Notes to Financial Statements

31 December 2002

1. CORPORATE INFORMATION

The registered office of Yanion International Holdings Limited is located at Cedar House, 41 Cedar Avenue, Hamilton HM12, Bermuda.

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

- the manufacture and trading of compact disc ("CD") players, video CD ("VCD") players, CD and VCD player mechanisms, amplifiers, computer peripherals, car audio mechanisms, cassette deck mechanisms and related component products, and non-audio products including personal office appliances;

- the manufacture, trading and contracting of Chinese medicine products in the PRC.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Company and the Group have adopted, for the first time, the following revised and new Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants:–

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

In accordance with SSAP1 (Revised), the consolidated statement of changes in equity has been presented in place of the consolidated statement of recognised gains and losses.

SSAP11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. This revised SSAP has had no material impact on the results of the current and prior accounting periods.

In accordance with SSAP15 (revised), cash flows are classified by operating, investing and financing activities. The presentation of the cash flow statement has been changed to conform to the requirements of this revised SSAP. Certain comparative figures have also been reclassified to conform with the current year's presentation.

SSAP 34 prescribes the accounting and disclosure for employee benefits. In accordance with SSAP 34, employee entitlement to long service payment payable on cessation of employment are recognised in accordance with certain circumstances under the Hong Kong Employment Ordinance. A provision of HK$780,000 has been made for the estimated liability for long service payment as a result of services rendered by the eligible employees up to 31 December 2002. The change in accounting policy has been applied retrospectively. Comparative figures as at 31 December 2001 and for the year then ended have been restated with result that the balance of provision for long service payment as at 1 January 2001 was increased by HK$770,000. The Group's loss for the year ended 31 December 2001 was increased by HK$4,000, being the amount of additional provision required for that year.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 December 2002.

The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant inter-company transactions and balances have been eliminated on consolidation.

(c) Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

(d) Joint venture companies

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

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

A joint venture company is treated as:

(i) a subsidiary, if the Company has unilateral control over the joint venture company;

(ii) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;

(iii) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(iv) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Associates

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

The Group's share of the post-acquisition results and reserves of associates are included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in reserves, is included as part of the Group's interests in associates.

(f) Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five to ten years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

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

(g) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset 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 asset, the expenditure is capitalised as an additional cost of that asset.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Fixed assets and depreciation (continued)

Depreciation is provided to write off the cost of fixed assets over their anticipated useful lives on a straight-line basis. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the remaining term of the lease
Leasehold buildings	2%
Plant, machinery and equipment	10% – 15%
Furniture and fixtures	10%
Moulds and tools	33 1/3%
Motor vehicles	10% – 15%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying value of the relevant asset.

The Group has changed the estimated useful life of moulds and tools during the year as it was considered more appropriate under the circumstances. The principal annual rates of moulds and tools used for the calculation of depreciation on straight-line basis has changed from 10% to 33 1/3%. The financial impact is that depreciation of approximately HK$4,146,000 is further charged to the profit and loss account for the year ended 31 December 2002.

(h) Chinese medicine intellectual property and knowhow

Chinese medicine intellectual property and knowhow is stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying medicine products ranging from seven to twenty years, commencing from the date of acquisition.

(i) Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred to develop new or improved materials, products or processes is capitalised to the extent that such assets will generate future economic benefits and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding two years, commencing from the date when the products are put into commercial production.

(k) Investments

(i) Short term investments

Short term investments in unlisted securities are carried at fair value. At each balance sheet date, the net unrealised gain or losses arising from the changes in fair value of short term investments are recognised in the profit and loss account. Profit and loss on disposal of short term investment representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(ii) Long term investments

Long term investments in unlisted equity securities, intended to be held for a continuing strategic or long-term purpose, are stated at cost less any provisions for impairments in values deemed necessary by the directors, other than those considered to be temporary in nature or an individual basis.

(l) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes cost of purchase of materials computed using the FIFO method and, in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of production overheads. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business after the balance sheet date or to management estimates based on prevailing market conditions.

(m) Deferred taxation

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Leases

(i) Finance leases

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

(ii) Operating leases

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

(o) Foreign currencies

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

On consolidation, the balance sheet of subsidiaries denominated in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date while the profit and loss is translated at an average rate. The resulting translation differences are included in the exchange fluctuation reserve.

