NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

1. CORPORATE INFORMATION

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

- Manufacture and sale of electronic components
- Manufacture and sale of contact and contactless smart card readers and related products
- Property holding
- Investment holding

In 2001, the Group was also engaged in the business of money lending.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"), and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

They have been prepared under the historical cost convention, modified with respect to the measurement of investment properties, certain properties, plant and equipment and other investments, as explained in the respective accounting policies below.

Adoption of Statements of Standard Accounting Practice

During the current year, the Group has adopted the following 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	Employee benefits

The main revision to SSAP 1 is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The statement of changes in equity for the current year and the comparative balances have been presented in accordance with this revised SSAP.

The revised SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. This revised SSAP has had no major impact on these financial statements.

The main revision to SSAP 15 is to classify cash flows during the year into operating, investing and financing activities. The cash flow statement for the current year and the comparative balances have been presented in accordance with the revised SSAP.

SSAP 34 prescribes the accounting treatment and disclosure requirements of employee benefits. This SSAP has had no major impact on these financial statements.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Goodwill on consolidation

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 acquisitions of subsidiaries:

(i) before 1 January 2001, positive goodwill is eliminated against reserves; and

(ii) since 1 January 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in consolidated balance sheet at cost less accumulated amortisation and impairment losses, if any.

On disposal of a subsidiary, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account 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.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Interests in subsidiaries are stated in the Company's balance sheet at cost less provisions, for any impairment, as determined by the Directors. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates

An associate is a company, not being a subsidiary, in which the Group holds a substantial long-term interest in the equity share capital and over which the Group is in a position to exercise significant management influence.

The consolidated profit and loss account includes the Group's share of results of associates for the year, and amortisation and impairment losses of goodwill, if any. The consolidated balance sheet includes the Group's share of net assets, after attributing fair values to the net assets at the date of acquisition.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

Properties, plant and equipment

Properties, plant and equipment, other than investment properties, are stated at cost or valuation less accumulated depreciation and any impairment.

The cost of an item of property, plant and equipment (an "Item") comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the Item has been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the Item, the expenditure is capitalised as an additional cost of the Item.

When, in the opinion of the Directors, the recoverable amounts of properties, plant and equipment have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Reductions of the carrying value are charged to the profit and loss account, except to the extent that they reverse previous revaluation surpluses in respect of the same items, when they are charged to the revaluation reserve.

The gain or loss on disposal or retirement of an Item recognised in the profit and loss account is the difference between the sale proceeds and the carrying amount of the relevant Item, and is recognised in the profit and loss account. On disposal of a revalued Item, the relevant portion of the revaluation reserve realised in respect of the previous valuations is transferred to retained profits as a movement in reserves.

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

Leasehold land	Over unexpired lease terms
Buildings	2% - 5%
Leasehold improvements	18% - 20% or over the lease terms whichever is shorter
Plant and machinery	10% - 25%
Furniture and equipment	12.5% - 30%
Motor vehicles	20% - 33%

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are those properties which are held for their investment potential, are income producing and are intended to be held on a long term basis. They are stated at their open market values on the basis of annual valuations. Any surplus or deficit on revaluation is taken to the investment properties revaluation reserve unless the total of this reserve is insufficient to cover a deficit, in which case the amount by which the deficit exceeds the amount in the reserve is charged to the profit and loss account. Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, the surplus is credited to the profit and loss account to the extent of the deficit previously charged.

The gain or loss on disposal of an investment property, representing the difference between the net sales proceeds and the carrying amount of the relevant asset, is recognised in the profit and loss account. Any revaluation reserve balance attributable to the relevant asset being sold is transferred to retained profits upon disposal of the asset.

Long term investments

Long term investments are stated in the balance sheet at cost less any provision for impairment, as determined by the Directors.

Inventories

Inventories are valued at the lower of cost, on the weighted average basis, and net realisable value after making due allowance for any obsolete or slow moving items. In the case of finished goods and work in progress, cost includes direct materials, direct labour, sub-contracting charges and, where applicable, production overheads. Net realisable value is determined by reference to estimated selling prices less all further costs to be incurred in selling and distribution.

Revenue

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

(a) sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement associated with ownership, nor effective control over the goods sold;

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

Revenue *(continued)*

(b) proceeds on disposals of investments, including interests in subsidiaries, associates, investments in listed and unlisted shares and disposals of investment properties and fixed assets, when all conditions for disposal have been met and the risks and rewards of ownership have been transferred to the buyer;

(c) rental income, on the straight-line basis over the lease terms;

(d) interest, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(e) dividends, when the shareholders' right to receive payment is established.

Segment reporting

For reporting purposes, segment assets include those operating assets that are employed by a segment and segment liabilities include those operating liabilities that result from the operating activities by a segment, excluding tax assets and liabilities. Capital expenditure comprises additions to properties, plant and equipment. Business segments have been used as the primary reporting format.

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. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the relevant lease term.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. All foreign currency transactions during the year are converted at the exchange rates existing on the respective transaction dates. All exchange differences are credited or charged, respectively, to the consolidated profit and loss account.

