers	3,100	8	215	-	3,323
Total	36,293	968	215	(720)	36,756
Segment result					
Inter-segment transactions	720	(720)	-	-	-
Contribution from operations	1,124	(4,359)	(991)	-	(4,226)
Interest income					30
Finance costs					(2,060)
Loss before taxation					(6,256)
Taxation					3,741
Loss attributable to shareholders					(2,515)
Segment assets					
Tax recoverable	12,430	19,695	120	(8,100)	24,145
Total assets					13
					24,158
Segment liabilities					
Bank loan	18,754	8,188	10,427	(8,100)	29,269
Tax liabilities					8,317
Total liabilities					-
					37,586
Other information					
Bad debt recovered	184	8	-	-	192
Depreciation and amortization for the year	(21)	(213)	-	-	(234)
Impairment loss on land and buildings	-	(1,487)	-	-	(1,487)
Deficit arising on revaluation of investment properties	-	(2,500)	-	-	(2,500)
Capital expenditure	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

29. SEGMENT REPORTING (continued)

(a) Business segments (continued)

	Trading of motor vehicles HK\$'000	Property investment HK\$'000	2001 Unallocated HK\$'000	Inter-segment elimination HK\$'000	Group HK\$'000
Segment revenue					
Revenue from external customer	15,677	741	–	–	16,418
Inter-segment revenue	–	720	–	(720)	–
Other revenue from external customers	158	77	–	–	235
Total	15,835	1,538	–	(720)	16,653
Segment result					
Inter-segment transactions	(5,963)	(343)	(1,861)	–	(8,167)
	720	(720)	–	–	–
Contribution from operations	(5,243)	(1,063)	(1,861)	–	(8,167)
Interest income					308
Finance costs					(2,994)
Loss before taxation					(10,853)
Taxation					(4)
Loss attributable to shareholders					(10,857)
Segment assets					
Tax recoverable	19,982	23,941	275	(9,800)	34,398
Total assets					34,398
Segment liabilities					
Bank loan	25,653	10,953	16,336	(9,800)	43,142
Tax liabilities					8,827
Total liabilities					3,739
					55,708
Other information					
Bad debt recovered	–	–	–	–	–
Depreciation and amortization for the year	(67)	(218)	–	–	(285)
Impairment loss on land and buildings	–	(232)	–	–	(232)
Deficit arising on revaluation of investment properties	–	(800)	–	–	(800)
Capital expenditure	2	–	–	–	2

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

29. SEGMENT REPORTING (continued)

(a) Business segments (continued)

Segment assets consist primarily of fixed assets, properties, inventories, receivables, operating cash, net of allowance and provisions while most such assets can be directly attributed to individual segments.

Segment liabilities comprise bank overdrafts and operating liabilities.

In previous year's disclosures, segment assets and segment liabilities were determined without including operating cash and bank overdrafts and determined before elimination of intra-group balances.

The comparative figures have been reclassified to conform with current year's presentation.

Inter-segment revenue eliminated on consolidation represents inter-company rental charges on a property owned by the Group.

Inter-segment transactions are conducted at arm's length.

(b) Geographical segments

The Group's operations are located in Hong Kong and the PRC. The Group's trading of motor vehicles is carried out in Hong Kong and the PRC. Property investment is located in Hong Kong.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong		The PRC		Group	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	8,974	15,492	24,459	926	33,433	16,418
Segment assets	22,984	33,271	1,161	1,127	24,145	34,398
Capital expenditure	–	2	–	–	–	2
Operating loss	(1,135)	(7,707)	(3,091)	(460)	(4,226)	(8,167)

30. RELATED PARTY TRANSACTIONS

At the balance sheet date, the outstanding balance due to Winsley Investment Limited amounted to HK\$7,776,000 (2001: HK\$14,649,000), a company controlled by Mr. Chan Chun Choi and Madam Lam Mo Kuen, Anna, both of whom are Directors. The amount is unsecured, interest-free and has no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

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31. RETIREMENT SCHEME

The Group operates a MPF scheme under the Hong Kong MPF Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by an independent trustee. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5 per cent of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.

During the year ended 31 December 2002, the gross aggregate amount of employer's contribution made by the Group to the MPF scheme was approximately HK\$77,000 (2001: HK\$85,000) and there was a refund of long service payment in the sum of HK\$35,000 (2001: Nil), thereby reducing the MPF contribution to approximately HK\$42,000 (2001: HK\$85,000). As at 31 December 2002 and 2001, there was no forfeited contribution available to reduce future contribution.

32. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Group disposed of one of the investment properties at a consideration of HK\$2,800,000 for partial repayment of bank overdrafts and bank loans. In this regard, although the Group could not keep up with the repayment schedules during the year, the banker did not demand immediate repayment of the bank loans up to the date of approval of the financial statements.

33. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

The presentation and classification of items in the Consolidated Cash Flow Statement have been changed due to the adoption of requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the Consolidated Cash Flow Statement. Comparative figures have been reclassified to conform with the current year's presentation.

34. ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 December 2002 to be Eternal Victory Enterprises Inc., which is incorporated in the British Virgin Islands.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The audited financial statements were approved by the Board on 16 April 2003.