

1. CORPORATE INFORMATION

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

- provision of information technology services
- property investment
- restaurant operations

In the opinion of the directors, the ultimate holding company is Beijing Holdings Limited, which is incorporated in Hong Kong.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following recently-issued and revised SSAPs are effective for the first time for the current year’s financial statements:

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

The SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 22 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group reserves note.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are now translated to Hong Kong dollars at the weighted average exchange rates, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

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2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company’s share option scheme, as detailed in note 30 to the financial statements. These share option scheme disclosures previously included in the Report of the Directors, are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

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. The Company’s interests in subsidiaries are stated at cost less any impairment losses.

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

Associates

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

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

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

Joint venture companies

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

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

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and neither has joint control of, nor is in a position to exercise significant influence over, the joint venture company.

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

Jointly-controlled entities

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

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

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of ten years. On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised.

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

Negative goodwill

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

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

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

Negative goodwill *(continued)*

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

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account.

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.

Impairment of assets

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

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

Fixed assets and depreciation

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

The transitional provisions set out in paragraph 80 of SSAP 17 "Property, plant and equipment" have been adopted for assets stated at valuation. As a result, those assets stated at revalued amounts, based on revaluations which were reflected in financial statements for periods ended before 30 September 1995, have not been subsequently revalued to fair value by class. It is the directors' intention not to revalue these assets in the future. The asset revaluation reserve is transferred directly to retained earnings when the reserve is realised completely on the disposal or retirement of the asset, or partially as the asset is used by the Group.

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.

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

Leasehold land	Over the lease terms
Buildings	4%
Leasehold improvements	Over the lease terms or 10 years, whichever is shorter
Furniture, fixtures and equipment	10% – 20%
Motor vehicles	18% – 20%

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

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Intangible assets

Intangible assets represent management information systems and are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of ten years.

Operating leases

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average 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 the estimated selling prices less any estimated costs necessary to make the sale.

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

Construction contracts

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

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

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

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

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis.

Cash and cash equivalents

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Deferred tax**

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

Employee benefits*Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Pension schemes

Certain companies within the Group have participated in the retirement benefits schemes required by the respective governments of the places in which they operate for their employees. Contributions are made based on a certain percentage of the covered payroll and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The Group's employer contributions vest fully with the employees when contributed into the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds.

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

Share option scheme

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

Revenue recognition

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

- (a) from 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;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) receipts from restaurant operations, upon the delivery of food and beverages to customers;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (e) from the sale of properties, when the legally binding unconditional sales contracts are signed and exchanged;
- (f) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above; and
- (g) from the rendering of services, when the services are rendered.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Foreign currencies**

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

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

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

4. SEGMENT INFORMATION

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

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

- (a) the information technology segment engages in: (i) the provision of last-mile networking services and telecommunications, data communications and management services; (ii) systems integration for intelligent building; (iii) the construction of information networks; (iv) the provision of IT technical support and consultation services; and (v) the development and installation of software;
- (b) the restaurants segment engages in the operation of restaurants and the trading of dried seafood;

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4. SEGMENT INFORMATION

- (c) the property investment segment invests in office and factory space for its rental income potential;
- (d) the woollen and worsted segment engaged in the manufacture and sale of woollen and worsted products (discontinued in the prior year); and
- (e) the corporate segment comprises corporate income and expense items.

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

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

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4. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group

	Information technology		Restaurants		Property investment		Woolen and worsted products		Corporate		Eliminations		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:														
Sales to external customers	179,896	74,559	200,571	137,148	6,910	10,084	—	9,634	—	—	—	—	387,377	231,425
Intersegment sales	—	—	—	—	1,032	—	—	—	—	—	(1,032)	—	—	—
Total	179,896	74,559	200,571	137,148	7,942	10,084	—	9,634	—	—	(1,032)	—	387,377	231,425
Segment results	32,215	14,598	5,186	4,364	4,810	6,870	—	3,639	—	—	—	—	42,211	29,471
Interest income													1,394	2,246
Unallocated corporate expenses													(14,239)	(21,814)
Profit from operating activities													29,366	9,903
Finance costs													(5,355)	(6,599)
Share of profits and losses of:														
Associates	—	—	—	—	(591)	(1,651)	—	—	—	—	—	—	(591)	(1,651)
Jointly-controlled entities	223	(1)	—	—	—	—	—	(1,585)	—	—	—	—	223	(1,586)
Provision against an amount due from an associate	—	—	—	—	(5,592)	—	—	—	—	—	—	—	(5,592)	—
Profit before tax													18,051	67
Tax													2,844	(625)
Profit/(loss) before minority interests													20,895	(558)
Minority interests													(5,479)	(1,042)
Net profit/(loss) from ordinary activities attributable to shareholders													15,416	(1,600)