The exchange differences arising from the translation of the balance sheets of foreign subsidiaries using the closing rates of exchange prevailing on the balance sheet date are taken directly to reserve. Profit and loss accounts of foreign subsidiaries accounted for under the net investment method are translated into Hong Kong dollars using average rate for the year. The differences between the profit and loss accounts translated at average rate and at closing rate are taken directly to exchange fluctuation reserve.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

Retirement costs

The Group operates two approved defined contribution retirement benefits schemes for employees: a Mandatory Provident Fund ("MPF") Exempted Occupational Retirement ("ORSO") Scheme and a MPF Scheme under the Mandatory Provident Fund Schemes Ordinance within the Group. The ORSO Scheme requires the Group to contribute 5% to 10% of the employees' monthly basic salaries and requires the employees to contribute 5% of their monthly basic salaries, whilst the MPF Scheme requires both the Group and the employees to contribute 5% of the employees' monthly gross earnings with a ceiling of HK$1,000 per month. Under the ORSO Scheme, the unvested portion of the benefits in respect of employees on termination of employment can be utilised by the Group to reduce its future levels of contributions. The assets of both the ORSO Scheme and the MPF Scheme are held separately from those of the Group in independently administered funds. The contributions payable to these schemes are charged to the profit and loss account as incurred.

Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

Deferred tax

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

Impairment of assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and, where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a decline in revaluation.

Provisions

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

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification cash equivalents represent assets similar in nature to cash and also include time deposits and guaranteed funds pledged.

3. TURNOVER

Turnover represents the aggregate of the net invoiced value of goods sold and rental income, but excludes intra-group transactions. Revenue from the following activities has been included in turnover:

	Group	
	2002 HK$'000	2001 HK$'000
Sale of component and related products	120,664	77,244
Sale of smart card readers and related products	14,510	—
Rental income	1,253	1,453
	136,427	78,697

4. SEGMENT INFORMATION

An analysis of the Group's revenue, results, assets, liabilities and capital expenditure for the year by business and geographical segments, as compared to the previous year, is as follows:

a) Business segments

	Electronic Components		Smart Card Technology		Property Investments		Money Lending		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
REVENUE	120,664	77,244	14,510	–	1,253	1,453	–	–	136,427	78,697
SEGMENT PROFIT/(LOSS)	6,868	2,644	(17,480)	–	753	863	–	–	(9,859)	3,507
Interest and other income									2,585	2,718
Profit on disposal of subsidiaries									4,195	2,362
Amortisation and impairment on goodwill of associates									(127,049)	(45,037)
Impairment of properties, plant and equipment									–	(1,732)
Impairment of investment properties									(14,658)	(1,230)
Impairment of long term investments									(24,480)	–
Loss on disposal of properties, plant and equipment									(1,375)	–
Unallocated administrative and other operating expenses									(30,279)	(26,182)
Finance costs									(2,313)	(65,204)
Share of results of associates									(4,147)	(1,747)
LOSS BEFORE TAXATION									(207,380)	(132,545)
TAXATION									1,039	(718)
LOSS BEFORE MINORITY INTERESTS									(206,341)	(133,263)

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

	Electronic Components		Smart Card Technology		Property Investments		Money Lending		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
ASSETS										
Segment assets	89,786	40,785	6,863	–	31,249	13,086	–	600,000	127,898	653,871
Unallocated assets									103,352	238,930
Disposal of subsidiaries									–	(30,485)
									231,250	862,316
LIABILITIES										
Segment liabilities	49,744	31,570	7,968	–	168	8,512	–	600,000	57,880	640,082
Unallocated liabilities									10,250	24,609
Disposal of subsidiaries									–	(31,570)
									68,130	633,121
CAPITAL EXPENDITURE										
Segment	6,472	5,443	2,813	–	–	–	–	–	9,285	5,443
Other									1,178	244
Disposal of subsidiaries									–	(5,443)
									10,463	244
DEPRECIATION AND AMORTISATION										
Segment	2,747	3,760	771	–	110	269	–	–	3,628	4,029
Other									10,925	9,415
									14,553	13,444
IMPAIRMENT LOSS										
Segment	–	–	–	–	14,658	2,962	–	–	14,658	2,962
Other									140,897	35,667
									155,555	38,629
REVALUATION DEFICIT										
Segment	–	–	–	–	–	2,034	–	–	–	2,034

4. SEGMENT INFORMATION (continued)

(b) Geographical area

	Asia		Europe		United States of America		Elsewhere		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
REVENUE	130,148	67,057	4,619	2,643	1,660	7,640	—	1,357	136,427	78,697
SEGMENT PROFIT/(LOSS)	(6,065)	2,860	(3,910)	150	116	405	—	92	(9,859)	3,507
Interest and other income									2,585	2,718
Profit on disposal of subsidiaries									4,195	2,362
Amortisation and impairment on goodwill of associates									(127,049)	(45,037)
Impairment of properties, plant and equipment									—	(1,732)
Impairment of investment properties									(14,658)	(1,230)
Impairment of long term investments									(24,480)	—
Loss on disposal of properties, plant and equipment									(1,375)	—
Unallocated administrative and other operating expenses									(30,279)	(26,182)
Finance costs									(2,313)	(65,204)
Share of results of associates									(4,147)	(1,747)
LOSS BEFORE TAXATION									(207,380)	(132,545)
TAXATION									1,039	(718)
LOSS BEFORE MINORITY INTERESTS									(206,341)	(133,263)

The Group's assets and liabilities are principally located in Asia. Accordingly, segment assets, segment liabilities and other information by geographical area are not separately shown.

