

# Notes to the Financial Statements

For the year ended 31 December 2002

## 1. Basis of Preparation of the Financial Statements

In 2001 and 2002, the Group had not repaid and/or serviced most of its borrowings in accordance with repayment schedules under various loan agreements.

The Group has commenced negotiations with banks to restructure the debts in terms of interest rates as well as the repayment amounts and schedules so as to lessen the interest and cash flow burden of the Group. In addition, the Company will strengthen its capital base through new issue of shares from time to time when market condition allows. The directors are optimistic on the results of the negotiations and the restructuring measures mentioned above. Therefore the financial statements for the year ended 31 December 2002 are prepared on a going concern basis.

## 2. Principal Accounting Policies

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets and in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance.

In the current year, the Group has adopted the following new and revised Statements of Standard Accounting Practice ("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 34 (revised)	:	Employee benefits

A summary of the Group's principal accounting policies as well as the changes to these policies during the year and the effect of adopting these new policies is set out below:

(a) Group accounting  
(i) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

## 2. Principal Accounting Policies *(continued)*

### (a) Group accounting *(continued)*

#### (i) Consolidation *(continued)*

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

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (ii) Translation of foreign currencies

Transactions in foreign currencies 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.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement's items are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior years, the income statement's items of foreign subsidiaries were translated at closing rate. This is a change in accounting policy, however, the translation of the income statement's items of foreign subsidiaries in prior years has not been restated as the effect of this change is not material to the current and prior years.

# Notes to the Financial Statements

For the year ended 31 December 2002

## 2. Principal Accounting Policies (continued)

### (b) Goodwill/negative goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions occurring on or after 1 January 2001 is recognised as an asset and carried at cost less accumulated amortisation and impairment losses. Goodwill is amortised on a straight line basis over its estimated useful life.

Goodwill on acquisition that occurred prior to 1 January 2001 was written off against reserves. Any impairment arising on such goodwill is accounted for in the income statement.

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of the acquired subsidiaries at the date of acquisition over the cost of acquisition.

For acquisitions after 1 January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the income statement immediately.

For acquisitions prior to 1 January 2001, negative goodwill was taken directly to reserves on consolidation.

## 2. Principal Accounting Policies (continued)

### (c) Fixed assets

#### (i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods greater than 20 years are valued annually by external qualified valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual financial statements. Changes in the value of investment properties are treated as movements in investment property revaluation reserve, unless the total of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the amount by which the deficit exceeds the total amount in the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment property revaluation reserve to the income statement.

#### (ii) *Properties under development*

Properties under development are investments in land and buildings on which development work has not been completed and which, upon completion, management intend to hold for investment purposes. These properties are carried at cost which includes development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses. On completion, the properties are transferred to investment properties at cost less accumulated impairment losses.

# Notes to the Financial Statements

For the year ended 31 December 2002

## 2. Principal Accounting Policies (continued)

### (c) Fixed assets (continued)

#### (iii) Other fixed assets

Other fixed assets, comprising leasehold improvements, office equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	over the lease term
Office equipment	20%
Motor vehicles	20%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

#### (iv) Gain or loss on sale

The gain or loss on disposal of a fixed asset other than investment properties and properties under development is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to accumulated losses and is shown as a movement in reserves.

### (d) Investment securities

Investment securities, which are securities held for an identified long-term strategic purpose, are stated at cost less impairment losses, if any. The carrying amounts of individual investment securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment security is reduced to its fair value. The impairment loss is recognised as an expense in the income statement.

Profits or losses on disposals of investment securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

## 2. Principal Accounting Policies (continued)

(e) Properties under development for resale/properties held for resale  
Properties under development for resale/properties held for resale transferred from fixed assets to current assets are stated at the lower of the carrying value of the asset, as stated under its original classification, and net realisable value. Net realisable value is determined by reference to management's estimate of the selling price based on the prevailing market conditions, less any material estimated costs to be incurred on disposal.

(f) 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 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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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

(h) Deferred taxation  
Deferred taxation is provided using the liability method on all material timing differences, other than those which are not expected to crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

# Notes to the Financial Statements

For the year ended 31 December 2002

## 2. Principal Accounting Policies (continued)

### (i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

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

### (j) Mandatory Provident Fund

The Group contributes to Mandatory Provident Fund Scheme ("MPF Scheme") which is available to all employees. Contributions to the MPF Scheme by the Group and employees are calculated as a percentage of employees' basic salaries. Payments made to the MPF Scheme are charged as an expense to the income statement as they fall due.

The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

### (k) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

### (l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

### (m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

## 2. Principal Accounting Policies (continued)

### (n) 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.

### (o) Revenue recognition

Revenue is recognised in the income statement as follows:

- (i) Rental income is recognised on a time proportion basis in accordance with the terms and conditions of the tenancy agreement.
- (ii) Income on property sales is recognised when the legally binding sales contracts are signed.
- (iii) System integration services income is recognised on a completion basis.
- (iv) Interest income from bank deposits is accrued on a time proportion basis on the principal outstanding and at the effective interest rates applicable.



# Notes to the Financial Statements

For the year ended 31 December 2002

## 2. Principal Accounting Policies (continued)

### (p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

### (q) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Segment revenue, expenses, 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. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the combination process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

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

### (r) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

# Notes to the Financial Statements

For the year ended 31 December 2002

## 3. Turnover and Revenue

The principal activity of the Company during the year was investment holding. The principal activities of the subsidiaries during the year are set out in Note 15 to the financial statements.

The amount of each significant category of revenue recognised in turnover during the year is as follows:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Turnover		
Proceeds on disposal of properties	<b>148,030</b>	–
Rental income	<b>4,760</b>	8,697
System integration services income	<b>–</b>	362
	<b>152,790</b>	9,059
Other revenue		
Interest income	<b>1</b>	537
Other income	<b>250</b>	148
	<b>251</b>	685
Total revenue	<b>153,041</b>	9,744

## 4. Segmental Information

Business segments

During the year the Group had two main business segments:

- Property investment – properties holding for resale and investment
- System integration services – system design and integration

There are no sales or other transactions between the business segments.

Information about these business segments is presented on pages 34 and 35.