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Information technology		Restaurants		Property investment		Corporate		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment assets	427,279	314,846	74,243	54,059	121,207	75,589	54,741	55,267	677,470	499,761
Interests in associates	—	—	—	—	15,340	70,946	—	—	15,340	70,946
Interests in jointly-controlled entities	7,562	471	—	—	—	—	—	—	7,562	471
Bank overdrafts included in segment assets	—	—	—	—	—	4,031	—	7,453	—	11,484
Total assets	434,841	315,317	74,243	54,059	136,547	150,566	54,741	62,720	700,372	582,662
Segment liabilities	73,634	43,741	34,059	30,684	9,873	14,631	2,790	1,730	120,356	90,786
Bank overdrafts included in segment assets	—	—	—	—	—	4,031	—	7,453	—	11,484
Unallocated liabilities	—	—	—	—	—	—	—	—	153,552	83,934
Total liabilities									273,908	186,204
Other segment information:										
Depreciation	2,232	213	8,609	5,524	340	351	1,394*	1,344*	12,575	7,432
Amortisation	14,140	2,357	—	—	—	—	—	—	14,140	2,357
Capital expenditure	5,350	2,000	15,303	7,987	—	—	2	1,289	20,655	11,276

* These are included in "Unallocated corporate expenses".

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4. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

Group

	Hong Kong		Mainland PRC		Singapore		Indonesia		Malaysia		Corporate		Eliminations		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:																
Sales to external customers	6,695	21,249	223,311	116,425	86,160	56,858	27,259	19,080	43,952	17,813	—	—	—	—	387,377	231,425
Intersegment sales	16,050	—	1,372	—	—	—	—	—	—	—	—	—	(17,422)	—	—	—
Total	22,745	21,249	224,683	116,425	86,160	56,858	27,259	19,080	43,952	17,813	—	—	(17,422)	—	387,377	231,425
Other segment information:																
Segment assets	101,839	106,915	481,582	371,978	41,883	18,241	9,954	7,432	10,373	11,345	54,741	55,267	—	—	700,372	571,178
Bank overdrafts included in segment assets	—	—	—	—	—	4,031	—	—	—	—	—	7,453	—	—	—	11,484
Total assets	101,839	106,915	481,582	371,978	41,883	22,272	9,954	7,432	10,373	11,345	54,741	62,720	—	—	700,372	582,662
Capital expenditure	—	3	5,397	2,029	14,666	303	58	1,594	532	6,058	2	1,289	—	—	20,655	11,276

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5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts; the value of services rendered; proceeds from the sale of properties held for sale; gross rental income; and receipts from restaurant operations.

Revenue from the following activities has been included in turnover:

	Group	
	2002 HK\$'000	2001 HK\$'000
Sales of woollen and worsted products	—	9,634
Sales of properties held for sale	325	2,619
Sales of dried seafood	2,211	4,189
Receipts from restaurant operations	198,360	132,959
Gross rental income	6,585	7,465
Construction contracts	122,174	68,899
Rendering of services	57,722	5,660
	387,377	231,425

6. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	106,722	76,230
Cost of sales of properties held for sale	60	1,068
Cost of services provided	26,982	2,731
Depreciation	12,575	7,432
Operating lease rentals for land and buildings:		
Minimum lease payments	16,351	10,201
Contingent rents	1,216	1,262
	17,567	11,463

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6. PROFIT FROM OPERATING ACTIVITIES (continued)

	Note	Group	
		2002 HK\$'000	2001 HK\$'000
Amortisation of goodwill*		12,254	2,042
Negative goodwill recognised as income during the year [#]		(3,354)	—
Amortisation of intangible assets [@]		1,886	315
Foreign exchange losses, net		513	1,235
Auditors' remuneration:			
Current year provision		1,493	985
Prior year's underprovision		185	—
		1,678	985
Staff costs (including directors' remuneration — note 8):			
Wages and salaries		58,080	32,328
Pension scheme contributions		3,209	1,661
		61,289	33,989
Gross rental income from investment properties		(3,365)	(3,908)
Gross rental income from properties held for sale		(3,220)	(3,557)
Less: Outgoings		2,015	2,012
Net rental income		(4,570)	(5,453)
Interest income		(1,394)	(2,246)
Gain on disposal of investment properties		(1,164)	(1,060)
Gain on disposal of fixed assets		(185)	(1,777)
Gain on disposal of discontinued operations	(i)	—	(3,417)

Note:

(i) On 29 March 2001:

- (a) the Company's inventories of woollen and worsted products of HK\$4,662,000 were disposed at their net book values;
- (b) the Company's entire 70% interest in a subsidiary, Sino Textile Enterprises Limited, and the Company's shareholder's loan to this subsidiary of HK\$1,518,000 were disposed for a cash consideration of HK\$1,518,000, resulting in a gain on disposal of HK\$911,000; and

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6. PROFIT FROM OPERATING ACTIVITIES (continued)

(c) the Company's entire 50% interest in a jointly-controlled entity, Beijing Jin Yan Worsted Co., Ltd. was disposed for a cash consideration of HK\$19,619,000, resulting in a gain on disposal of HK\$2,506,000.