5. RELATED PARTY TRANSACTIONS

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

	Note	Group 2002 HK$'000	Group 2001 HK$'000
Consultancy fee paid by the Company to Princeton Venture Partners Limited	(a)	2,300	—
Interest charged to Princeton Venture Partners Limited	(b)	599	997
Consultancy fee paid by the Company to Bizipoint Company Limited	(a)	—	1,200
Sales of components and related products to The Grande Holdings Limited and its associates (the "Grande Group")	(c)	—	1,878
Purchases of various components, raw materials and packaging materials from the Grande Group	(c)	—	3,876
Sub-contracting charges paid to the Grande Group	(a)	—	357
General and administrative expenses charged by the Grande Group	(a)	—	4,461
Interest income received from the Grande Group	(a)	—	698
Interest and similar charges payable to the Grande Group	(d)	—	65,204

Notes:

(a) The considerations were determined through negotiations between the respective parties.

(b) Interest expense was charged at 3% - 5% (2001: 5% - 9%) per annum.

(c) Considerations for these sale and purchase transactions were determined through negotiations between the respective parties with reference to, among other things, the price lists and the volume of the transactions on a case-by-case basis.

(d) Interest expense was charged at prime rate plus 2% per annum.

6. LOSS FROM OPERATING ACTIVITIES

This is arrived at after crediting:

	Group	
	2002	2001
	HK$'000	HK$'000
Gross rental income	1,253	1,453
Less: outgoings	(500)	(590)
Net rental income	753	863
Other interest income	1,125	2,124
Profit on disposal of subsidiaries	4,195	2,362
and after charging:		
Amortisation and impairment on goodwill of associates	127,049	45,037
Auditors' remuneration:		
Hong Kong	1,372	750
Overseas	—	—
Bad and doubtful debts	1,581	—
Cost of inventories sold	111,955	73,746
Depreciation on properties, plant and equipment	3,921	4,074
Impairment of properties, plant and equipment	—	1,732
Impairment of investment properties	14,658	1,230
Impairment of long term investments	24,480	—
Loss on disposal of properties, plant and equipment	1,375	—
Loss on disposal of investment properties	—	488
Operating lease rentals for land and buildings	2,499	2,921
Staff costs:		
Wages and salaries (including Directors' emoluments)	27,688	17,406
Retirement fund contributions	660	149

7. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	HK$'000
Interest and similar charges on:		
Bank loans and overdrafts wholly repayable within five years	1,912	—
Finance lease	202	—
Other	199	65,204
	2,313	65,204

Finance costs for the year ended 31 December 2001 represented interest and similar charges paid to the Grande Group, the former parent of the Company. No such charges were incurred in 2002.

8. DIRECTORS' EMOLUMENTS

(a) Directors' emoluments

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

	Group	
	2002	2001
	HK$'000	HK$'000
Fees	200	200
Salaries and other benefits	9,110	7,005
Contributions to retirement schemes	112	43
	9,422	7,248

Emoluments paid to Independent non-executive Directors during the year were HK$200,000 (2001: HK$200,000).

There were no arrangements under which a Director waived or agreed to waive any emolument during the year.

8. DIRECTORS' EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

Emoluments of the Directors fell within the following bands:

	Group 2002 Number of Directors	Group 2001 Number of Directors
HK$Nil to HK$1,000,000	5	9
HK$1,000,001 to HK$2,000,000	2	—
HK$2,500,001 to HK$3,000,000	1	—
HK$3,500,001 to HK$4,000,000	1	1
	9	10

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2001: four) were Directors of the Company whose emoluments have been included in note 8(a) above. The emoluments of the remaining one individual (2001: one individual) is as follows:

	Group 2002 HK$'000	Group 2001 HK$'000
Salaries and other benefits	986	1,069
Contributions to retirement schemes	7	10
	993	1,079

Emoluments of the highest paid individual fell within the following bands (2001: one individual):

	Group 2002 Number of individuals	Group 2001 Number of individuals
HK$500,001 to HK$1,000,000	1	—
HK$1,000,001 to HK$1,500,000	—	1
	1	1

9. TAXATION

No provision for Hong Kong Profits tax is required since the Group incurred losses for the year (2001: Nil). The tax credit for the year relates to the overprovision of tax in the prior year. Taxes on income earned outside Hong Kong have been calculated at the rates of taxation prevailing in the countries in which the Group operates, based on existing law, practice and interpretation thereof.

	Group	
	2002 HK$'000	2001 HK$'000
Current year provision:		
Hong Kong	—	—
Outside Hong Kong	56	4
	56	4
Prior years (over)/under provision:		
Hong Kong	(30)	714
Outside Hong Kong	—	—
	(30)	714
	26	718
Share of tax in associates	—	—
Deferred tax - note 22	(1,065)	—
Tax charge for the year	(1,039)	718

10. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK$191,725,000 (2001: HK$131,540,000).

