

31 December 2002

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 13 to the financial statements. There were no changes in the nature of the subsidiaries' principal activities during the year.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

These financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants ("HKSA"), the requirements of Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The financial statements are prepared under the historical cost convention.

In the current year, the Group has adopted, for the first time, the following SSAPs issued by the HKSA 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 33	Discontinuing operations
— SSAP 34 (Revised)	Employee benefits

The adoption of these Standards has resulted in a change in the format of the presentation of the cash flow statement and the statement of changes in equity, but has not had any significant impact on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Unless otherwise stated, the 2001 comparative figures presented herein have incorporated the effect of the adjustments, where applicable, resulting from the adoption of the new accounting standards above.

(b) Basis of Presentation and Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate. All material inter-company transactions and balances are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any goodwill or capital reserves which was not previously charged or recognised in the consolidated income statement.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(c) Subsidiaries**

A subsidiary is an enterprise 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.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

(d) Associate

An associate is a company in which the group or company has significant influence and which is neither a subsidiary nor a joint venture of the company.

The investment in an associate is accounted for in the consolidated balance sheet under the equity method whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associate. The results of the associate is accounted for in the consolidated income statement to the extent of the Group's share of the associate's results of operations.

(e) Jointly-Controlled Entities

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Jointly-controlled entity is a contractual arrangement that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.

The Group's share of the post acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in jointly controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for diminution in value other than that considered to be temporary in nature deemed necessary by the directors.

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2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(f) Goodwill**

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

- for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses; and
- for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses is included in the carrying amount of the interest in associates or jointly controlled entities.

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

- for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and
- for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

- for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Goodwill *(Continued)*

- for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

(g) Fixed Assets and Depreciation

Fixed assets other than investment properties are stated at cost less accumulated depreciation and impairment losses.

Major costs incurred in restoring fixed assets to their normal working condition are charges to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the company.

The gain or loss on disposal of fixed assets other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Depreciation is calculated on the 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:

Long term leasehold land	Over the unexpired lease terms
Buildings	2% to 10%
Leasehold improvements	20%
Motor vehicles	20%
Furniture and equipment	20%

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(h) Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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.

Estimated recoverable amount of an asset is the greater of the estimated value from its future use and ultimate disposal, and its net selling price.

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 losses are recognised as an expense immediately.

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

(i) Marketable Securities

Marketable securities are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

(j) Golf Club Memberships

Golf club memberships are stated at cost less any impairment losses.

(k) Provisions

Provision are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits which can be reasonably estimated will be required to settle such obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(l) Contingent Liabilities and Contingent Assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(m) Revenue Recognition

- (i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.
- (ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (iii) Rental income is recognised on a time proportion basis over the lease terms.
- (iv) Agency and commission income is recognised on the basis that the relevant services have been rendered.
- (v) Disposal of marketable securities is recognised on the transaction dates.
- (vi) Dividend income is recognised when the shareholders' right to receive payment has been established.

(n) Foreign Currencies

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(n) Foreign Currencies** *(Continued)*

The balance sheet of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior years, the profit and loss of foreign enterprises was translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss of foreign enterprises in prior years has not been restated as the effect of this change is not material to the current and prior years.

(o) Retirement Scheme

The Group operates a defined contribution mandatory provident fund retirement benefits scheme (the "Hong Kong Scheme") under the Mandatory Provident Fund Scheme Ordinance, for those employees who are eligible to participate in the Hong Kong Scheme. The Hong Kong Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Hong Kong Scheme. The assets of the Hong Kong Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Hong Kong Scheme.

(p) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on a first-in, first-out basis, comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Provision is made for obsolete, slow moving or defective items where appropriate.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(q) Trade Receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(r) Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(s) Deferred Taxation**

Deferred taxation is accounted for under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or asset is expected with reasonable probability to crystallise in the foreseeable future. Deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

(t) 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 income statement 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 income statement on the straight-line basis over the lease terms.