Geographical segments

Segment information by geographical location is not shown as overseas' operations account for less than 10% of the Group's turnover and trading results.

# Notes to the Financial Statements

For the year ended 31 December 2002

## 4. Segmental Information (continued)

	<b>Property investment 2002 HK\$'000</b>	<b>System integration services 2002 HK\$'000</b>	<b>Other operations 2002 HK\$'000</b>	<b>Group 2002 HK\$'000</b>
Turnover	152,727	–	63	152,790
Segment results	(67,642)	1	313	(67,328)
Impairment losses/loss on disposal of segment assets	(28,000)	(567)	(108,035)	(136,602)
Operating costs	(3,438)	(183)	–	(3,621)
Unallocated costs	–	–	(12,838)	(12,838)
Loss from operations	(99,080)	(749)	(120,560)	(220,389)
Finance costs	(23,011)	–	(18,587)	(41,598)
Loss before taxation	(122,091)	(749)	(139,147)	(261,987)
Taxation	3	–	–	3
Loss after taxation	(122,088)	(749)	(139,147)	(261,984)
Minority interests	–	–	–	–
Loss attributable to shareholders	(122,088)	(749)	(139,147)	(261,984)
Segment assets	44,400	374	997	45,771
Unallocated assets	–	–	20,891	20,891
Total assets	44,400	374	21,888	66,662
Segment liabilities	(195,976)	(3,845)	–	(199,821)
Unallocated liabilities	–	–	(40,658)	(40,658)
Total liabilities	(195,976)	(3,845)	(40,658)	(240,479)
Other Information:				
Capital expenditure	–	–	225	225
Depreciation	–	(130)	(503)	(633)
Impairment charge recognised in the income statement	–	–	(110,000)	(110,000)
Write down of properties held / properties under development for resale	(28,000)	–	–	(28,000)
Other non-cash expenses	(219,015)	(567)	(1,135)	(220,717)

# Notes to the Financial Statements

For the year ended 31 December 2002

## 4. Segmental Information (continued)

	Property investment 2001 HK\$'000	System integration services 2001 HK\$'000	Other operations 2001 HK\$'000	Group 2001 HK\$'000
Turnover	<u>8,697</u>	<u>362</u>	<u>-</u>	<u>9,059</u>
Segment results	7,305	80	685	8,070
Impairment losses/loss on disposal of segment assets	(141,908)	(1,030)	(4,236)	(147,174)
Operating costs	(3,731)	(2,006)	(283)	(6,020)
Unallocated costs	<u>-</u>	<u>-</u>	<u>(18,343)</u>	<u>(18,343)</u>
Loss from operations	(138,334)	(2,956)	(22,177)	(163,467)
Finance costs	<u>(31,874)</u>	<u>(5)</u>	<u>(4,423)</u>	<u>(36,302)</u>
Loss before taxation	(170,208)	(2,961)	(26,600)	(199,769)
Taxation	<u>(9)</u>	<u>-</u>	<u>123</u>	<u>114</u>
Loss after taxation	(170,217)	(2,961)	(26,477)	(199,655)
Minority interests	<u>-</u>	<u>298</u>	<u>(61)</u>	<u>237</u>
Loss attributable to shareholders	<u>(170,217)</u>	<u>(2,663)</u>	<u>(26,538)</u>	<u>(199,418)</u>
Segment assets	292,795	1,182	110,000	403,977
Unallocated assets	<u>-</u>	<u>-</u>	<u>29,390</u>	<u>29,390</u>
Total assets	<u>292,795</u>	<u>1,182</u>	<u>139,390</u>	<u>433,367</u>
Segment liabilities	(322,283)	(3,904)	(193)	(326,380)
Unallocated liabilities	<u>-</u>	<u>-</u>	<u>(52,947)</u>	<u>(52,947)</u>
Total liabilities	<u>(322,283)</u>	<u>(3,904)</u>	<u>(53,140)</u>	<u>(379,327)</u>
Other Information:				
Capital expenditure	-	-	(217)	(217)
Depreciation	-	(258)	(683)	(941)
Impairment charge recognised in the income statement	(83,670)	(1,030)	(4,196)	(88,896)
Write down of properties held / properties under development for resale	(52,120)	-	-	(52,120)
Other non-cash expenses	(1,000)	83	(40)	(957)

# Notes to the Financial Statements

For the year ended 31 December 2002

## 5. Operating Loss before Provisions and Other Losses and Gains

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Operating loss before provisions and other losses and gains is stated after crediting and charging the following:		
<u>Crediting</u>		
Rentals receivable from properties less outgoings of HK\$1,354,000 (2001: HK\$1,457,000)	<b>3,343</b>	7,240
<u>Charging</u>		
Auditors' remuneration		
current year	<b>450</b>	650
prior year	-	150
Bad and doubtful debts	-	917
Depreciation on owned fixed assets	<b>633</b>	941
Fixed assets written off	<b>1,621</b>	-
Loss/(gain) on disposal of fixed assets	<b>81</b>	(15)
	<b>1,702</b>	(15)
Operating lease on land and buildings	<b>1,776</b>	2,343
Staff costs (excluding directors' emoluments)	<b>994</b>	4,273

## 6. Finance Costs

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	<b>20,515</b>	25,409
Interest on other loans wholly repayables within five years	<b>4,070</b>	7,885
Debenture		
– Interest and late penalties	<b>1,341</b>	3,008
– Compensation agreed on settlement (Note 23)	<b>14,647</b>	-
Interest on loan notes	<b>1,025</b>	-
	<b>41,598</b>	36,302

# Notes to the Financial Statements

For the year ended 31 December 2002

## 7. Taxation

(a) Taxation in the consolidated income statement represents:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Hong Kong profits tax		
– Current year	–	–
– Over provision in prior years	<b>(3)</b>	(114)
	<b>(3)</b>	(114)

No provision for Hong Kong nor overseas profits tax is required for current year since each individual company sustained losses for taxation purposes.

(b) No provision for deferred taxation is required as there are net deferred tax debits for both the Group and the Company. The largest component of the unrecognised deferred tax assets of approximately HK\$9,111,000 (2001: HK\$10,542,000) and HK\$5,691,000 (2001: HK\$598,000) of the Group and the Company respectively is in respect of tax losses. The remaining deferred tax debits are not material.