11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders of HK$192,944,000 (2001: HK$133,287,000) and the weighted average of 50,404,084 shares (2001: 37,539,508 shares restated to reflect consolidation of shares) in issue during the year.

The diluted loss per share for the years ended 31 December 2002 and 2001 has not been shown as there were no outstanding warrants and share options.

12. PROPERTIES, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
1 January 2002	22,050	—	—	432	—	22,482
Additions	—	786	1,855	917	—	3,558
Disposals	—	(495)	(2,049)	(646)	(325)	(3,515)
Acquisition of subsidiary	—	1,831	12,462	7,370	1,639	23,302
Disposals of subsidiaries	(22,050)	—	—	(175)	—	(22,225)
31 December 2002	—	2,122	12,268	7,898	1,314	23,602
Accumulated depreciation						
1 January 2002	14,350	—	—	291	—	14,641
Charge for the year	97	184	2,410	747	483	3,921
Disposals	—	(281)	(1,075)	(449)	(325)	(2,130)
Acquisition of subsidiary	—	1,468	7,950	6,151	828	16,397
Disposals of subsidiaries	(14,447)	—	—	(255)	—	(14,702)
31 December 2002	—	1,371	9,285	6,485	986	18,127
Net book value						
31 December 2002	—	751	2,983	1,413	328	5,475
31 December 2001	7,700	—	—	141	—	7,841

The carrying amount of land and buildings is analysed as follows:

	Group 2002 HK$'000	Group 2001 HK$'000
Medium term leasehold properties situated in Hong Kong	—	7,700

13. INVESTMENT PROPERTIES

	Group	
	2002	2001
	HK$'000	HK$'000
1 January, at valuation	14,200	24,810
Acquisition of subsidiary	36,658	—
Disposals	(5,000)	(9,380)
Impairment	(14,658)	(1,230)
31 December, at valuation	31,200	14,200
Analysed by lease term and geographical location:		
Medium term leasehold properties situated in Hong Kong	—	600
Medium term leasehold properties situated outside Hong Kong	31,200	13,600
	31,200	14,200

The investment properties were revalued by reference to appraisals made by Dudley Surveyors Limited, chartered surveyors, on an open market value basis based on their existing use on 31 December 2002.

Details of the investment properties of the Group as at 31 December 2002 are as follows:

Location	**Lease Term**	**Use**
13/F and 5 Parking Space Nos. 153-157 at Zhongda Square, No. 989 Dong Fang Road, Pudong District, Shanghai, The People's Republic of China ("PRC")	Medium Term Lease	Commercial
No. 15, Lane 2, Bao An County, Gong Yuan Road East, Shenzhen, PRC	Medium Term Lease	Industrial

14. LONG TERM INVESTMENTS

	Group	
	2002 HK$'000	2001 HK$'000
Unlisted equity investments, at cost	72,230	70,031
Loan receivable	2,500	—
Listed investments, in Hong Kong Stock Exchange, at cost	144	—
	74,874	70,031
Less: provision for impairment	(24,480)	—
Net carrying value	50,394	70,031
Listed investments, at market value	115	—

During the year in September 2002, the Group acquired from the liquidators of a large group of companies operating in Hong Kong, Macau and China, a loan to another company which controls substantial timber concessions in South America ("Timberco") for a cash consideration of HK$3.5 million payable by installments. The consideration represents a substantial discount to the gross loan value. As at 31 December 2002 installments totaling HK$2.5 million had been paid and included herein. The final installment of HK$1 million was paid in March 2003.

Timberco is in the final phase of its own debts restructuring and is expected to emerge as a financially healthy company in the near future ("New Timberco"). Subsequent to the balance sheet date, the Group entered into an agreement with Timberco and its major shareholder, an independent third party, to sell the Group's strategic investment in an environmental technology company which specializes in combating desertification, for shares equivalent to HK$22 million in New Timberco. Due to a tightening supply of quality hard wood worldwide as a result of uncontrolled logging activities in the past, strong demand from countries such as China, and the implementation of stringent environmental requirements in major log exporting countries, the Directors believe that the timber industry would provide some strong and exciting growth in the future.

In the opinion of the Directors, the underlying values of the long term investments were not less than their carrying values at the balance sheet date.

15. INTERESTS IN ASSOCIATES

	Group	
	2002 HK$'000	2001 HK$'000
Share of net (liabilities)/assets	(5,229)	3,271
Net book value of goodwill - see below	23,691	144,325
	18,462	147,596
Loan to an associate	13,000	15,000
Interest receivable on loan to an associate	1,596	997
	33,058	163,593

The loan to an associate is unsecured, interest bearing and it is repayable in January 2004.