(u) 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 with unexpired lease term of more than 20 years are not depreciated and are stated at their open market value 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 income statement. Any subsequent revaluation surplus is credited to the income statement 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 the previous valuations is released to the income statement.

(v) Long Term Investment

Long term investment in non-trading investment, unlisted equity security, intended to be held for a continuing strategic or long term purpose, is stated at cost less any impairment loss.

When impairment in value has occurred, the carrying amount of the security is reduced to their fair value, as estimated by the directors, and the amount of the impairment is charged to the income statement for the period in which it arise. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the income statement to the extent of the amount previously charged.

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2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(w) Employee Benefits**

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the group of non-monetary benefits are accrued in the year in which the associated services are rendered by employee of the group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognized as an expense in the income statement as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognized as an expense.

(x) Related Parties

Two 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.

(y) 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.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed asset. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, corporate and financing expenses.

3. TURNOVER AND REVENUE

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts, and the rental income received and receivable during the year.

The Group's turnover and revenue for the year arose from the following activities:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Turnover		
Sale of goods	71,744	1,229,708
Gross rental income	1,065	2,177
	72,809	1,231,885
Other revenue		
Agency and commission income	296	571
Dividend income from long term unlisted investments	—	316
Dividend income from investments in marketable securities	37	147
Interest income from:		
Bank deposits	2,182	4,121
Jointly-controlled entities	—	1,817
Associate	222	203
Customers	—	298
Others	118	—
Write-back of long outstanding payables	990	4,793
Gain on disposal of fixed assets	283	5
Gain on disposal of marketable securities	794	1,407
Unrealised gain on changes in fair values of marketable securities, net	—	381
Negative goodwill recognised on write-off of investment in a subsidiary	—	23
Others	330	1,144
	5,252	15,226

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4. SEGMENT INFORMATION

(a) Business segments

An analysis of the Group's performance by business segments, namely 'chemical fertiliser', 'agricultural products', 'property investment' and 'Corporate and others' is as follows:

	Chemical fertiliser		Agricultural products		Property investment		Corporate and others		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	64,271	564,669	7,434	665,039	609	2,177	495	—	72,809	1,231,885
Other revenue	296	377	—	802	—	—	330	536	626	1,715
Total	64,567	565,046	7,434	665,841	609	2,177	825	536	73,435	1,233,600
Segment results	(1,431)	820	18	(16,462)	(580)	(11,345)	(15,834)	(11,400)	(17,827)	(38,387)
Interest and dividend income and unallocated gains									4,626	13,511
Unallocated expenses									(22,019)	(9,527)
Loss from operating activities									(35,220)	(34,403)
Finance costs									(12)	(4,710)
Write-off of investment in a jointly-controlled entity									—	(18,617)
Impairment loss in respect of an associate									(4,270)	—
Impairment of goodwill on jointly-controlled entities									—	(14,128)
Share of result of an associate									—	1,215
Share of results of jointly controlled entities									(931)	(4,172)
Loss from ordinary activities before taxation									(40,433)	(74,815)
Taxation									4,570	496
Net loss from ordinary activities attributable to shareholders									(35,863)	(74,319)

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Chemical fertiliser		Agricultural products		Property investment		Corporate and others		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	3,822	3,659	2,099	12,380	11,952	37,749	100,234	136,550	118,107	190,338
Investment in an associate	—	—	—	—	—	—	4,278	9,236	4,278	9,236
Investments in jointly-controlled entities	—	—	—	—	—	—	55,479	31,794	55,479	31,794
Total assets	3,822	3,659	2,099	12,380	11,952	37,749	159,991	177,580	177,864	231,368
Segment liabilities	3,641	2,371	956	6,505	2,258	5,627	6,891	16,494	13,746	30,997
Other segment information:										
Depreciation and amortisation	29	89	10	60	84	485	517	240	640	874
Impairment losses recognised in income statement	—	—	—	—	—	—	4,679	18,916	4,679	18,916
Other non-cash expenses	—	12	38	106	48	—	226	2	312	120
Capital expenditure	65	—	—	2	—	—	774	20	839	22
Deficits on revaluation	—	—	—	—	1,100	14,699	—	—	1,100	14,699

(b) Geographical segments

In determining the Group's geographical segment, revenues and results 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.