## 8. Loss Attributable to Shareholders

The loss attributable to shareholders includes a loss of HK\$142,752,000 (2001: HK\$238,881,000) which has been dealt with in the financial statements of the Company.

## 9. Loss per Share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$261,984,000 (2001: HK\$199,418,000) and the weighted average of 299,313,502 (2001 as restated: 289,141,377) ordinary shares in issue during the year. The calculation of the basic earnings per share for the year ended 31 December 2001 has been adjusted retrospectively to reflect the decrease in the number of shares outstanding as a result of the consolidation of shares in 2002 (Note 24(d)).

There were no dilutive potential ordinary shares in existence in both 2002 and 2001.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 10. Staff Costs (including directors' emoluments)

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Wages and salaries	<b>4,453</b>	11,929
Unutilised annual leave	-	-
MPF contributions	<b>92</b>	149
	<b><u>4,545</u></b>	<u>12,078</u>

### 11. Mandatory Provident Fund

The Group did not operate any retirement scheme up to 30 November 2000. With effect from 1 December 2000, MPF Scheme has been set up for employees, including executive directors of the Company, in Hong Kong, in accordance with the Mandatory Provident Scheme Ordinance (the "MPF Ordinance"). Under the MPF Scheme, the Group's contributions are at 5% of employees' relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme from 31 December 2000. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group's contributions to the MPF Scheme charged to the income statement during the year amounted to approximately HK\$92,000 (2001: HK\$149,000).

### 12. Directors' Emoluments

Details of directors' emoluments disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Fees	<b>422</b>	782
Basic salaries, allowances and benefits in kind	<b>3,080</b>	6,987
MPF contributions	<b>49</b>	36
	<b><u>3,551</u></b>	<u>7,805</u>

Included in the directors' emoluments were HK\$284,000 (2001: HK\$425,000) and HK\$100,000 (2001: HK\$7,000) paid to independent non-executive and non-executive directors respectively during the year.

# Notes to the Financial Statements

For the year ended 31 December 2002

## 12. Directors' Emoluments (continued)

The emoluments of the directors fell within the following bands:

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	8	13
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	–	2
	<u>8</u>	<u>16</u>

During the year, no director waived emoluments (2001: HK\$1,395,000).

No emoluments were paid or payable by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office during the year.

## 13. Five Highest Paid Individuals

Of the five individuals with the highest emoluments within the Group for the year, 4 (2001: 3) are directors whose emoluments are disclosed in Note 12. The emoluments in respect of the remaining individuals during the year are as follows:

	2002	2001
	HK\$'000	HK\$'000
Basic salaries, allowances and benefits in kind	216	1,408
MPF contributions	11	21
	<u>227</u>	<u>1,429</u>

No emoluments were paid or payable to the individuals by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office during the year.

The emoluments of the five highest paid individuals (including directors and other employees) fell within the following bands:

	Number of individuals	
	2002	2001
Nil to HK\$1,000,000	4	2
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	–	2
	<u>5</u>	<u>5</u>



# Notes to the Financial Statements

For the year ended 31 December 2002

## 14. Fixed Assets

	The Group					Total HK\$'000
	Investment properties HK\$'000	Properties under development HK\$'000	Leasehold improvements HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	
<b>Cost or valuation:</b>						
At 1 January 2002	120,000	1,030	1,422	1,297	1,915	125,664
Additions	-	-	128	97	-	225
Transfer to properties held for resale (Note 18)	(120,000)	-	-	-	-	(120,000)
Disposals	-	-	-	(9)	(244)	(253)
Write off	-	(1,030)	(1,422)	(829)	(606)	(3,887)
At 31 December 2002	-	-	128	556	1,065	1,749
<b>Representing:</b>						
At cost	-	-	128	556	1,065	1,749
At valuation	-	-	-	-	-	-
	-	-	128	556	1,065	1,749
<b>Accumulated depreciation:</b>						
At 1 January 2002	-	1,030	379	554	506	2,469
Charge for the year	-	-	153	139	341	633
Disposals	-	-	-	(3)	(73)	(76)
Write off	-	(1,030)	(522)	(455)	(259)	(2,266)
At 31 December 2002	-	-	10	235	515	760
<b>Net book value:</b>						
At 31 December 2002	-	-	118	321	550	989
At 31 December 2001	120,000	-	1,043	743	1,409	123,195

At 31 December 2002, a motor vehicle with carrying value of HK\$550,000 (2001: HK\$763,000) had been pledged to a financier to secure a loan to the Group (Note 22(c)).

# Notes to the Financial Statements

For the year ended 31 December 2002

## 14. Fixed Assets (continued)

An analysis of the net book value of investment properties is as follows:

	<b>The Group</b>	
	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	-	100,000
Leases of between 10 to 50 years	-	20,000
	<u>-</u>	<u>120,000</u>
	<u>-</u>	<u>120,000</u>

  

	<b>The Company</b>			<b>Total</b> <b>HK\$'000</b>
	<b>Leasehold</b> <b>improvements</b> <b>HK\$'000</b>	<b>Office</b> <b>equipment</b> <b>HK\$'000</b>	<b>Motor</b> <b>vehicles</b> <b>HK\$'000</b>	
<b>Cost:</b>				
At 1 January 2002	-	34	1,309	1,343
Additions	128	384	-	512
Disposals	-	-	(244)	(244)
Write off	-	(27)	-	(27)
	<u>-</u>	<u>(27)</u>	<u>-</u>	<u>(27)</u>
At 31 December 2002	<u>128</u>	<u>391</u>	<u>1,065</u>	<u>1,584</u>
<b>Accumulated depreciation:</b>				
At 1 January 2002	-	8	367	375
Charge for the year	10	64	221	295
Disposals	-	-	(73)	(73)
Write off	-	(2)	-	(2)
	<u>-</u>	<u>(2)</u>	<u>-</u>	<u>(2)</u>
At 31 December 2002	<u>10</u>	<u>70</u>	<u>515</u>	<u>595</u>
<b>Net book value:</b>				
At 31 December 2002	<u>118</u>	<u>321</u>	<u>550</u>	<u>989</u>
At 31 December 2001	<u>-</u>	<u>26</u>	<u>942</u>	<u>968</u>

At 31 December 2002, a motor vehicle with carrying value of HK\$550,000 (2001: HK\$763,000) had been pledged to a financier to secure a loan to the Company (Note 22(c)).