Movements in goodwill:

Cost	HK$'000
1 January 2002	225,862
Additions	6,415
Disposals	(8,586)
31 December 2002	223,691
Accumulated amortisation	
1 January 2002	81,537
Amortisation and impairment	127,049
Disposals	(8,586)
31 December 2002	200,000
Net book value	
31 December 2002	23,691
31 December 2001	144,325

15. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the Group's principal associates are as follows:

Name of associate	Class of shares held	Place of incorporation/ operation	Equity interest owned by the Group 2002	2001	Principal activities
ACIG Media Holdings Limited	Ordinary	British Virgin Islands/ Hong Kong	20%	—	Multi-media
Bizipoint Group Limited (formerly, Bizipoint. com Limited)	Ordinary	British Virgin Islands/ Hong Kong	41%	50%	E-business consulting services
Bizipoint Company Limited	Ordinary	Hong Kong/ Hong Kong	41%	50%	E-business consulting services
Beijing Zhong Shang Hui Xin Network Technology Development Company Limited	Registered Capital	PRC/PRC	36.90%	45%	E-business consulting services
PVP Limited	Ordinary	British Virgin Islands/ Hong Kong	50%	—	Investment holding and consultancy
Princeton Venture Partners Limited	Ordinary	British Virgin Islands/ Hong Kong	50%	50%	Investment holding and consultancy
Omnitech Holdings Limited	Ordinary	Bermuda/ Australia	—*	20.92%	Investment holding

* During the year, this company became a subsidiary of the Group.

The above table lists the principal associates of the Group which, in the opinion of the Directors, principally affected the results of the year, or formed a substantial portion of the net assets of the Group.

15. INTERESTS IN ASSOCIATES *(continued)*

An impairment loss of HK$116,417,000 (2001: HK$30,000,000) was made at the balance sheet date against the cost of the goodwill relating to Bizipoint Group Limited to reflect the impairment in the fair values of the associate's assets at 31 December 2002 by reference to appraisals made by Grant Sherman Appraisal Limited, professional valuers.

Information relating to Bizipoint Group Limited and its subsidiaries as required by SSAP 10 (revised), "Accounting for investments in associates" is as follows:

	2002 HK$'000	2001 HK$'000
Turnover	4,896	8,940
Loss for the year	(1,948)	(1,888)
Long-term assets	452	686
Current assets	2,302	7,765
Current liabilities	(1,026)	(654)
Deferred Income	(9,333)	(13,333)

16. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK$'000	2001 HK$'000
Unlisted shares, at cost	1,374	221,374
Due from subsidiaries	1,011,540	1,058,658
Due to subsidiaries	(5,892)	(243,376)
	1,007,022	1,036,656
Provision for impairment	(864,636)	(781,759)
	142,386	254,897

HK$16,380,000 due from certain subsidiaries are interest bearing and repayable on demand. Within this balance, an amount of HK$1,200,000 is secured by a share mortgage deed on all the shares of Lik Hang Holdings Limited, a wholly owned subsidiary of Omnitech Holdings Limited. Except for the above, the amounts due from/(to) subsidiaries are unsecured, interest-free and they do not have any fixed terms for repayment.

16. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ registration	Total issued ordinary/ registered and paid-up capital	Equity interest owned by the Group 2002	2001	Principal activities
Directly held:					
Barnet Consultancy Limited	British Virgin Islands	US$1	100%	—	Provision of consultancy services
Clever Able Investments Limited	British Virgin Islands	US$1	100%	100%	Investment holding
Clever United Holdings Limited	British Virgin Islands	US$1	100%	—	Investment holding
Crown Tech Holdings Limited	British Virgin Islands	US$1	100%	—	Investment holding
E-opportunity Limited	British Virgin Islands	US$1	100%	100%	Investment holding
Giant Assets Limited	British Virgin Islands	US$1	100%	100%	Investment holding
Innovalue Profits Limited	British Virgin Islands	US$1	100%	100%	Investment holding
O2New Technology Limited	British Virgin Islands	US$1	100%	100%	Investment holding
Olympic Glory Limited	British Virgin Islands	US$1	100%	100%	Investment holding
OmniSports Holdings Limited	British Virgin Islands	US$1	100%	—	Investment holding

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2002

16. INTERESTS IN SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration	Total issued ordinary/ registered and paid-up capital	Equity interest owned by the Group 2002	2001	Principal activities
Directly held: (continued)					
Quality Demand Limited	British Virgin Islands	US$1	100%	100%	Investment holding
Smart Union International Limited	British Virgin Islands	US$1	100%	—	Investment holding
Tomei Investment (Holdings) Limited	British Virgin Islands	US$1	100%	100%	Investment holding
Indirectly held:					
Asia eMarket Limited	British Virgin Islands	US$152	82%	100%	Investment holding
Prosperous Returns Limited	Hong Kong	HK$2	100%	100%	Corporate services
Super Intellect Limited	Hong Kong	HK$2	100%	100%	Corporate services
Union Sino Limited	Hong Kong	HK$2	100%	100%	Property holding
Vandyke Limited	British Virgin Islands	US$1,000	100%	—	Property holding
Lik Hang Holdings Limited	British Virgin Islands	US$910,000	50.23%	—*	Manufacture and sale of electronic components

16. INTERESTS IN SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration	Total issued ordinary/ registered and paid-up capital	Equity interest owned by the Group 2002	Equity interest owned by the Group 2001	Principal activities
Indirectly held: (continued)					
Omnitech Holdings Limited	Bermuda/ Australia	AUD1,802,321	50.23%	—*	Investment holding
VFJ Technology Holdings Limited	British Virgin Islands	US$2,594,724	34.66%	—*	Manufacture and sale of contact and contactless smart card readers

* In last year, they were associates of the Group.