	Hong Kong		The People's Republic of China ("PRC")		Overseas		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
Segment revenue:								
Sales to external customers	2,262	3,791	5,051	1,090,105	65,496	137,989	72,809	1,231,885
Segment results	(621)	(21,690)	(14,964)	(10,771)	(2,242)	(5,926)	(17,827)	(38,387)
Other segment information:								
Segment assets	116,227	187,781	61,637	43,587	—	—	177,864	231,368
Capital expenditure	834	6	5	16	—	—	839	22

NOTES TO THE FINANCIAL STATEMENTS

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5. LOSS FROM OPERATING ACTIVITIES

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

	2002 HK\$'000	2001 <i>HK\$'000</i>
Depreciation	640	874
Minimum lease payments under operating leases:		
— Land and buildings	1,581	1,691
— Golf club membership	45	64
Auditors' remuneration		
— Current year	180	520
— Overprovision in prior year	—	(198)
	180	322
Impairment loss on fixed assets	59	—
Staff costs:		
Wages and salaries (including directors' remuneration — <i>note 7</i>)	10,118	16,498
Write-off and impairment of long term unlisted investments	—	299
Provisions against amounts due from jointly-controlled entities	—	4,177
Write-off of amounts due from jointly-controlled entities	—	1,831
Provisions for doubtful debts:		
— Trade receivables due from jointly-controlled entities	—	4,123
— Other trade receivables	1,629	3,001
— Other receivables	18,940	3,115
Revaluation deficit on investment properties	1,100	14,699
Impairment loss of a golf club membership	350	105
Impairment loss of an associate	4,270	—
Exchange losses, net	312	79
Unrealised losses/(gains) on changes in fair values of marketable securities	814	(381)

6. FINANCE COSTS

	2002 HK\$'000	Group 2001 <i>HK\$'000</i>
Interest expense on bank loans, bank overdrafts and other loans repayable within five years	12	4,710

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

Details of the remuneration of the directors of the Company for the year disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Fees for executive directors	—	500
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	4,895	5,896
Bonuses	309	368
Compensation for loss of office	215	1,650
	<u>5,419</u>	<u>8,414</u>

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

	Number of directors	
	2002	2001
Nil — HK\$1,000,000	8	8
HK\$1,000,001 — HK\$1,500,000	—	1
HK\$2,500,001 — HK\$3,000,000	1	—
HK\$3,000,001 — HK\$3,500,000	—	2
	<u>9</u>	<u>11</u>

Two of the above directors have resigned during the year.

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

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	1,103	633
Bonuses	77	600
	<u>1,180</u>	<u>1,233</u>

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7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION (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 — HK\$1,000,000	2	—
HK\$1,000,001 — HK\$1,500,000	—	1
	<u>2</u>	<u>1</u>

8. TAXATION

(a) The taxation in the consolidated income statement represents:

	2002	2001
	HK\$'000	HK\$'000
Group:		
Hong Kong — provision for the year	—	(553)
PRC — provision for the year	(1)	—
PRC — overprovision for the prior years	4,604	1,126
	4,603	573
Share of tax attributable to:		
An associate	—	(153)
Jointly-controlled entities	(33)	76
	4,570	496

No Hong Kong profits tax has been provided for in the financial statements as the Group has no assessable profits for the year.

Taxes on profits assessable other than Hong Kong have been calculated at the rates of tax prevailing in the places in which the Group operates based on existing legislation, practices and interpretations thereof.