## Notes to the Financial Statements

For the year ended 31 December 2002

### 15. Investments in Subsidiaries

	<b>The Company</b>	
	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Unlisted, at cost	<b>24,194</b>	208,904
Related costs	<b>-</b>	8,000
Loans to subsidiaries	<b>976,810</b>	1,029,056
	<b>1,001,004</b>	1,245,960
Less: Impairment losses	<b>(1,000,773)</b>	(1,134,062)
	<b>231</b>	111,898

The loans to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Details of subsidiaries which, in the opinion of the directors of the Company, materially contributed to the results of the Group or held a material portion of assets or liabilities of the Group are set out below. To give full details of subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

<b>Name of company</b>	<b>Place of incorporation</b>	<b>Principal activities and place of operation</b>	<b>Particulars of issued share capital/ registered capital</b>	<b>Effective interest held</b>
<b>Direct subsidiaries</b>				
Bright Wick Limited	Hong Kong	Property investment in Hong Kong	10,000 ordinary shares of HK\$1 each	100%
Day Success Company Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of HK\$1 each	100%
Diamond Gold Limited	British Virgin Islands	Property investment in Hong Kong	1 ordinary share of US\$1 each	100%
Fairsheen Limited	Hong Kong	Property investment in Hong Kong	10,000 ordinary shares of HK\$1 each	100%
Kailey International Limited	Hong Kong	Investment holding in PRC	10 ordinary shares of HK\$1 each	100%

# Notes to the Financial Statements

For the year ended 31 December 2002

## 15. Investments in Subsidiaries (continued)

<b>Name of company</b>	<b>Place of incorporation</b>	<b>Principal activities and place of operation</b>	<b>Particulars of issued share capital/ registered capital</b>	<b>Effective interest held</b>
Kong Tai Properties Development Company Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of HK\$1 each	100%
Marson Development Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of HK\$1 each	100%
Pak Fook Company Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of HK\$1 each	100%
Sheen Win Investment Limited	Hong Kong	Provision of funding for the Group in Hong Kong	2 ordinary shares of HK\$1 each	100%
Smart Idea Investment Limited	Hong Kong	Investment holding in PRC	2 ordinary shares of HK\$1 each	100%
Solar Regent Investments Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of HK\$1 each	100%
Teleking Development Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of HK\$1 each	100%
Wellstech International Limited	Hong Kong	Property investment in Hong Kong	10,000 ordinary shares of HK\$1 each	100%
Wholesome Investments Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of HK\$1 each	100%
Wisehall Star Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK\$1 each	100%

## Notes to the Financial Statements

For the year ended 31 December 2002

### 15. Investments in Subsidiaries (continued)

<b>Name of company</b>	<b>Place of incorporation</b>	<b>Principal activities and place of operation</b>	<b>Particulars of issued share capital/ registered capital</b>	<b>Effective interest held</b>
<b>Indirect subsidiaries</b>				
World Structure Limited	Hong Kong	Investment holding in PRC	2 ordinary shares of HK\$1 each	100%
* 北京星港環宇網絡系統有限公司	PRC	Investment holding in PRC	Registered capital of RMB15,000,000 (Sino-foreign equity joint venture)	81%
* 北京環宇和平衛星應用有限責任公司	PRC	Provision of system integration services in PRC	Registered capital of RMB10,000,000 (limited company)	61%

None of the subsidiaries has issued any debt securities.

\* Subsidiaries are not audited by RSM Nelson Wheeler.

# Notes to the Financial Statements

For the year ended 31 December 2002

## 16. Investment Securities

	<b>The Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Unlisted equity securities, at cost	-	336,268
Related costs	-	18,700
Loan to the investing companies	-	39,818
Less: Impairment losses	-	(284,786)
	<u>-</u>	<u>110,000</u>
Club debentures	<b>997</b>	997
	<u><b>997</b></u>	<u>110,997</u>

The investment securities as at 1 January 2002 included the carrying value of HK\$110,000,000 for the investment in Central Union (Asia) Hotel Management Company Limited ("Central Union"). Central Union has an interest in Luoyang Golden Gulf Hotel Co., Ltd. ("LGGH") through an intermediate company. The principal assets of LGGH is Golden Gulf Hotel (the "Hotel") located in the People's Republic of China ("PRC"). The attributable interest of the Group in LGGH is approximately 40%. As previously disclosed in the interim report, the Board of Directors came to the notice that an independent third party claimed that it has been granted an option to acquire 60% interest in LGGH. The Board of Directors is looking into the matter of the ownership of LGGH and has since then engaged several Hong Kong and PRC law firms to review the title issue surrounding the acquisition of LGGH in September 2000. The law firms all reach the same conclusion that the above mentioned intermediate company does not have today, and has never had in the past, any shareholding in LGGH. Therefore the Group had not acquired the intended Hotel as represented by the vendor upon completion of the transaction in September 2000. Since the carrying value for Central Union is no longer sustainable by any underlying assets or business, the Board of Directors decided to write off immediately the carrying value of the investment as at 31 December 2002.

In view of the seriousness of the matter and the apparent misrepresentation of the vendor, the Board of Directors are reviewing the matter with a law firm and evaluating the possibility of commencing legal proceedings against the vendor for the investment cost of HK\$120,000,000 plus interest and other related cost. However, as the legal case may take a very long period of time and the outcome is also highly unpredictable, no contingent asset is recognized in respect of the potential recovery from the vendor.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 16. Investment Securities (continued)

The Board of Directors also conducted in-depth review and updated the evaluation of the Group's remaining investment securities portfolio and noted that they either were of no real business substance or have major deficiency at the time of execution and completion of the original sales and purchase transaction in 1999 and 2000. As a result, the Board of Directors opined that the value of these investment securities is no longer sustainable by the underlying assets or business of their respective investment or investing companies and therefore decided to fully write off the cost of these investment securities in current year. The Group has already made full provision for the carrying value of these investment securities in prior years and no additional loss was incurred in current year as a result of the write off. Despite writing off the cost of these investment securities, the Board of Directors is still actively considering any realistic means of recovering the investments amount including through litigation against the vendor.