(p) Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in independently administered funds. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. Prior to the MPF Scheme being effective, the Group did not have any pension arrangements for its employees.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Retirement benefit costs (continued)

The employees of the Group's subsidiaries in the PRC are members of central pension schemes operated by the local governments in the PRC and these subsidiaries make mandatory contributions to these central pension schemes to fund the employees' retirement benefits. The retirement contributions paid by the PRC subsidiaries are based on certain percentages of the employees' salaries cost in accordance with the relevant regulations in the PRC, and are charged to the profit and loss account as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the central pension schemes operated by the local governments in the PRC.

(q) Revenue recognition

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

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

(ii) from contracting revenues, when services have been rendered or substantially performed in accordance with the terms of the contract; and

(iii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(r) Related parties

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

(s) 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, which are not restricted as to use.

4. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed by product segments. Each of the Group's product segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other product segments. Summary details of the business segments by products are as follows:

a. the manufacture and trading of CD/VCD players and mechanisms, amplifiers, and computer peripherals;

b. the manufacture and trading of car audio mechanisms, cassette deck mechanisms and related products;

c. the manufacture and trading of personal office appliances and medical devices;

d. the trading of Internet phone sets and provision of related services; and

e. the manufacture, trading and contracting of Chinese medicine products.

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

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

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments.

Group

	Manufacture and trading of CD/VCD players and mechanisms, amplifiers, and computer peripherals		Manufacture and trading of car audio mechanisms, cassette deck mechanisms and related products		Manufacture and trading of personal office appliances and medical devices		Trading of Internet phone sets and provision of related services		Manufacture, trading and contracting of Chinese medicine products *(note)*		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000* (As restated)	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000* (As restated)
Segment revenue:												
Sales to external customers	**116,946**	84,985	**42,191**	58,588	**1,800**	30,266	**-**	1,647	**24,250**	-	**185,187**	175,486
Segment results	**(31,106)**	(24,023)	**(5,978)**	(8,229)	**(106)**	(1,485)	**(20,990)**	(26,620)	**8,128**	-	**(50,052)**	(60,357)
Interest income											**570**	1,149
Provision for impairment of investment											**(250,000)**	-
Unallocated expenses											**(15,854)**	(13,270)
Loss from operating activities											**(315,336)**	(72,478)
Finance costs											**(1,279)**	(3,344)
Loss before tax											**(316,615)**	(75,822)
Taxation											**31**	(69)
Loss before minority interests											**(316,584)**	(75,891)
Minority interests											**(6,134)**	(310)
Net loss from ordinary activities attributable to shareholders											**(322,718)**	(76,201)

Note: Represents a new line of business which started to contribute to the Group only after 9 August 2002, the date of acquisition of subsidiaries. Its segment results are arrived at after deducting non-cash amortisation of goodwill and intangibles, and depreciation totaling HK$5,820,000.

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Manufacture and trading of CD/VCD players and mechanisms, amplifiers, and computer peripherals		Manufacture and trading of car audio mechanisms, cassette deck mechanisms and related products		Manufacture and trading of personal office appliances and medical devices		Trading of Internet phone sets and provision of related services		Manufacture, trading and contracting of Chinese medicine products *(note)*		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000* (As restated)	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000* (As restated)
Segment assets	**40,751**	39,406	**19,175**	32,727	**629**	14,193	**3,177**	8,879	**174,811**	–	**238,543**	95,205
Interests in associates	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	250,000
Unallocated assets	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**80,594**	160,348
Total assets											**319,137**	505,553
Segment liabilities	**24,544**	9,986	**9,434**	7,696	**366**	3,314	**2,088**	382	**9,382**	–	**45,814**	21,378
Unallocated liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**42,076**	50,859
Total liabilities											**87,890**	72,237
Other segment information:												
Capital expenditure	**2,257**	2,527	**819**	1,770	**35**	892	**–**	88	**1,747**	–	**4,858**	5,277
Amortisation of goodwill	**–**	–	**–**	–	**–**	–	**6,787**	5,656	**4,284**	–	**11,071**	5,656
Provision for impairment in value of goodwill	**–**	–	**–**	–	**–**	–	**14,015**	21,047	**–**	–	**14,015**	21,047
Provision against inventories	**2,792**	3,910	**1,013**	4,186	**43**	1,408	**–**	–	**–**	–	**3,848**	9,504
Provision for impairment of fixed assets	**4,771**	1,534	**1,731**	1,417	**74**	552	**–**	–	**–**	–	**6,576**	3,503
Segment depreciation	**11,485**	6,224	**4,777**	5,062	**178**	2,238	**–**	2	**709**	–	**17,149**	13,526
Unallocated depreciation	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**19**	–
Total depreciation											**17,168**	13,526
Amortisation and impairment loss of intangible assets	**787**	2,154	**286**	1,538	**12**	776	**–**	–	**827**	–	**1,912**	4,468

Note: Represents a new line of business which started to contribute to the Group only after 9 August 2002, the date of acquisition of subsidiaries.