8. TAXATION (Continued)

(b) Taxation in the consolidated balance sheet represents:

	2002	Group
	HK\$'000	2001
		<i>HK\$'000</i>
Hong Kong — provision for the year	—	553
PRC — provision for the year	1	—
Provisional tax paid	(238)	(3,028)
Refund of tax	485	286
	248	(2,189)
Balance of provision relating to prior years	523	7,316
	771	5,127

9. LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The loss from ordinary activities attributable to shareholders for the year dealt with in the financial statements of the Company is the net profit of HK\$35,394,000 (2001: net loss of HK\$98,689,000).

The Group's share of aggregate profits less losses retained by the associates and jointly-controlled entities for the year of HK\$nil and losses of HK\$964,000, respectively (2001: profits of HK\$1,062,000 and losses of HK\$4,096,000, respectively).

10. LOSS PER SHARE

The calculation of basic loss per share for the year is based on the net loss from ordinary activities attributable to shareholders of HK\$35,863,000 (2001: net loss of HK\$74,319,000) and 564,433,557 (2001: 564,433,557) shares in issue during the year.

No diluted loss per share for the year ended 31 December 2002 has been presented because the Company's share options did not have a dilutive effect during the year.

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11. FIXED ASSETS

Group

	Leasehold land and buildings	Leasehold improvements	Motor vehicles	Furniture and equipment	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost					
At 1/1/2002	6,855	2,341	3,866	3,056	16,118
Additions	—	—	769	76	845
Disposals	(1,950)	—	(2,384)	(127)	(4,461)
At 31/12/2002	4,905	2,341	2,251	3,005	12,502
Accumulated depreciation					
At 1/1/2002	936	2,318	3,270	2,823	9,347
Provided during the year	84	22	395	139	640
Impairment loss	59	—	—	—	59
Written back on disposals	(226)	—	(2,211)	(81)	(2,518)
At 31/12/2002	853	2,340	1,454	2,881	7,528
Net book value					
At 31/12/2002	4,052	1	797	124	4,974
At 31/12/2001	5,919	23	596	233	6,771

The cost of the Group's land and buildings, which are held under long term leases, is analysed as follows:

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Situated in:		
Hong Kong	1,776	3,726
PRC	3,129	3,129
	4,905	6,855

11. FIXED ASSETS *(Continued)*
Company

	Motor vehicle <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1/1/2002	—	27	27
Additions	768	6	774
Disposals	—	(33)	(33)
At 31/12/2002	768	—	768
Accumulated depreciation			
At 1/1/2002	—	18	18
Provided during the year	154	2	156
Written back on disposals	—	(20)	(20)
At 31/12/2002	154	—	154
Net book value			
At 31/12/2002	614	—	614
At 31/12/2001	—	9	9

12. INVESTMENT PROPERTIES

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
At valuation:		
Balance at beginning of year	30,080	45,000
Reclassification from fixed assets	—	(221)
Deficit on revaluation	(1,100)	(14,699)
Disposal	(21,080)	—
Balance at end of year	7,900	30,080

The Group's investment property is situated at Flat B1, 16th Floor, Block B and Carpark No. 119 at Carpark 4, Beverly Hill, No. 6 Broadwood Road, Happy Valley, Hong Kong. It is held under a long term lease for residential use. The investment property was revalued on 31 December 2002 by A.G. Wilkinson & Associates, an independent professionally qualified valuers, on an open market, existing use basis. The investment property is leased to a third party under operating lease, further summary details of which are included in note 24 to the financial statements.

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13. INVESTMENTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 <i>HK\$'000</i>
Unlisted shares, at cost	33,049	33,049
Amount due from subsidiaries	139,507	163,594
Amount due to subsidiaries	—	(1,926)
	172,556	194,717
Less: Provision against an amount due from subsidiaries	(104,194)	(100,194)
	68,362	94,523

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

Particulars of the principal subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
K.P.B. Group Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US\$12	100	—	Investment holding
Asia Million Investment Limited	Hong Kong	Ordinary HK\$10,000	—	100	Investment holding
Charter Merit Limited	Hong Kong	Ordinary HK\$2	—	100	Holding of a club membership
Charter Paradise Limited	Hong Kong	Ordinary HK\$2	—	100	Holding of a club membership
China Growth Enterprises Limited	British Virgin Islands/ Hong Kong	Ordinary HK\$2	—	100	Investment holding

13. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
K.P.A. Company Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$2	—	100	Trading of chemical fertilisers
K.P.B. Asset Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US\$6	—	100	Investment holding
K.P.B. Marketing Limited	British Virgin Islands/ Hong Kong	Ordinary US\$2	—	100	Investment holding
K.P.B. — T.C. Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	—	100	Investment holding
K.P.B. Trading Limited	British Virgin Islands/ Hong Kong	Ordinary US\$4	—	100	Investment holding
K.P.I. Development Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$10,000	—	100	Provision of internal financial services
K.P.I. Industries Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$2	—	100	Investment holding and property investment
K.P.I. International Trading Company Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$2	—	100	Trading of agricultural products
K.P.I. Star Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	—	100	Dormant

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13. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Malden Trading Limited	British Virgin Islands/PRC	Ordinary US\$2 Deferred US\$2	—	100	Provision of marketing services
Power Growth International Limited	British Virgin Islands/PRC	Ordinary US\$1	—	100	Provision of marketing services
Shanghai K.P.I Bei Sheng Trading Limited*#	PRC	RMB2,000,000	—	100	Trading of agricultural products

* The English company name is direct translation of the registered name in Chinese .

Not audited by Charles Chan. Ip & Fung CPA Ltd.

Notes:

- (a) Shanghai K.P.I. Bei Sheng Trading Limited is a Sino-foreign equity joint venture established in the PRC to be operated for 10 years up to March 2012.
- (b) During the year, one of the subsidiaries namely Hualian K.P.I. Marketing Company Limited was disregistered on 24 May 2002.
- (c) On 24 February 2003, two subsidiaries namely Malden Trading Limited and Power Growth International Limited were dissolved under the International Business Companies Act.

14. INVESTMENT IN AN ASSOCIATE

	2002 HK\$'000	Group 2001 HK\$'000
Share of net assets	5,279	7,114
Amount due from an associate	3,269	2,122
	8,548	9,236
Less: Impairment loss	(4,270)	—
	4,278	9,236

Note: Balance of HK\$3,269,000, which bears interest rates ranging from 6.138% to 7.344% per annum.

14. INVESTMENT IN AN ASSOCIATE (Continued)

Particulars of the associate, held indirectly through a subsidiary, is as follows:

Name	Business structure	Place of registration and operations	Percentage of equity attributable to the Group		Principal activities
			2002	2001	
Taicang Huifeng Chemical Fertilizer Company Limited	Corporate	PRC	30	30	Processing and trading of chemical fertilisers

Taicang Huifeng Chemical Fertilizer Company Limited is a Sino-foreign equity joint venture established in the PRC to be operated for 11 years up to May 2006.

The associate is not audited by Charles Chan, Ip & Fung CPA Ltd.

15. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	52,188	29,276
Amounts due from jointly-controlled entities	3,291	6,695
	55,479	35,971
Less: Provisions against amounts due from jointly-controlled entities	—	(4,177)
	55,479	31,794

The amounts due from jointly-controlled entities are unsecured, interest free and without fixed term of repayment (2001: Interest-bearing loan of HK\$4,017,000 at 7.62% per annum, the remaining balances with the jointly-controlled entities are unsecured, interest-free and without fixed terms of repayment).