### 17. Properties under Development for Resale

	<b>The Group</b>	
	<b>2002</b> HK\$'000	2001 HK\$'000
At 1 January	<b>97,500</b>	100,000
Transfer from fixed assets	-	20,000
Disposals	<b>(80,000)</b>	-
Write down	<b>(6,500)</b>	(22,500)
At 31 December	<b>11,000</b>	97,500

An analysis of the carrying value of the properties under development for resale is as follows:

	<b>The Group</b>	
	<b>2002</b> HK\$'000	2001 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	<b>11,000</b>	17,500
Leases of between 10 to 50 years	-	80,000
	<b>11,000</b>	97,500

# Notes to the Financial Statements

For the year ended 31 December 2002

## 17. Properties under Development for Resale (continued)

At 31 December 2002, the carrying value of properties under development for resale that was carried at net realisable value amounted to HK\$11,000,000 (2001: HK\$97,500,000).

At 31 December 2002, the Group had pledged properties under development for resale with a carrying value of HK\$11,000,000 (2001: HK\$17,500,000) to a bank to secure banking facilities granted to a third party. On 25 October 2002, the Group had delivered the vacant possession of the above properties to the mortgagee bank.

## 18. Properties Held for Resale

	The Group	
	2002 HK\$'000	2001 HK\$'000
At 1 January	73,015	75,000
Transfer from fixed assets	120,000	29,520
Disposals	(139,015)	(1,885)
Write down	(21,500)	(29,620)
At 31 December	<u>32,500</u>	<u>73,015</u>

An analysis of the carrying value of properties held for resale is as follows:

	The Group	
	2002 HK\$'000	2001 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	24,000	48,500
Leases of between 10 to 50 years	8,500	24,515
	<u>32,500</u>	<u>73,015</u>

At 31 December 2002, the carrying value of properties held for resale that was carried at net realisable value amounted to HK\$32,500,000 (2001: HK\$73,015,000).

At 31 December 2002, the properties held for resale with carrying value of HK\$32,500,000 (2001: HK\$48,500,000) were pledged to banks for banking facilities granted to the Group (Note 21(a) and Note 22(a)). On 25 October 2002, the Group had delivered the vacant possession of a property with carrying value of HK\$12,000,000 under lease of over 50 years to the mortgagee bank.



## Notes to the Financial Statements

For the year ended 31 December 2002

### 19. Trade and Other Receivables

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trade receivables (Note)	<b>162</b>	754	<b>26</b>	–
Other receivables	<b>19,858</b>	24,562	<b>3,822</b>	24,027
Prepayments and deposits	<b>667</b>	1,947	<b>142</b>	505
	<b>20,687</b>	27,263	<b>3,990</b>	24,532

Note: The majority of the Group's turnover is the proceeds received on disposal of properties which are in accordance with the terms and conditions of the agreements. The remaining portion of turnover is rental income. The payment terms of rental income are in accordance with the tenancy agreements and the payments are normally due on the first day of the month. At 31 December 2002, the ageing analysis of the trade receivables was as follows:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Current – 60 days	<b>135</b>	86	–	–
61 – 90 days	–	300	–	–
Over 90 days	<b>27</b>	368	<b>26</b>	–
	<b>162</b>	754	<b>26</b>	–

### 20. Trade and Other Payables

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trade payables (Note (a))	<b>1,388</b>	1,385	–	–
Other payables and accruals (Note (b))	<b>89,074</b>	88,761	<b>45,966</b>	62,516
Rental deposits received	<b>875</b>	2,141	–	–
Due to subsidiaries (Note (c))	–	–	<b>22,135</b>	24,621
Loans from and due to directors (Note (d))	<b>8,051</b>	6,325	<b>8,051</b>	6,325
	<b>99,388</b>	98,612	<b>76,152</b>	93,462

# Notes to the Financial Statements

For the year ended 31 December 2002

## 20. Trade and Other Payables (continued)

Notes:

(a) At 31 December 2002, the ageing analysis of the trade payables was as follows

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Current – 60 days	142	521	-	-
61 – 90 days	45	163	-	-
Over 90 days	1,201	701	-	-
	<b>1,388</b>	1,385	-	-

(b) Included in other payables and accruals of the Group is accrued interest of HK\$15,553,000 payable to a bank. The amount was accrued based on the best estimate of the management of the applicable interest rates. The interest and default interest rates estimated by the management are prime rate plus 2% to 3% and plus 8% to 10% respectively.

(c) The amounts due to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(d) The loans from and amounts due to directors are unsecured, interest free and have no fixed terms of repayment.

## 21. Short Term Borrowings

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank overdrafts (Note (a))	67,879	96,956	431	448
Bank loans, secured	-	3,000	-	3,000
Other loans, secured (Note (b))	10,000	1,080	10,000	1,080
Other loans, unsecured	-	2,620	-	2,620
Loan notes (Note (c))	15,000	-	15,000	-
	<b>92,879</b>	103,656	<b>25,431</b>	7,148

# Notes to the Financial Statements

For the year ended 31 December 2002

## 21. Short Term Borrowings (continued)

Notes:

- (a) (i) Bank overdrafts of HK\$18,690,000 are secured by properties held for resale of the Group with carrying value of HK\$12,000,000 and are guaranteed by a third party. Bank overdrafts of HK\$48,758,000 are guaranteed by the same third party. The Group failed to repay the aforesaid overdrafts and consequently the banks demanded payment from the third party. During 2002, the third party issued a Writ of Summons together with a Statement of Claims against the Company claiming that the Company shall indemnify the third party for the aforesaid overdrafts balances and accrued interest of HK\$15,553,000. The accrued interest has been included in other payables and accruals of the Group as stated in Note 20(b) to the financial statements. The Company filed and served a Defence on 10 July 2002.
- (ii) The remaining bank overdraft balance of HK\$431,000 is unsecured.
- (b) The other loans are guaranteed by an executive director.
- (c) The loan notes (the "Notes") with an aggregate principal amount of HK\$15,000,000 were issued on 12 June 2002 to a subscriber (the "Subscriber"). The Subscriber will have the right to convert all or part of the principal amount of the Notes in the amount of HK\$2,500,000 or multiples thereof on each conversion into shares of the Company ("Conversion Shares") at any time and from time to time, from the date of fulfillment of all the conditions set out below:
- (i) the shareholders of the Company passing at a general meeting of the Company a resolution approving the issue and allotment of the Conversion Shares pursuant to the Notes;
- (ii) the Capital Restructuring (Note 24(c) & (d)) having completed and becoming effective; and
- (iii) the Stock Exchange granting the listing of and permission to deal in the Conversion Shares.