The Group discontinued the woollen and worsted business upon the completion of the above disposals.

* The amortisation of goodwill is included in "Other operating expenses" on the face of the consolidated profit and loss account.

The negative goodwill recognised in the profit and loss account for the year is included in "Other revenue and gains" on the face of the consolidated profit and loss account.

@ The amortisation of intangible assets is included in "Cost of sales" on the face of the consolidated profit and loss account.

7. FINANCE COSTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Interest on bank loans, overdrafts, and other loans wholly repayable within five years	5,355	6,599

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and Section 161 of the Companies Ordinance is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Fees	40	—
Salaries, allowances and benefits in kind	1,623	1,791
Performance related bonuses	314	207
Pension scheme contributions	24	27
	2,001	2,025

8. DIRECTORS' REMUNERATION (continued)

Fees include HK\$40,000 (2001: Nil) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive director during the year (2001: Nil).

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

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	8	9

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

During the year, 6,000,000 (2001: 10,900,000) share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 30 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2001: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2001: three) non-director, highest paid employees are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Salaries, allowances and benefits in kind	2,467	2,208
Performance related bonuses	173	304
Compensation for loss of office	—	480
Pension scheme contributions	86	12
	2,726	3,004

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9. FIVE HIGHEST PAID EMPLOYEES *(continued)*

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

	Number of employees	
	2002	2001
Nil to HK\$1,000,000	2	1
HK\$1,000,001 to HK\$1,500,000	1	2
	3	3

During the year, 2,200,000 (2001: 1,400,000) share options were granted to two (2001: one) non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above five highest paid employees' remuneration disclosures.

10. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year.

In accordance with the relevant tax rules and regulations in the PRC, certain of the Company's PRC subsidiaries and jointly-controlled entities enjoy income tax exemptions and reductions. Certain PRC subsidiaries are subject to income tax rates ranging from 7.5% to 33%.

Notes to Financial Statements

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10. TAX (continued)

Taxes on profits assessable elsewhere have been calculated at the rates of taxation prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2002 HK\$'000	2001 HK\$'000
Group:		
Hong Kong	(298)	(134)
Elsewhere	(1,661)	(985)
Overprovision in prior years	4,243	—
Share of tax attributable to associates	560	494
Tax credit/(charge) for the year	2,844	(625)

There was no unprovided deferred tax in respect of the year (2001: Nil).

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is HK\$536,000 (2001: net loss of HK\$34,031,000).

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders for the year of HK\$15,416,000 (2001: net loss of HK\$1,600,000) and the 446,258,750 (2001: the weighted average of 273,008,750) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 December 2002 and 2001 have not been disclosed as the share options outstanding during those years had an anti-dilutive effect on the basic earnings/(loss) per share.

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13. FIXED ASSETS

Group

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of year	46,920	61,091	40,460	22,176	3,542	174,189
Additions	—	—	6,789	11,250	2,616	20,655
Acquisition of subsidiaries	—	—	—	191	—	191
Disposals	(678)	—	(1,124)	(1,488)	(722)	(4,012)
Revaluation deficit	(902)	—	—	—	—	(902)
At 31 December 2002	45,340	61,091	46,125	32,129	5,436	190,121
At cost	—	17,591	46,125	32,129	5,436	101,281
At valuation	45,340	43,500	—	—	—	88,840
	45,340	61,091	46,125	32,129	5,436	190,121
Accumulated depreciation:						
At beginning of year	—	8,527	29,296	8,733	1,620	48,176
Provided during the year	—	1,365	5,414	4,857	939	12,575
Acquisition of subsidiaries	—	—	—	79	—	79
Disposals	—	—	(1,124)	(1,354)	(602)	(3,080)
At 31 December 2002	—	9,892	33,586	12,315	1,957	57,750
Net book value:						
At 31 December 2002	45,340	51,199	12,539	19,814	3,479	132,371
At 31 December 2001	46,920	52,564	11,164	13,443	1,922	126,013