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

Group

	Hong Kong		PRC		Other Asian countries		Europe		America		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(As restated)										(As restated)
Segment revenue:												
Sales to external customers	**18,822**	36,744	**36,499**	23,851	**10,086**	13,321	**55,679**	71,404	**64,101**	30,166	**185,187**	175,486
Segment results	**(2,720)**	(6,315)	**(14,608)**	(29,666)	**(2,390)**	(3,066)	**(14,792)**	(16,721)	**(15,542)**	(4,589)	**(50,052)**	(60,357)
Other segment information:												
Segment assets	**49,767**	66,229	**241,029**	434,092	**23,799**	604	**2,112**	3,239	**2,430**	1,389	**319,137**	505,553
Capital expenditure	**172**	1,501	**4,686**	3,776	**-**	-	**-**	-	**-**	-	**4,858**	5,277

5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for goods returned and trade discounts, and contracted revenue earned. An analysis of turnover and revenue is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Turnover	**185,187**	175,486
Interest income	**570**	1,149
Other income	**870**	1,502
Other revenue	**1,440**	2,651
Total revenue	**186,627**	178,137

6. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	Group	
	2002	2001
	HK$'000	*HK$'000*
		(As restated)
Cost of inventories sold	**152,773**	148,880
Provision against inventories*	**3,848**	9,504
Amortisation of:		
Deferred development costs*	**1,085**	4,468
Chinese medicine intellectual property and knowhow	**827**	–
Depreciation	**17,168**	13,526
Auditors' remuneration:		
Current year	**515**	780
Under provision in prior year	**449**	–
Staff costs (excluding directors' remuneration *(note 7)*)**		
Salaries and wages (include long service payment provision)	**31,321**	30,475
MPF Scheme Contributions	**453**	555
Less: Amount capitalised	**(1,101)**	(524)
	30,673	30,506
Provision for doubtful debts	**1,600**	2,687
Loss on disposal of fixed assets	**32**	–
Exchange losses, net	**781**	115

* *Provision against inventories and the amortisation of deferred development costs for the year are included in "Cost of sales" in the consolidated profit and loss account.*

** *At 31 December 2002, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years.*

7. REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

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

	Group	
	2002	2001
	HK$'000	*HK$'000*
Fees	**200**	243
Basic salaries, housing, other allowances and benefits in kind	**10,780**	11,141
Mandatory provident fund contributions	**125**	107
	11,105	11,491

Fees include HK$200,000 (2001: HK$243,000) payable to the independent non-executive directors. During the year, 114,000 share options (2001: Nil) were granted to the two independent non-executive directors at a cash consideration of HK$1.00 per director under the amended share option scheme newly adopted, details of which are set out in note 27. There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil). The remuneration of the directors fell within the following bands:

	Number of directors	
	2002	2001
Nil – HK$1,000,000	**4**	7
HK$1,000,001 – HK$1,500,000	**1**	2
HK$1,500,001 – HK$2,000,000	**–**	–
HK$2,000,001 – HK$2,500,000	**3**	1
HK$2,500,001 – HK$3,000,000	**–**	1
HK$3,000,001 – HK$3,500,000	**1**	–
HK$3,500,001 – HK$4,000,000	**–**	1
	9	12

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

During the year, 44,390,000 share options were granted to certain directors and eligible participants in respect of their services rendered to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors. No value in respect of the share options granted during the year has been charged to the profit and loss account.

The five highest paid individuals during the year were all directors, whose remuneration is disclosed above.

8. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	**1,217**	3,181
Interest on finance leases	**62**	163
	1,279	3,344

9. TAXATION

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current year's provision:		
Hong Kong	**93**	139
Elsewhere	**22**	135
Deferred taxation *(note 26)*	**–**	(205)
Overprovision in respect of prior years	**(146)**	–
Tax (credit)/charge for the year	**(31)**	69

10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is HK$294,390,000 (2001: HK$119,218,000) (note 28).