The price at which each share shall be issued upon conversion shall be HK\$0.1 subject to adjustment. The Notes bear interest from the date of issue at the interest rate of:

- (i) 12% per annum prior to the conversion rights becoming exercisable; and
- (ii) 4% per annum on and after the conversion rights becoming exercisable.

As at the balance sheet date, only one condition as set out above had been fulfilled and therefore the Notes remain as loan notes with no conversion right which bear interest at the rate of 12% per annum and are repayable on 12 June 2003, the maturity date.

# Notes to the Financial Statements

For the year ended 31 December 2002

## 22. Long Term Borrowings

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Loans, secured	<b>19,579</b>	149,954	<b>594</b>	771
Loans (Note (b))	<b>26,586</b>	–	–	–
Current portion of long term borrowings	<b>(45,836)</b>	(134,207)	<b>(265)</b>	(250)
	<b>329</b>	15,747	<b>329</b>	521

The long term borrowings are wholly repayable within five years and the analysis of the above is as follows:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank loans, secured (Note (a))	<b>18,985</b>	140,003	–	–
Bank loans (Note (b))	<b>26,586</b>	–	–	–
Other loan, secured (Note (c))	<b>594</b>	9,951	<b>594</b>	771
	<b>46,165</b>	149,954	<b>594</b>	771
Current portion of long term borrowings	<b>(45,836)</b>	(134,207)	<b>(265)</b>	(250)
	<b>329</b>	15,747	<b>329</b>	521

Notes:

- (a) The bank loans are secured by two properties held for resale of the Group with carrying value of HK\$20,500,000 and guaranteed by a third party.
- (b) (i) A bank loan to the extent of HK\$9,198,000 is guaranteed by a third party. The Group failed to repay the bank loan and consequently the bank issued a writ demanding payment from the Group. A judgement was entered by the High Court of Hong Kong SAR in favour of the bank on 6 March 2002.
- (ii) A bank loan to the extent of HK\$9,886,000 is guaranteed by a third party. The Group failed to repay the bank loan and consequently the bank demanded payment from the third party. During 2002, the third party issued a Writ of Summons together with a Statement of Claims against the Company claiming that the Company should indemnify the third party for the aforesaid loan balance and accrued interest of HK\$4,374,000. The accrued interest has been included in other payables and accruals of the Group stated in Note 20 to the financial statements. A judgement was entered by the High Court of Hong Kong SAR in favour of the third party on 3 April 2002.

## Notes to the Financial Statements

For the year ended 31 December 2002

### 22. Long Term Borrowings (continued)

(iii) A bank loan to the extent of HK\$7,502,000 is guaranteed by a third party. The Group failed to repay the bank loan and consequently the bank demanded payment from the third party. During 2002, the third party issued a Writ of Summons together with a Statement of Claims against the Company claiming that the Company should indemnify the third party for the aforesaid loan balance and accrued interest of HK\$2,844,000. The accrued interest has been included in other payables and accruals of the Group stated in Note 20 to the financial statements. The Company filed and served a defence on 10 July 2002.

(c) The other loan is secured by a motor vehicle of the Company.

The long term borrowings are repayable as follows:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
On demand or within one year	<b>45,836</b>	134,207	<b>265</b>	250
In the second year	<b>302</b>	6,010	<b>302</b>	250
In the third to fifth year	<b>27</b>	9,737	<b>27</b>	271
	<b>46,165</b>	149,954	<b>594</b>	771

### 23. Debentures Payable

	The Group and The Company	
	2002 HK\$'000	2001 HK\$'000
Debentures payable	<b>2,047</b>	27,105

On 21 March 2002, the Company entered into a Settlement Agreement ("Agreement") with the debenture holder, Mohawk LLC. Pursuant to the Agreement and subject to the fulfillment of the Company's obligations under the Agreement, the Company will be released and discharged of all of its obligations and liabilities to repay the debt as accrued from time to time under the redemption agreement entered into by the two parties on 13 July 2000. In consideration for this, the Company will (i) pay to Mohawk LLC US\$1,250,000 in cash; (ii) issue to Mohawk LLC 1,365,000,000 new shares of the Company at par of HK\$0.025 per share; and (iii) reimburse by cash to Mohawk LLC for the legal costs and expenses reasonably incurred by Mohawk LLC.

# Notes to the Financial Statements

For the year ended 31 December 2002

## 23. Debentures Payable (continued)

For (i) mentioned above, the Company has paid US\$987,500 during the year.

For (ii) mentioned above, the total 1,365,000,000 new shares were issued to Mohawk LLC on 4 April 2002 (Note 24(b)).

Following the execution of the Agreement and the issuance of new shares, the winding up petition filed by Mohawk LLC against the Company on 4 October 2001 was dismissed by consent on 15 April 2002.