13. FIXED ASSETS (continued)

Company

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:					
At beginning of year	43,500	527	371	1,315	45,713
Additions	—	—	2	—	2
Disposals	—	—	(19)	—	(19)
At 31 December 2002	43,500	527	354	1,315	45,696
At cost	—	527	354	1,315	2,196
At valuation	43,500	—	—	—	43,500
	43,500	527	354	1,315	45,696
Accumulated depreciation:					
At beginning of year	6,497	216	180	285	7,178
Provided during the year	1,027	93	37	238	1,395
Disposals	—	—	(3)	—	(3)
At 31 December 2002	7,524	309	214	523	8,570
Net book value:					
At 31 December 2002	35,976	218	140	792	37,126
At 31 December 2001	37,003	311	191	1,030	38,535

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13. FIXED ASSETS (continued)

An analysis of the leasehold land and buildings, which are held under medium term leases, at the balance sheet date is as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Situated in Hong Kong:				
At 1994 valuation	43,500	43,500	43,500	43,500
Situated in Singapore:				
At cost	17,591	17,591	—	—
	61,091	61,091	43,500	43,500

A revaluation of certain of the leasehold land and buildings situated in Hong Kong was carried out by CB Richard Ellis Limited, an independent professionally qualified valuer, on an open market value, existing use basis as at 31 December 1994. These land and buildings are stated at a carrying amount of HK\$35,976,000 at the balance sheet date (2001: HK\$37,003,000). Had the land and buildings not been revalued, their net book value would have been as follows:

	Group and Company	
	2002 HK\$'000	2001 HK\$'000
Cost	4,339	4,339
Accumulated depreciation	(1,068)	(964)
Net book value at 31 December	3,271	3,375

13. FIXED ASSETS (continued)

An analysis of the investment properties at the balance sheet date is as follows:

	2002 HK\$'000	2001 HK\$'000
Situated in Hong Kong	6,840	8,720
Situated in Mainland PRC	38,500	38,200
	45,340	46,920

The Group's investment properties were revalued on 31 December 2002 by CB Richard Ellis Limited, an independent professionally qualified valuer, on an open market value, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 34(a) to the financial statements.

Details of the investment properties, which are held under medium term leases, are as follows:

Location	Use
Part of the second floor and the whole of the third floor, A No. 1 Jian Guo Men Wai Avenue, Chao Yang District, Beijing, PRC	Office building
Units 1103, 1701, 1704 and 1903, Hong Kong Worsted Mills Industrial Building, 31-39 Wo Tong Tsui Street, Kwai Chung, New Territories, Hong Kong	Industrial

Notes to Financial Statements

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14. GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

Group	Goodwill	Negative goodwill
	HK\$'000	HK\$'000
Cost:		
At beginning of year	122,536	—
Acquisition of subsidiaries	—	(5,445)
At 31 December 2002	122,536	(5,445)
Accumulated amortisation/(recognition as income):		
At beginning of year	2,042	—
Provided/(recognised) during the year	12,254	(3,354)
At 31 December 2002	14,296	(3,354)
Net book value:		
At 31 December 2002	108,240	(2,091)
At 31 December 2001	120,494	—

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15. INTANGIBLE ASSETS

Group	Management information systems HK\$'000
Cost:	
At beginning of year and at 31 December 2002	18,868
Accumulated amortisation:	
At beginning of year	315
Provided during the year	1,886
At 31 December 2002	2,201
Net book value:	
At 31 December 2002	16,667
At 31 December 2001	18,553

16. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	193,947	193,947
Due from subsidiaries	194,668	153,460
	388,615	347,407
Provision for impairment	(3,836)	(3,836)
Provision against amounts due from subsidiaries	(81,000)	(84,000)
	303,779	259,571

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK\$6,000,000 (2001 : Nil) which bears interest at 4.5% per annum and is repayable in 2004.

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16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Ah Yat Abalone Forum Restaurant Holdings Pte Ltd	Singapore	S\$250,000	45.9 [@]	45.9 [@]	Restaurant operations
Ah Yat Seafood Market Pte. Ltd.^	Singapore	S\$200,000	20.7 [@]	—	Restaurant operations
Becom Software Co., Ltd.	PRC	RMB50,000,000	71.2	60	Provision of management information system services
Beijing Ah Yat Abalone Restaurant Co., Ltd.	PRC	US\$1,400,000	48.5 [@]	48.5 [@]	Restaurant operations
Beijing Development Properties (Hong Kong) Limited*	Hong Kong	HK\$100,000	100	100	Property investment
Beijing Development Property Investment and Management Co., Ltd.	PRC	US\$4,000,000	85.5	85.5	Property investment
Beijing Enterprises Jetric Holdings Limited^	# British Virgin Islands	US\$100	51	—	Investment holding
Beijing Enterprises Jetric Information Technology Co. Ltd.+	PRC	RMB600,000	51	—	Provision of total education solution
Beijing Enterprises Jetric Limited^	# British Virgin Islands	US\$1	51	—	Investment holding

16. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Beijing Enterprises Teletron Information Technology Co. Ltd.	PRC	RMB65,000,000	100	100	Construction of information networks; and the provision of IT technical support and consultation services
Beijing Singapore Investments Pte Ltd.*	Singapore	S\$800,000	90	90	Property and investment holding
Beijing Teletron Intelligent System Co. Ltd.	PRC	RMB1,100,000	80	80	Provision of system integration services
Beijing Teletron System Integration Co. Ltd.	PRC	RMB1,000,000	51	51	Provision of networking services
Cyber Vantage Group Limited	# British Virgin Islands	US\$100	100	100	Investment holding
H.K. Forewell Investments Limited*	Hong Kong	HK\$10,000	51	51	Investment holding and trading of dried seafood
Hong Kong Fortune International Limited*	# Hong Kong	HK\$10,000	51	51	Restaurant operations
Hunan Education Information Service Co. Ltd.^	PRC	RMB10,000,000	42.7 [@]	—	Construction of information networks; and the provision of IT technical support services
Lord King Investment Limited	# Hong Kong	HK\$1,000,000	51	51	Restaurant operations
北京捷通瑞奇信息 技術有限公司*	PRC	RMB500,000	44.6 [@]	—	Software developer

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16. INTERESTS IN SUBSIDIARIES (continued)

@ These entities are accounted for as subsidiaries by virtue of control over the entities.

These subsidiaries operate in the PRC.

* Directly held by the Company.

+ The Group acquired these companies in October 2002. Further details of this acquisition are included in note 32(a) to the financial statements.

^ Set-up during the year.

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

17. INTERESTS IN ASSOCIATES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	—	—	—*	—*
Share of net assets	650	2,177	—	—
Amounts due from associates	14,690	33,984	—	21,042
Loan to an associate	—	34,785	—	34,785
	15,340	70,946	—	55,827

The balances with the associates are unsecured, interest-free and have no fixed terms of repayment.

* The costs of unlisted shares held by the Company at 31 December 2002 and 2001 amounted to HK\$50.

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17. INTERESTS IN ASSOCIATES (continued)

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2002	2001	
Linkcross Investments Limited*	Corporate	Hong Kong	50	50	Investment holding
Overseas Union Investments Limited	Corporate	Hong Kong	50	50	Investment holding

* Directly held by the Company.

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	7,562	471

Details of the indirectly held jointly-controlled entities are as follows:

Name	Business structure	Place of registration and operations	Percentage of			Principal activity
			Ownership interest	Voting power	Profit sharing	
Beijing Shixun Hutong Communication Technology Co. Ltd.	Corporate	PRC	50	50	50	Dormant
Beijing Education Information Network Service Centre Co. Ltd.†	Corporate	PRC	25.5	50	25.5	Provision of information network services

† The Group acquired this company during the year. Further details are included in note 32(a) to the financial statements.

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19. INVENTORIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Materials	53,025	35,778

There were no inventories carried at net realisable value as at the balance sheet date (2001 : Nil).

20. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	Group	
	2002 HK\$'000	2001 HK\$'000
Amounts due from customers for contract work	4,516	999
Amounts due to customers for contract work	(1,204)	—
	3,312	999
Contract costs incurred plus recognised profits less recognised losses to date	6,629	2,096
Less: Progress billings received and receivable	(3,317)	(1,097)
	3,312	999

21. PROPERTIES HELD FOR SALE

The details of the Group's properties held for sale are as follows:

Location	Group interest	Existing use	Gross floor area
Units 101–103, 107, 1501, 1503, 2001, 2101 and 2103–2104; private carpark nos. 4, 6, 8, 10–13, 16 and 19–21 on the upper ground floor; lorry carpark nos. 2–8, 12–14, 16–25, 27, 29 and container space no. 30 on the ground floor; roof and external wall; Hong Kong Worsted Mills Industrial Building, 31–39 Wo Tong Tsui Street, Kwai Chung, New Territories, Hong Kong	100%	Factory and carpark rental	44,551 sq.ft. (excluding roof and carparks)

22. TRADE RECEIVABLES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Due from third parties	94,003	40,100
Due from a fellow subsidiary	4,529	—
	98,532	40,100

The various Group companies have different credit policies, dependent on the requirements of their markets and the business which they operate. An aged analysis of trade receivables is regularly prepared and closely monitored in order to minimise any related credit risk.