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

Except for Union Sino Limited and Vandyke Limited which operate in the PRC, all other principal subsidiaries operate in Hong Kong.

In the opinion of the Directors, the underlying values of interests in subsidiaries were not less than their carrying values at the balance sheet date.

17. INVENTORIES

	Group	
	2002 HK$'000	2001 HK$'000
Raw materials	28,217	—
Finished goods	2,484	—
	30,701	—

The amount of inventories stated at net realisable value is HK$1,963,000 (2001: Nil).

18. TRADE AND OTHER RECEIVABLES

(a) The aging analysis of trade and other receivables (net of provision for doubtful debts) is as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Current	29,535	110
One to three months	13,979	63
More than three months	518	600,256
	44,032	600,429

The Group allows an average credit period of 30 to 45 days to its trade customers.

(b) Included in the balance at 31 December 2001 was the net recoverable balance of HK$600 million (net of a provision of HK$308 million) arising from an attempted rescue of the Akai Group, which was fully explained in the Group's previous Interim and Annual Reports. The rescue was funded through a subsidiary of the Company, Prosperous Finance Limited ("PFL") and the recoverable balance was secured by various assets including share, trademarks and certain tangible assets.

During the year, PFL together with its direct parent, Towering Finance Limited ("TFL"), were disposed of on 22 May 2002 as detailed in note 20.

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash on hand and at banks and include time deposits and guaranteed funds of HK$15,847,000 (2001: Nil) pledged as security for general banking facilities provided to certain subsidiaries.

20. TRADE AND OTHER PAYABLES

(a) The aging analysis of trade and other payables is as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Current	11,964	623,869
One to three months	10,817	8,010
More than three months	7,137	202
	29,918	632,081

(b) Included in the balance at 31 December 2001 was a promissory note of HK$600 million payable to the Grande Group issued by a subsidiary of the Company, PFL. There was also an amount of approximately HK$18 million owed by the Company to the Grande Group. Both amounts arose from the attempted rescue of the Akai Group as more fully explained in the Group's previous Interim and Annual Reports.

On 21 January 2002, the aforesaid amount of HK$18 million was settled by the issuance of 280,000,000 new shares of the Company.

On 22 May 2002, the Company disposed of PFL and its direct parent TFL to the Grande Group at a nominal price determined with reference to the consolidated net tangible asset value of TFL and PFL. The principal asset and liability of TFL and PFL are represented by the estimated recoverable amount from the Akai rescue as disclosed in note 18, and the promissory note of HK$600 million as stated above.

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2002

21. INTEREST BEARING BANK BORROWINGS

	Group	
	2002	2001
	HK$'000	HK$'000
Due within one year:		
Bank overdrafts-secured	4,193	—
Bank import loans-secured	28,598	—
Bank loan-unsecured	357	—
	33,148	—

The above secured bank borrowings are secured by charges over time deposits and guaranteed funds of approximately HK$15,847,000 (2001: Nil), a corporate guarantee issued by a subsidiary and a personal guarantee by a Director of the Company.

22. DEFERRED TAX

	Group	
	2002	2001
	HK$'000	HK$'000
1 January	1,302	2,069
Release to profit and loss account - note 9	(1,065)	—
Disposals of subsidiaries	(237)	(767)
31 December	—	1,302

22. DEFERRED TAX (continued)

The principal components of the Group's deferred tax liabilities provided for/(deferred tax assets recognised), and the amounts not provided/(not recognised) are as follows:

	Group			
	Provided		Not provided	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Accelerated capital allowances	—	1,302	113	(19)
Tax losses	—	—	(100,501)	(32,148)
	—	1,302	(100,388)	(32,167)

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

23. SHARE CAPITAL

Share

	Number of ordinary shares of HK$0.01	**Amount HK$'000**
Authorized:		
1 January 2002	5,000,000,000	50,000
Increase during the year	10,000,000,000	100,000
31 December 2002	15,000,000,000	150,000
Issued and fully paid:		
1 January 2002	3,793,676,822	37,937
Issue of new shares	1,580,000,000	15,800
	5,373,676,822	53,737
Consolidation of 100 shares into 1 share	53,736,768	537
Repurchase of shares	(447,000)	(4)
31 December 2002	53,289,768	533

23. SHARE CAPITAL *(continued)*

During the year and up to the balance sheet date, the following changes in the share capital of the Company took place:

(a) On 14 January 2002, the Company issued 200,000,000 new shares credited as fully paid at HK$0.06 per share for the acquisition of 50,000,000 shares in Omnitech Holdings Limited ("OHL") from a number of shareholders of OHL.

(b) On 21 January 2002, the Company issued 280,000,000 new shares to settle the balance of outstanding amount of approximately HK$18 million due to the Grande Group.

(c) On 6 February 2002, the Company raised HK$13.5 million by issuing 270,000,000 new shares at HK$0.05 per share.