## 24. Share Capital

	Note	No. of shares '000	HK\$'000
Authorised:			
Ordinary shares of HK\$0.10 (2001: HK\$0.025) each			
At 1 January 2001		32,000,000	800,000
Increase in share capital	(a)	32,000,000	800,000
At 31 December 2001		64,000,000	1,600,000
Reduction in par value	(c)(i)	–	(1,536,000)
Increase in share capital	(c)(i)	1,536,000,000	1,536,000
Consolidation of shares	(d)	(1,584,000,000)	–
At 31 December 2002		16,000,000	1,600,000
Issued and fully paid:			
Ordinary shares of HK\$0.10 (2001: HK\$0.025) each			
At 1 January and 31 December 2001		28,914,137	722,853
Issue of shares	(b)	1,365,000	34,125
Reduction in par value	(c)(ii)	–	(726,699)
Consolidation of shares	(d)	(29,976,407)	–
Exercise of share options	(e)	62	–
At 31 December 2002		302,792	30,279

## Notes to the Financial Statements

For the year ended 31 December 2002

### 24. Share Capital (continued)

During the last and current years, the following transactions in respect of the share capital of the Company took place:

- (a) By a special resolution passed on 26 May 2001, the authorised share capital of the Company was increased from HK\$800,000,000 to HK\$1,600,000,000 by the creation of 32,000,000,000 ordinary shares of HK\$0.025 each, such new shares rank *pari passu* in all respects with the existing shares of the Company.
- (b) On 4 April 2002, 1,365,000,000 ordinary shares of HK\$0.025 each were issued at par to the debenture holder (Note 23).
- (c) On 22 July 2002, a special resolution was passed at an extraordinary general meeting to:
  - (i) reduce the nominal value of the authorised share capital of the Company from HK\$0.025 to HK\$0.001 per share such that the authorised share capital is reduced from HK\$1,600,000,000 to HK\$64,000,000.

Upon the reduction of capital taking effect, the authorised share capital of the Company was increased to HK\$1,600,000,000 by the creation of an additional 1,536,000,000,000 shares of HK\$0.001 each.

- (ii) reduce the issued share capital of the Company from HK\$756,978,000 to HK\$30,279,000 by cancelling the paid-up capital to the extent of HK\$0.024 on each share of HK\$0.025 in issue such that the nominal value of all shares of HK\$0.025 in the Company in issue was reduced by HK\$0.024 to HK\$0.001 per share.

The credit of HK\$726,699,000 arising from the capital reduction has been transferred to the Company's special capital reserve in accordance with the direction of the High Court of Hong Kong SAR (Note 25).

# Notes to the Financial Statements

For the year ended 31 December 2002

## 24. Share Capital (continued)

- (d) By an ordinary resolution passed on 22 July 2002, the 1,600,000,000,000 shares of HK\$0.001 each in the authorised share capital of the Company was consolidated into 16,000,000,000 shares of HK\$0.10 each by the consolidation of every one hundred shares of HK\$0.001 each into one consolidated share of HK\$0.10 each following the capital reduction mentioned in note (c)(i) above became effective.

The issued share capital of the Company was also consolidated into 302,792,000 shares of HK\$0.10 each.

The special resolution in respect of the capital reduction (Note 24(c)) was approved by the High Court of Hong Kong SAR on 20 November 2002 and duly registered by the Companies Registry on 21 November 2002. The resolution of share consolidation also took effect on 21 November 2002.

- (e) Movements in the number of share options outstanding during the year are as follows:

	Number of options	
	2002	2001
At 1 January	<b>70,000,000</b>	90,000,000
Exercised (Note)	<b>(62,237)</b>	–
Lapsed	<b>(69,937,763)</b>	(20,000,000)
At 31 December	<b>–</b>	<b>70,000,000</b>

Note: Options exercised on 21 November 2002 resulted in 62,237 shares (2001: Nil) being issued at HK\$0.025 each (2001: Nil), yielding the proceeds which represent the ordinary share capital at par of HK\$62 (2001: HK\$Nil) and share premium of HK\$1,494 (2001: HK\$Nil) (Note 25). The fair value of shares issued at exercise date of 21 November 2002 is HK\$622.



## Notes to the Financial Statements

For the year ended 31 December 2002

### 25. Reserves

(a)

	The Group				
	Share premium HK\$'000	Special capital reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2001	318,399	-	473	(787,972)	(469,100)
Exchange difference on translation of financial statements of foreign subsidiaries	-	-	(295)	-	(295)
Loss for the year	-	-	-	(199,418)	(199,418)
At 31 December 2001	<u>318,399</u>	<u>-</u>	<u>178</u>	<u>(987,390)</u>	<u>(668,813)</u>
At 1 January 2002	318,399	-	178	(987,390)	(668,813)
Issue of shares upon exercise of share options	2	-	-	-	2
Loss for the year	-	-	-	(261,984)	(261,984)
Reduction in par value of share capital	-	726,699	-	-	726,699
At 31 December 2002	<u>318,401</u>	<u>726,699</u>	<u>178</u>	<u>(1,249,374)</u>	<u>(204,096)</u>

The application of the above premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

The application of the special capital reserve is subject to the court order granted by the High Court of Hong Kong SAR. Pursuant to the High Court Order dated 20 November 2002, as long as the Company shall remain a listed company, the balances shall be treated as an undistributable reserve of the Company for the purposes of Section 79C of the Companies Ordinance (Cap. 32) or any statutory re-enactment or modification thereof provided that (1) the Company shall be at liberty to apply the said special capital reserve for the same purposes as a share premium account may be applied; and (2) the amount standing to the credit of the special capital reserve may be reduced by the amount of any increase, after the effective date, in the paid up share capital or the amount standing to the credit of the share premium account of the Company as the result of the payment up of shares by the receipt of new consideration or the capitalisation of distributable profits.

# Notes to the Financial Statements

For the year ended 31 December 2002

## 25. Reserves (continued)

(b)

	<b>The Company</b>			<b>Total HK\$'000</b>
	<b>Share premium HK\$'000</b>	<b>Special capital reserve HK\$'000</b>	<b>Accumulated losses HK\$'000</b>	
At 1 January 2001	318,399	-	(792,734)	(474,335)
Loss for the year	-	-	(238,881)	(238,881)
	<u>318,399</u>	<u>-</u>	<u>(792,734)</u>	<u>(474,335)</u>
At 31 December 2001	<u>318,399</u>	<u>-</u>	<u>(1,031,615)</u>	<u>(713,216)</u>
At 1 January 2002	318,399	-	(1,031,615)	(713,216)
Issue of shares upon exercise of share options	2	-	-	2
Loss for the year	-	-	(142,752)	(142,752)
Reduction in par value of share capital	-	726,699	-	726,699
	<u>-</u>	<u>726,699</u>	<u>-</u>	<u>726,699</u>
At 31 December 2002	<u>318,401</u>	<u>726,699</u>	<u>(1,174,367)</u>	<u>(129,267)</u>

At 31 December 2002 the aggregate amount of reserves available for distribution to shareholders of the Company was HK\$Nil (2001: HK\$Nil)

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

The application of the special capital reserve is subject to the court order granted by the High Court of Hong Kong SAR (Details please refer to Note 25(a)).