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22. TRADE RECEIVABLES (continued)

An aged analysis of the Group's trade receivables as at balance sheet date, based on the payment due date and net of provisions, is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Current and within 3 months	85,589	39,726
4–6 months	7,989	120
7–12 months	3,019	—
Over 1 year	1,935	254
	98,532	40,100

23. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Prepayments	2,821	3,187	—	22
Deposits and other receivables	60,475	7,901	146	150
Due from fellow subsidiaries	16,963	9,195	—	—
Due from related companies	5,021	7,653	—	—
Due from a jointly-controlled entity	193	—	—	—
Due from an associate	43,518	—	43,518	—
	128,991	27,936	43,664	172

The balances with fellow subsidiaries, related companies, jointly-controlled entity and associate are unsecured, interest-free and have no fixed terms of repayment.

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24. TRADE AND BILLS PAYABLES

	Group	
	2002 HK\$'000	2001 HK\$'000
Trade payables	44,800	38,553
Bills payable	15,628	4,717
	60,428	43,270

An aged analysis of the Group's trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within 3 months	49,543	42,316
4–6 months	2,106	954
7–12 months	1,221	—
Over 1 year	7,558	—
	60,428	43,270

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25. OTHER PAYABLES AND ACCRUALS

	Note	Group		Company	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Other payables		15,780	17,660	985	985
Accruals		32,494	13,211	1,305	754
Current portion of long term payables	27	3,931	3,591	—	—
Amounts due to the holding companies		—	889	—	—
Amount due to a fellow subsidiary		255	—	—	—
Amounts due to related companies		471	787	—	—
		52,931	36,138	2,290	1,739

The balances with holding companies, fellow subsidiary and related companies are unsecured, interest-free and have no fixed terms of repayment.

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26. BANK LOANS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank overdrafts, secured	—	11,484	—	7,453
Bank loans:				
Secured	10,146	13,365	4,556	9,365
Unsecured	143,406	70,569	58,500	23,400
	153,552	83,934	63,056	32,765
	153,552	95,418	63,056	40,218
Bank overdrafts repayable within one year or on demand	—	11,484	—	7,453
Bank loans repayable:				
Within one year	93,288	73,920	7,907	26,234
In the second year	17,247	3,462	16,760	2,946
In the third to fifth years, inclusive	39,905	5,133	38,389	3,585
After five years	3,112	1,419	—	—
	153,552	83,934	63,056	32,765
	153,552	95,418	63,056	40,218
Portion classified as current liabilities	(93,288)	(85,404)	(7,907)	(33,687)
Long term portion	60,264	10,014	55,149	6,531

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26. BANK LOANS (continued)

Certain of the Group's bank facilities are secured by:

- (a) the Group's investment properties which had an aggregate carrying value at the balance sheet date of HK\$6,840,000 (2001: HK\$8,720,000);
- (b) the Group's leasehold land and buildings which had an aggregate net book value at the balance sheet date of HK\$51,199,000 (2001: HK\$52,564,000);
- (c) the Group's properties held for sale which had an aggregate carrying value at the balance sheet date of HK\$11,527,000 (2001: HK\$11,587,000);
- (d) the Group's bank deposits at the balance sheet date of HK\$9,408,000 (2001: HK\$5,085,000); and
- (e) a guarantee amounting to HK\$47,170,000 (2001: HK\$47,170,000) given by a fellow subsidiary of the Company.

27. LONG TERM PAYABLES

	Note	Group	
		2002 HK\$'000	2001 HK\$'000
Amounts payable:			
Within one year		3,931	3,591
In the second year		2,000	2,000
In the third to fifth years, inclusive		1,999	3,999
		7,930	9,590
Portion classified as current liabilities	25	(3,931)	(3,591)
Long term portion		3,999	5,999

The long term payables represent the amounts payable for the acquisition of a subsidiary in 1995. The amounts are interest-free and are repayable by annual instalments up to the year 2005.

28. DEFERRED TAX

The amount of the deferred tax asset not recognised in the financial statements is set out below:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax losses	15,581	14,748	14,972	14,094

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

The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.

29. SHARE CAPITAL

Shares	Company	
	2002 HK\$'000	2001 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$1 each	1,000,000	1,000,000
Issued and fully paid:		
446,258,750 ordinary shares of HK\$1 each	446,259	446,259

There were no changes to the carrying amount or the number of ordinary shares in issue during the year.

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29. SHARE CAPITAL (continued)

A summary of the movements in the Company's ordinary share capital during the prior year is as follows:

	Number of shares in issue	Share capital HK\$'000
At 1 January 2001	85,758,750	85,759
Share allotments	218,000,000	218,000
New issue of shares for the acquisition of subsidiaries	142,500,000	142,500
At 31 December 2001 and 2002	446,258,750	446,259

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 30 to the financial statements.

30. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme (the "Scheme") to give executives and key employees of the Group an interest in preserving and maximising shareholder value in the longer term, to enable the Company and the relevant subsidiaries to attract and retain individuals with experience and ability and to reward individuals for future performance. Eligible participants of the Scheme include the executive directors and employees of the Company or any of its subsidiaries. The Scheme became effective on 18 June 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

30. SHARE OPTION SCHEME *(continued)*

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 December 2002, the number of shares issuable under share options granted under the Scheme was 38,900,000, which represented approximately 8.7% of the Company's shares then in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Scheme is limited to 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date on which the offer of the share options is accepted or on the expiry date of the Scheme, whichever is earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the offer of the share options; (ii) the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

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

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30. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year:

Name or category of participant		Number of share options		
		At 1 January 2002	Granted during the year	At 31 December 2002
Directors				
Mr. Xiong Da Xin	(a)	2,800,000	—	2,800,000
	(b)	—	1,200,000	1,200,000
		2,800,000	1,200,000	4,000,000
Mr. Bai Jin Rong*	(a)	2,600,000	—	2,600,000
	(b)	—	1,200,000	1,200,000
		2,600,000	1,200,000	3,800,000
Mr. Ng Kong Fat, Brian	(a)	2,300,000	—	2,300,000
	(b)	—	1,200,000	1,200,000
		2,300,000	1,200,000	3,500,000
Dr. Mao Xiang Dong, Peter	(a)	1,600,000	—	1,600,000
	(b)	—	1,200,000	1,200,000
		1,600,000	1,200,000	2,800,000
Mr. E Meng	(a)	1,600,000	—	1,600,000
	(b)	—	1,200,000	1,200,000
		1,600,000	1,200,000	2,800,000
Other employees	(a)	4,300,000	—	4,300,000
	(b)	—	17,700,000	17,700,000
		4,300,000	17,700,000	22,000,000
		15,200,000	23,700,000	38,900,000

* Mr. Bai Jin Rong resigned as a director on 31 December 2002.

30. SHARE OPTION SCHEME *(continued)*

Notes:

- (a) *These options were granted on 19 June 2001 at an exercise price of HK\$1.13 per share. The options can be exercised in two or three equal portions. The first portion is exercisable at any time commencing on 1 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 26 June 2006.*
- (b) *These options were granted on 18 January 2002 at an exercise price of HK\$1.00 per share. The closing price of the Company's shares on the Stock Exchange on the trading day immediately prior to the date of the grant of the share options was HK\$0.98. The options can be exercised in three equal portions. The first portion is exercisable at any time commencing on 18 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 17 January 2007.*

No share options were exercised during the year. At the balance sheet date, the Company had 38,900,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 38,900,000 additional ordinary shares of the Company and additional share capital of HK\$38,900,000 and share premium of HK\$1,976,000 (before issue expenses).

31. RESERVES**(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 22 of the financial statements.

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Group's subsidiaries in the PRC has been transferred to PRC reserve funds which are restricted as to use.

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31. RESERVES (continued)

(b) Company

	Asset revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2001	36,409	(112,481)	(76,072)
Net loss for the year	—	(34,031)	(34,031)
Transfer to accumulated losses	(922)	922	—
At 31 December 2001 and beginning of year	35,487	(145,590)	(110,103)
Net profit for the year	—	536	536
Transfer to accumulated losses	(922)	922	—
At 31 December 2002	34,565	(144,132)	(109,567)

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Interest in a jointly-controlled entity (<i>note 18</i>)	6,868	472
Fixed assets	112	6,486
Cash and bank balances	5,020	85,662
Trade receivables	24	6,689
Inventories	2,497	9,969
Other receivables, prepayments and deposits	2,050	19,623
Trade and bills payables	(21)	(4,573)
Other payables and accruals	(2,872)	(8,636)
Bank loans	—	(47,170)
Minority interests	(2,432)	(1,058)
	11,246	67,464
Goodwill/(negative goodwill) on acquisition (<i>note 14</i>)	(5,445)	122,536
	5,801	190,000
Satisfied by:		
Cash	5,801	47,500
Issue of shares	—	142,500
	5,801	190,000

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

	2002 HK\$'000	2001 HK\$'000
Cash consideration	(5,801)	(47,500)
Cash and bank balances acquired	5,020	85,662
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	(781)	38,162

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32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(a) Acquisition of subsidiaries *(continued)*

The subsidiaries acquired during the year contributed HK\$37,906,000 to the Group's turnover and HK\$9,242,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2002. The subsidiaries acquired in the prior year contributed HK\$74,559,000 to the Group's turnover and HK\$14,485,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2001.