(d) At the Special General Meeting held on 22 March 2002, the authorized share capital of the Company was increased from HK$50,000,000 to HK$150,000,000 by the creation of an additional 10,000,000,000 ordinary shares of HK$0.01 each in the capital of the Company.

(e) The board lot size of the Company's shares was changed from 2,000 shares to 10,000 shares at the Special General Meeting held on 22 March 2002 in order to reduce transaction and registration cost for shareholders.

(f) On 4 April 2002, the Company raised HK$14.95 million by issuing 230,000,000 new shares at HK$0.065 per share.

(g) On 16 May 2002, the Company raised HK$43.20 million by issuing 600,000,000 new shares at HK$0.072 per share.

(h) At the Special General Meeting held on 29 November 2002, a capital restructuring involving a capital reduction, share consolidation and increase of capital was effected that every 100 shares were consolidated into 1 share with the authorised share capital and par value of each share remain unchanged as before the capital restructuring.

(i) The board lot size of the Company's shares was changed from 10,000 shares to 2,000 shares at the Special General Meeting held on 29 November 2002 after the capital restructuring was effective.

(j) On 2 and 3 December 2002, the Company repurchased in aggregate 447,000 shares on the market at a total amount of HK$748,390. The 447,000 shares were cancelled upon repurchase.

(k) Subsequent to the year end, on 1 April 2003, the Company raised HK$12.5 million by issuing 10,000,000 new shares at HK$1.30 per share.

Share Option

At the Special General Meeting held on 22 March 2002, a new share option scheme in compliance with the new listing requirements was approved for adoption by the Company. Please refer to the Report of the Directors for details.

At the balance sheet date, there were no share options granted and outstanding under the share option scheme adopted by the Company on 22 March 2002.

24. RESERVES

Group

	Share premium account HK$'000	Contributed surplus HK$'000	Other fixed assets revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
1 January 2001	727,855	460,074	2,034	12,164	(894,345)	307,782
Issue of new shares	17,500	—	—	—	—	17,500
Share issue expenses	(323)	—	—	—	—	(323)
Release on disposal of subsidiaries	—	—	—	9	—	9
Impairment of properties, plant and equipment	—	—	(2,034)	—	—	(2,034)
Loss for the year	—	—	—	—	(133,287)	(133,287)
31 December 2001 and 1 January 2002	745,032	460,074	—	12,173	(1,027,632)	189,647
Issue of new shares	86,050	—	—	—	—	86,050
Share issue expenses	(2,764)	—	—	—	—	(2,764)
Transfer on re-organisation	(781,232)	(430,000)	—	—	1,211,232	—
Capital reduction	—	53,200	—	—	—	53,200
Share repurchase	(769)	—	—	—	—	(769)
Release on disposal of subsidiaries	—	—	—	(537)	—	(537)
Currency translation differences	—	—	—	(366)	—	(366)
Loss for the year	—	—	—	—	(192,944)	(192,944)
31 December 2002	46,317	83,274	—	11,270	(9,344)	131,517

Included in the Group's accumulated losses at 31 December 2002 were accumulated losses of HK$9,130,000 (2001: HK$4,983,000) relating to associates.

24. RESERVES *(continued)*

Company

	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
1 January 2001	727,855	502,176	(919,013)	311,018
Issue of new shares	17,500	—	—	17,500
Share issue expenses	(323)	—	—	(323)
Loss for the year	—	—	(131,540)	(131,540)
31 December 2001 and 1 January 2002	745,032	502,176	(1,050,553)	196,655
Issue of new shares	86,050	—	—	86,050
Share issue expenses	(2,764)	—	—	(2,764)
Transfer on re-organisation	(781,232)	(430,000)	1,211,232	—
Capital reduction	—	53,200	—	53,200
Share repurchase	(769)	—	—	(769)
Loss for the year	—	—	(191,725)	(191,725)
31 December 2002	46,317	125,376	(31,046)	140,647

The Company's contributed surplus, which arose from the Group reorganisation on 2 July 1991, represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme, in exchange for the shares in the subsidiaries and the fair value of the consolidated net asset value of the acquired subsidiaries, reduced by distributions to shareholders.

Under the Companies Act of Bermuda and the Bye-Laws of the Company, the contributed surplus is distributable to shareholders. The Companies Act of Bermuda also stipulates that a company shall not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium account.

Pursuant to a special resolution approved by the Company's shareholders at the Special General Meeting held on 22 March 2002, the Company effected a capital reorganization whereby the entire amount of the share premium account of the Company at 22 March 2002 amounted to HK$781,232,000 and an amount of HK$430,000,000 standing to the credit of the contributed surplus account of the Company were applied to set off the accumulated losses of the Company.

Pursuant to a special resolution approved by the Company's shareholders at the Special General Meeting held on 29 November 2002, the Company effected a capital reorganization whereby the credit amount of about HK$53,200,000 arising from the capital reduction was credited to the contributed surplus account of the Company.