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15. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Particulars of the principal jointly-controlled entities, all held indirectly through subsidiaries, are as follows:

Name	Business structure	Place of establishment and operations	Percentage of ownership interest		Principal activities
			2002	2001	
Guangzhou Yuexiu Beatrice Convenience Chain Stores Co., Ltd. (formerly known as Guangzhou Yue Xiu Supermarket Co., Ltd.)	Corporate	PRC	20.5	20.5	Supermarket chain stores operation
Haikou K.P.I. Trading Co., Ltd.	Corporate	PRC	51	51	Investment holding
K.P.I. (BVI) Retail Management Limited	Corporate	British Virgin Islands/ Hong Kong	51	51	Investment holding
K.P.I. Beatrice Holdings Ltd.	Corporate	Cayman Islands/ Hong Kong	26	26	Investment holding
K.P.I. Convenience Retail Company Limited	Corporate	British Virgin Islands/ Hong Kong	50	—	Dormant
Lantis Trading Corporation	Corporate	British Virgin Islands/ Hong Kong	26	26	Investment holding
Shanghai Hualian Economic Development Co., Ltd.*	Corporate	PRC	25.5	25.5	Supermarket chain stores operation

15. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Name	Business structure	Place of establishment and operations	Percentage of ownership interest		Principal activities
			2002	2001	
Shanghai Hualian K.P.I. Commercial Corporation [#]	Corporate	PRC	25	25	Investment holding
Shanghai Zhabei Hualian GMS Shopping Center Co., Ltd.*	Corporate	PRC	25.2	25.2	Supermarket chain stores operation

* The English company names are direct translations of the registered names in Chinese.

Not audited by Charles Chan, Ip & Fung CPA Ltd.

Notes:

- (a) Guangzhou Yue Xiu Beatrice Convenience Chain Stores Company Limited (formerly known as Guangzhou Yue Xiu Supermarket Company Limited) is a Sino-foreign equity joint venture established in the PRC to be operated for 20 years up to December 2018.
- (b) Haikou K.P.I. Trading Company Limited is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to August 2015.
- (c) Shanghai Hualian Economic Development Company Limited is a equity joint venture established in the PRC to be operated for 20 years up to March 2016.
- (d) Shanghai Hualian K.P.I. Commercial Corporation is a Sino-foreign equity joint venture established in the PRC to be operated for 25 years up to April 2021.
- (e) Shangzhai Zhabei Hualian GMS Shopping Center Company Limited is a equity joint venture established in the PRC to be operated for 20 years up to December 2018.

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15. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES *(Continued)*

Extracts of the financial statements of the Group's material jointly-controlled entity is as follows:

	K.P.I. (BVI)	
	Retail Management	
	Company Limited	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Income statement		
Turnover	<u>—</u>	<u>—</u>
Loss after tax	<u>(1,891)</u>	<u>(8,031)</u>
Balance sheet		
Non-current assets	46,330	45,924
Current assets	59,063	12,975
Current liabilities	<u>(3,602)</u>	<u>(1,778)</u>
Net assets	<u>101,791</u>	<u>57,121</u>

16. LONG TERM INVESTMENT

	Group	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Unlisted equity investment, at cost	<u>773</u>	<u>773</u>

17. MARKETABLE SECURITIES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	<i>HK\$'000</i>	HK\$'000	<i>HK\$'000</i>
Listed equity investments, at market value:				
Hong Kong	<u>4,245</u>	<u>771</u>	<u>3,132</u>	<u>771</u>

18. INVENTORIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Raw materials	<u>—</u>	<u>888</u>

At 31 December 2002, the carrying amount of inventories that are carried at net realizable value amounted to HK\$nil (2001:HK\$888,000).

19. TRADE AND BILLS RECEIVABLES

The aging of the Group's accounts receivable is analysed as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Outstanding balances with ages		
30 days or less	1	—
61 days to 180 days	732	2,297
181 days to 365 days	273	—
Over 1 year	57	76
	<u>1,063</u>	<u>2,373</u>

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	1,844	3,891	457	2,460
Time deposits	86,012	126,040	86,012	23,449
	<u>87,856</u>	<u>129,931</u>	<u>86,469</u>	<u>25,909</u>
Less: Pledged time deposits against short term bank loans and trust receipts	<u>(35,955)</u>	<u>(54,399)</u>	<u>(35,955)</u>	<u>(23,449)</u>
Cash and cash equivalents	<u>51,901</u>	<u>75,532</u>	<u>50,514</u>	<u>2,460</u>

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21. DEFERRED TAXATION

	Group	
	2002	2001
	HK\$'000	HK\$'000
Balance at beginning and end of year	<u>150</u>	<u>150</u>

The provision for deferred tax represents timing differences arising from accelerated depreciation allowances.