(b) Disposal of a subsidiary

	2001 HK\$'000
Net liabilities disposed of:	
Inventories	284
Trade receivables	2
Cash and bank balances	28
Trade payable	(64)
Other payables and accruals	(33)
Amount due to the Group	(1,518)
Minority interests	390
	(911)
Gain on disposal	911
	—
Satisfied by:	
Cash consideration	—

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(b) Disposal of a subsidiary** (continued)

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

	2001 HK\$'000
Cash consideration	—
Cash and bank balances disposed of	(28)
Amount due to the Group disposed of	1,518
Net inflow of cash and cash equivalents	1,490

The results of the subsidiary disposed of in the year ended 31 December 2001 had no significant impact on the Group's consolidated turnover or profit after tax for that year.

(c) Major non-cash transaction

In the prior year, 142,500,000 shares of HK\$1 each were issued at a price of HK\$1 per share as part of the consideration for the acquisition of Cyber Vantage Group Limited and its subsidiaries.

33. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2002	2001
	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	52,760	8,299

At 31 December 2002, the guarantees given to the banks in connection with bank facilities granted to the subsidiaries by the Company were utilised to the extent of approximately HK\$43,326,000 (2001: HK\$8,030,000).

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34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 13) and certain properties held for sale (note 21) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	4,123	3,803
In the second to fifth years, inclusive	1,899	1,663
	6,022	5,466

(b) As lessee

The Group leases certain of its office properties, restaurant premises and staff quarters under operating lease arrangements. Leases are negotiated for terms ranging from one to twelve years. Under certain lease agreements for the restaurant premises, contingent rentals in excess of the minimum lease payments are payable if the turnover of such restaurants reaches a pre-determined level.

At 31 December 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	16,133	13,069	60	576
In the second to fifth years, inclusive	31,024	24,216	—	150
After five years	13,912	1,981	—	—
	61,069	39,266	60	726

Notes to Financial Statements

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35. PLEDGE OF ASSETS

Details of the Group's borrowings secured by the assets of the Group are set out in note 26 to the financial statements.

Bank deposits of HK\$966,000 (2001: Nil) were pledged as guarantees for tenders and contracts.

36. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	Group	
		2002 HK\$'000	2001 HK\$'000
Sales of materials to a company in which a director of the Company has beneficial interests	(i)	2,211	4,189
Purchases of finished goods from a jointly-controlled entity	(i)	—	867
Interest expenses on loans from an affiliated company of the Company's ultimate shareholder	(ii)	—	2,058
Service income from a fellow subsidiary	(iii)	28,302	5,660

Notes:

- (i) The sales of materials to and the purchases of finished goods from related parties were priced at the estimated market value and manufactured costs of goods sold, respectively.
- (ii) The interest expenses on loans from the related party were charged at the Hong Kong prime rate per annum.
- (iii) The service fees were charged at the higher of (i) 8–9% of the turnover of the fellow subsidiary; or (ii) certain minimum guaranteed amounts.

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37. POST BALANCE SHEET EVENT

- (a) On 20 December 2002, the Company entered into an agreement to acquire from independent third parties a 60% equity interest in Wisdom Elite Holdings Limited and its wholly-owned subsidiary, Beijing Enterprises VST Software Engineering Technology Co. Ltd., (collectively "Wisdom Elite Group") for a consideration of HK\$21,204,000, satisfied as to HK\$8,481,600 in cash and HK\$12,722,400 by way of the allotment of 12,722,400 new shares of the Company at an issue price of HK\$1.00 per share. The acquisition was completed in January 2003. Wisdom Elite Group principally engages in the development and sale of social security information management systems and tax information management systems in the PRC. Goodwill arising from this acquisition is estimated to be approximately HK\$16 million and will be amortised over ten years.
- (b) On 14 April 2003, the Company entered into a conditional agreement to acquire from Beijing Enterprises Holdings Limited ("BEHL"), the Company's holding company, the entire share capital of Business Net Limited together with all the benefits and interest of and in the shareholder's loan amounting to RMB19 million (approximately HK\$17.92 million) owing by Business Net Limited to BEHL for the consideration of HK\$40 million, satisfied as to HK\$5 million in cash and HK\$35 million by way of the allotment of 35,000,000 new shares of the Company at an issue price of HK\$1.00 per share. The sole asset of Business Net Limited is a 38% interest in Beijing Municipal Administration & Communications Card Co., Ltd., which is principally engaged in (1) the production and issuance of contactless multipurpose electronic payment cards, namely "Yikatong"; and (2) the investment, operation and management of the "Yikatong" automated fee collection system and related facilities in Beijing. The transaction is subject to the approval of the Company's shareholders at the extraordinary general meeting of the Company.

38. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 April 2003.