## Notes to the Financial Statements

For the year ended 31 December 2002

### 26. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of loss before taxation to net cash from/(used in) operating activities

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Loss before taxation	<b>(261,987)</b>	(199,769)
Adjustments for:		
Finance costs	<b>41,598</b>	36,302
Interest income	<b>(1)</b>	(537)
Depreciation	<b>633</b>	941
Impairment losses on goodwill	<b>-</b>	40
Net loss/(gain) on disposal/written off of fixed assets	<b>1,702</b>	(15)
Bad and doubtful debts	<b>-</b>	917
Deficit on revaluation of investment properties	<b>-</b>	83,670
Impairment losses on investment securities	<b>-</b>	4,196
(Gain)/loss on disposal of subsidiaries	<b>(3,100)</b>	6,118
Impairment losses on properties under development	<b>-</b>	1,030
Investment securities written off	<b>110,000</b>	-
Operating loss before working capital changes	<b>(111,155)</b>	(67,107)
Decrease in amounts due from related parties	<b>-</b>	282
Decrease in properties held for resale	<b>160,515</b>	29,620
Decrease in properties under development for resale	<b>86,500</b>	22,500
Decrease/(increase) in trade and other receivables	<b>6,576</b>	(6,581)
Decrease/(increase) in trade and other payables	<b>(19,237)</b>	42,314
Decrease in amounts due to related parties	<b>-</b>	(35,727)
Cash generated from/(used in) operations	<b>123,199</b>	(14,699)
Interest paid	<b>(4,815)</b>	(6,761)
Hong Kong profits tax paid	<b>-</b>	(65)
Hong Kong profits tax refunded	<b>3</b>	124
Net cash from/(used in) operating activities	<b>118,387</b>	(21,401)

# Notes to the Financial Statements

For the year ended 31 December 2002

## 26. Notes to the Consolidated Cash Flow Statement (continued)

### (b) Purchase of subsidiaries

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
<b>Net assets acquired:</b>		
Trade and other receivables	-	22,731
Bank and cash balances	-	14
Trade and other payables	-	(3,258)
Secured bank loans	-	(19,527)
	<u>-</u>	<u>(19,527)</u>
	-	(40)
Goodwill	-	40
	<u>-</u>	<u>40</u>
	<u>-</u>	<u>-</u>

### (c) Analysis of net inflow of cash and cash equivalents in respect of the purchase of a subsidiary

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Bank and cash balances acquired and net inflow of cash and cash equivalents in respect of the purchase of a subsidiary	<u>-</u>	<u>14</u>

## Notes to the Financial Statements

For the year ended 31 December 2002

### 26. Notes to the Consolidated Cash Flow Statement (continued)

#### (d) Disposal of subsidiaries

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
<b>Net assets disposed of:</b>		
Fixed assets	-	11,167
Investment securities	<b>59,638</b>	-
Impairment loss on investment securities	<b>(59,638)</b>	-
Properties held for resale	-	1,885
Trade and other receivables	-	19
Bank and cash balances	-	1
Trade and other payables	-	(211)
Secured other loans	-	(6,320)
	-	6,541
Incidental costs	-	53
	-	6,594
Net gain/(loss) on disposal	<b>3,100</b>	(6,118)
	<b>3,100</b>	476
<b>Satisfied by:</b>		
Cash consideration	<b>3,100</b>	476

#### (e) Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Cash consideration	<b>3,100</b>	476
Incidental costs	-	(53)
Cash and bank balances disposed of	-	(1)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<b>3,100</b>	422

# Notes to the Financial Statements

For the year ended 31 December 2002

## 26. Notes to the Consolidated Cash Flow Statement (continued)

### (f) Analysis of changes in financing during the year

	<b>Share capital and share premium HK\$'000</b>	<b>Bank loans HK\$'000</b>	<b>Other loans HK\$'000</b>	<b>Loan notes HK\$'000</b>	<b>Debentures HK\$'000</b>
At 1 January 2001	1,041,252	120,649	11,000	-	23,400
Penalty accrued for debentures	-	-	-	-	3,705
New loans raised	-	3,000	9,200	-	-
Additions through acquisition of subsidiaries	-	19,527	-	-	-
Discharge of other loans on disposal of subsidiaries	-	-	(6,320)	-	-
Repayment of loans	-	(173)	(229)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	1,041,252	143,003	13,651	-	27,105
Issue of shares	34,127	-	-	-	-
Reduction in par value	(726,699)	-	-	-	-
New loans raised	-	-	25,000	15,000	-
Repayment of loans	-	(97,432)	(28,057)	-	-
Penalty accrued for debentures	-	-	-	-	1,170
Interest accrued for debentures transferred from other payables and accruals	-	-	-	-	953
Compensation agreed on settlement of debentures	-	-	-	-	14,647
Settlement of debentures (Note (g))	-	-	-	-	(41,828)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	<u>348,680</u>	<u>45,571</u>	<u>10,594</u>	<u>15,000</u>	<u>2,047</u>

### (g) Major non-cash transaction

The settlement of debentures during the year ended 31 December 2002 comprised 1,365,000,000 ordinary shares of HK\$0.025 each in the Company amounted to HK\$34,125,000 (Note 23).

## Notes to the Financial Statements

For the year ended 31 December 2002

### 27. Commitments under Operating Leases

At 31 December 2002, the future aggregate minimum lease payments under non-cancellable operating leases of the Company and the Group are as follows:

Operating leases payable for the office premises

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	210	1,816	210	–
In the second to fifth years inclusive	123	1,059	123	–
	<b>333</b>	2,875	<b>333</b>	–

### 28. Future Operating Lease Arrangements

At 31 December 2002, the future aggregate minimum lease receipts under non-cancellable operating leases are as follows:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	1,757	3,790	202	–
In the second to fifth years inclusive	2,534	2,143	–	–
	<b>4,291</b>	5,933	<b>202</b>	–

### 29. Comparative Figures

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