The revaluation of the Group's investment property is not deemed to constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

The Group and the Company had no significant unprovided deferred tax at the balance sheet date.

22. SHARE CAPITAL

	Company	
	2002	2001
	HK\$'000	HK\$'000
<i>Authorised:</i>		
2,000,000,000 ordinary shares of HK\$0.10 each (2001: 2,000,000,000 ordinary shares of HK\$0.10 each)	<u>200,000</u>	<u>200,000</u>
<i>Issued and fully paid:</i>		
564,433,557 ordinary shares of HK\$0.10 each (2001: 564,433,557 ordinary share of HK\$0.10 each)	<u>56,443</u>	<u>56,443</u>

Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share Option Scheme" in the Report of the Directors.

At the beginning of the year, there were 43,600,000 options granted to the executive directors of the Company outstanding under the Scheme, which entitled the holders to subscribe for shares of the Company during the period from 18 November 1999 to 17 May 2004. The subscription price payable upon the exercise of these options was HK\$0.163 per share. During the year, a total of 5,600,000 share options lapsed.

At the beginning of the year, there were also 1,000,000 outstanding share options granted to an employee of the Group outstanding under the Scheme, which entitled the holders to subscribe for shares of the Company at HK\$0.218 per share during the period from 8 January 2000 to 7 July 2004.

22. SHARE CAPITAL (Continued)

Share options (Continued)

No share options were granted or exercised during the year.

At the balance sheet date, the Company had 39,000,000 share options outstanding under the Scheme, with an exercise period from 18 November 1999 to 7 July 2004. The exercise in full of the outstanding share options as at 31 December 2002 would, under the present capital structure of the Company, result in the issue of 39,000,000 additional ordinary shares of HK\$0.10 each in the Company for gross cash proceeds of approximately HK\$6,412,000.

23. RESERVES

Group

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Statutory public welfare reserve* <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Statutory surplus reserve** <i>HK\$'000</i>	Retained profits/ losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1/1/ 2001	108,663	53,550	74	3,003	104	38,748	204,142
Loss for the year	—	—	—	—	—	(74,319)	(74,319)
Impairment of goodwill in jointly-controlled entities	—	14,128	—	—	—	—	14,128
Negative goodwill recognised on write-off of investment in a subsidiary	—	(23)	—	—	—	—	(23)
Transfer	—	—	99	—	99	(198)	—
At 31/12/2001 and 1/1/2002	108,663	67,655	173	3,003	203	(35,769)	143,928
Loss for the year	—	—	—	—	—	(35,863)	(35,863)
Increase in investment of a jointly controlled entity	—	—	—	(390)	—	—	(390)
Transfer	—	—	—	—	1	(1)	—
At 31/12/2002	108,663	67,655	173	2,613	204	(71,633)	107,675

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23. RESERVES (Continued)

Company

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Statutory public welfare reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Statutory surplus reserve <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1/1/2001	108,663	—	—	—	—	56,273	164,936
Loss for the year	—	—	—	—	—	(98,689)	(98,689)
At 31/12/2001 and 1/1/2002	108,663	—	—	—	—	(42,416)	66,247
Profit for the year	—	—	—	—	—	35,394	35,394
At 31/12/2002	108,663	—	—	—	—	(7,022)	101,641

2002	2001
HK\$'000	<i>HK\$'000</i>

Retained profits/(accumulated losses)

Retained by:

Company and its subsidiaries	(51,691)	(21,061)
An associate	(805)	3,465
Jointly-controlled entities	(19,137)	(18,173)
	(71,633)	(35,769)

* Pursuant to the PRC accounting and regulations, a portion of the profits of the Group's associate and jointly-controlled entities in the PRC have been transferred to statutory public welfare reserve which are restricted as to use and statutory surplus reserve.