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash (used in)/generated from operations

	Group	
	2002	2001
	HK$'000	HK$'000
Loss before taxation	(207,380)	(132,545)
Adjustments for:		
Profit on disposal of subsidiaries	(4,195)	(2,362)
Interest income	(1,125)	(2,124)
Interest expenses	2,313	65,204
Depreciation	3,921	4,074
Bad and doubtful debts	1,581	—
Amortisation and impairment on goodwill of associates	127,049	45,037
Impairment of properties, plant and equipment	—	1,732
Impairment of investment properties	14,658	1,230
Impairment of long term investments	24,480	—
Loss on disposal of properties, plant and equipment	1,375	—
Loss on disposal of investment properties	—	488
Share of results of associates	4,147	1,747
Operating loss before working capital changes	(33,176)	(17,519)
Decrease in inventories	1,109	17,976
(Increase)/decrease in trade and other receivables	(6,170)	12,145
(Increase)/decrease in prepayments and deposits paid	(2,520)	17,703
(Increase)/decrease in trade and other payables	(5,180)	89,308
Increase in deposits received	187	1,245
Net cash (used in)/generated from operations	(45,750)	120,858

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2002

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

(b) Disposal of subsidiaries

	Group	
	2002	2001
	HK$'000	HK$'000
Net assets disposed of:		
Properties, plant and equipment	7,523	10,395
Investment properties	5,000	—
Inventories	—	2,701
Trade and other receivables	598,295	16,609
Prepayments and deposits paid	71	139
Cash and cash equivalents	111	641
Trade and other payables	(603,006)	(29,575)
Deposits received	(543)	(1,971)
Tax provision	(399)	(519)
Deferred tax	(237)	(767)
Minority interests	(309)	(24)
	6,506	(2,371)
Represented by:		
Investment properties	36,658	—
Minority interests	(26,494)	—
Profit on disposal	(4,195)	(2,362)
Exchange fluctuation reserve	537	(9)
	6,506	(2,371)

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

(b) Disposal of subsidiaries *(continued)*

The subsidiaries disposed of during the year contributed HK$278,000 to the Group's net cash generated from operations.

Analysis of net outflow of cash and cash equivalents in respect of the disposed subsidiaries:

	2002 HK$'000	2001 HK$'000
Cash and cash equivalents of disposed subsidiaries	111	641

(c) Acquisition of subsidiaries

	Group	
	2002 HK$'000	2001 HK$'000
Net assets acquired:		
Properties, plant and equipment	6,905	—
Inventories	31,810	—
Trade and other receivables	37,309	—
Prepayments and deposits paid	1,675	—
Cash and cash equivalents	(2,314)	—
Pledged time deposits	13,583	—
Trade and other payables	(24,301)	—
Tax provision	(4,995)	—
Interest bearing bank borrowings	(25,260)	—
Minority interests	(1,416)	—
	32,996	—
Less: Minority interests	(16,416)	—
Transferred from associates	(6,864)	—
	9,716	—
Goodwill on consolidation	2,724	—
	12,440	—
Represented by:		
Cash paid	440	—
Share issued	12,000	—
	12,440	—

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

(c) Acquisition of subsidiaries *(continued)*

The subsidiaries acquired during the year utilised HK$16,831,000 from the Group's net cash used in operations, utilised HK$2,462,000 in respect of investing activities, and utilised HK$3,695,000 for financing activities between the date of acquisition and the balance sheet date.

Analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2002 HK$'000	2001 HK$'000
Cash paid	(440)	—
Cash and cash equivalents of acquired subsidiaries	(2,314)	—
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(2,754)	—

(d) Major non-cash transactions

On 14 January 2002, the Company issued 200,000,000 new shares credited as fully paid at HK$0.06 per share for the acquisition of 50,000,000 shares in Omnitech Holdings Limited.

On 21 January 2002, the Company issued 280,000,000 new shares to settle an outstanding payable balance of approximately HK$18 million.

On 31 July 2002, the Company acquired a company holding principally an industrial building in Shenzhen with a book value of approximately HK$37 million and as considerations, disposed of four subsidiaries holding respectively four industrial properties in Hong Kong and Macau with a combined net book value of approximately HK$12 million, and subsequently settled the remaining balance of the considerations by issuing 18% of the equity of Asia eMarket Limited, an investment holding subsidiary, to the vendor.

26. CONTINGENT LIABILITIES

	Group		Company	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Corporate guarantee given to banks by subsidiaries	44,000	—	—	—

27. COMMITMENTS

	Group	
	2002 HK$'000	2001 HK$'000
Capital commitments		
- contracted for	1,012	—
- authorised but not contracted for	—	—
	1,012	—
Total minimum commitments under non-cancellable operating leases for land and buildings due:		
Within one year	4,732	303
In the second to fifth years, inclusive	4,473	—
After five years	—	—
	9,205	303

The Company has no capital or operating lease commitments.

28. SUBSEQUENT EVENTS

As described in more details in note 14, subsequent to the balance sheet date on 10 March 2003, the Group entered into an agreement with an independent third party to sell the Group's strategic investment in an environmental technology company which specializes in combating desertification, for shares equivalent to HK$22 million in a timber company controlled by the independent third party.

On 1 April 2003, the Company raised HK$12.5 million by issuing 10,000,000 new shares at HK$1.30 per share.

29. COMPARATIVE FIGURES

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

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors on 16 April 2003.