** The amounts of goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisitions of subsidiaries and jointly-controlled entities, were HK\$67,595,000 (negative goodwill), and HK\$60,000 (negative goodwill), respectively, as at 1 January 2002 and 31 December 2002. Such goodwill is stated at cost.

24. OPERATING LEASE ARRANGEMENTS
(a) As lessor

The Group leases its investment properties (note 12 to the financial statements) and golf club membership under operating lease arrangements, with leases negotiated for terms ranging from one to three years for investment properties and one to two years for golf club membership. The terms of the leases generally also require the lessees to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within one year	637	278
In the second to the fifth years, inclusive	300	16
	<u>937</u>	<u>294</u>

(b) As lessee

The Group leases certain of its office properties and director's quarter under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years, and those for director's quarter for a term of 2 years.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	2,001	1,714	1,984	1,631
In the second to the fifth year, inclusive	67	1,012	—	1,012
After the fifth year	72	—	—	—
	<u>2,140</u>	<u>2,726</u>	<u>1,984</u>	<u>2,643</u>

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25. COMMITMENTS

In addition to the operating lease commitments detailed in note 24(b) above, the Group and the Company had the following commitments at the balance sheet date:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Authorised, but not contracted for in respect of capital contributions to a subsidiary	—	1,402	—	—

In addition, the Group's share of capital commitments of jointly-controlled entities not included in the above was as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Contracted, but not provided for	—	5,484

26. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties other than those disclosed elsewhere in the financial statements:

		Group	
	Notes	2002 HK\$'000	2001 HK\$'000
Loan interest income from the Group's jointly-controlled entities		—	1,817
Loan interest income from an associate	(i)	222	203
Rental expenses to companies controlled by directors	(ii)	996	1,236
Loan interest expense to the Group's jointly-controlled entity		—	798
Loan from a director		—	43,726
Loan interest expense paid to a director		—	128
Fund advanced a close family member of a director		—	374
Rental income from a jointly controlled entity	(iii)	240	—

26. RELATED PARTY TRANSACTIONS *(Continued)**Notes:*

- (i) Loan interest income was charged to an associate on loans advanced during the year at interest rates ranging from 6.138% to 7.344% per annum. As at the balance sheet date, the principal amount of loans advanced of total HK\$3,269,000 (loans of HK\$1,928,000 and HK\$1,341,000 respectively) remained unsettled.
- (ii) Rental expenses for a director was paid to a company controlled by him. The monthly rental of HK\$83,000 was calculated by reference to open market rental.
- (iii) Rental income was received from a jointly-controlled entity. The monthly rental of HK\$20,000 was mutually agreed by both parties.

27. BANKING FACILITIES

At the balance sheet, banking facility of HK\$218,400,000 (2001: HK\$280,800,000) was granted to the Group which was secured by the following:

- (a) the Group's investment property of HK\$7,900,000 (2001: HK\$20,800,000);
- (b) the Group's fixed deposit of HK\$35,955,000 (2001: HK\$54,399,000);
- (c) the Group's leasehold land and building of HK\$1,776,000 (2001: HK\$3,726,000); and
- (d) personal guarantee from a director of HK\$226,200,000 (2001: HK\$226,200,000).

Such facilities has not been utilised at the balance sheet date (2001: Nil).

28. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 23 December 2002, the Company entered into a conditional subscription agreement with Mr. Cheung Siu Lam, the chairman and controlling shareholder of the Company, whereby the Company agreed to issue, 112,818,000 shares in the Company to Mr. Cheung Siu Lam at a price of HK\$0.10 per share. On 6 January 2003, the date of completion, 112,818,000 new shares representing approximately 16.66% of the then existing issued share capital of the Company were issued. The subscription realised around HK\$11.2 million which would raise capital for the Company to broaden the shareholder base and capital base of the Company and would strengthen the financial position of the Company.

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29. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform with the current year's presentations.

30. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 23 April 2003.