11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$322,718,000 (2001 (restated): HK$76,201,000) and the weighted average of 549,059,440 (2001: 397,849,029) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 December 2002 and 31 December 2001 have not been shown as the share options outstanding during both years had an anti-dilutive effect on the basic loss per share for both years.

12. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Plant, machinery and equipment HK$'000	Furniture and fixtures HK$'000	Moulds and tools HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:						
At 1 January 2002	11,113	106,091	42,278	85,505	6,812	251,799
Additions	–	1,579	420	2,859	–	4,858
Acquisition of subsidiaries *(note 29(b))*	–	9,394	338	–	–	9,732
Disposals	–	(110)	–	–	–	(110)
At 31 December 2002	11,113	116,954	43,036	88,364	6,812	266,279
Accumulated depreciation and impairment:						
At 1 January 2002	3,028	90,759	34,893	54,820	5,287	188,787
Charge for the year	213	4,888	935	10,906	226	17,168
Impairment	800	–	–	5,776	–	6,576
Write back on disposal	–	(78)	–	–	–	(78)
At 31 December 2002	4,041	95,569	35,828	71,502	5,513	212,453
Net book value:						
At 31 December 2002	**7,072**	**21,385**	**7,208**	**16,862**	**1,299**	**53,826**
At 31 December 2001	8,085	15,332	7,385	30,685	1,525	63,012

12. FIXED ASSETS (continued)

Company

	Furniture and fixtures *HK$'000*
Cost:	
At 1 January 2002 and 31 December 2002	53
Accumulated depreciation:	
At 1 January 2002	5
Charge for the year	5
At 31 December 2002	10
Net book value:	
At 31 December 2002	**43**
At 31 December 2001	48

The net book value of assets held under finance leases as at 31 December 2002 included a motor vehicle of HK$927,000 (2001: HK$1,070,000).

The Group's leasehold land and buildings are held under medium term leases and are situated in Hong Kong.

The Group's leasehold land and buildings are pledged to secure the Group's bank loans (note 24).

A provision for impairment in value of HK$6,576,000 (2001: HK$3,503,000) was made during the year as the recoverable amount of leasehold land and buildings, and certain moulds and tools declined below their carrying amount.

13. INTANGIBLE ASSETS

Group

	Chinese medicine intellectual property and knowhow *HK$'000*	**Deferred development costs** *HK$'000*	**Total** *HK$'000*
Cost:			
At 1 January 2002	–	26,259	26,259
Acquisition of subsidiaries	23,532	–	23,532
At 31 December 2002	23,532	26,259	49,791
Accumulated amortisation:			
At 1 January 2002	–	25,174	25,174
Charge for the year	827	1,085	1,912
At 31 December 2002	827	26,259	27,086
Net book value:			
At 31 December 2002	**22,705**	**–**	**22,705**
At 31 December 2001	–	1,085	1,085

14. GOODWILL

The amount of the goodwill capitalised as an asset, arising from the acquisition of subsidiaries, is as follows:

	Group
	HK$'000
Cost:	
At 1 January 2002	33,935
Acquisition of subsidiaries during the year *(note i)*	116,393
At 31 December 2002	150,328
Accumulated amortisation and impairment:	
At 1 January 2002	26,703
Amortisation for the year	11,071
Impairment *(note ii)*	14,015
At 31 December 2002	51,789
Net book value:	
At 31 December 2002	**98,539**
At 31 December 2001	7,232

Notes:

(i) The Group acquired two subsidiaries, Modern Vocal Limited and Korning Investments Limited, during the year. Details of these acquisitions are set out in notes 15 and 29(b) to the financial statements.

(ii) The impairment losses have been provided for the goodwill arising from the acquisition of Internet phone business. In the opinion of the directors, impairment losses have arisen from the prevailing unfavourable economic environment in the Internet phone business.

15. INTERESTS IN SUBSIDIARIES

	Company 2002 HK$'000	2001 HK$'000
Unlisted shares/capital contributions, at cost	**94,687**	94,687
Due from subsidiaries	**506,701**	462,025
	601,388	556,712
Provision for impairment	**(479,024)**	(190,248)
	122,364	366,464

The amounts due are unsecured, interest-free and are not repayable within the twelve months following the balance sheet date.

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered and paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Yanion (BVI) Limited	British Virgin Islands	HK$370,000	100	–	Investment holding
Yacata Limited	British Virgin Islands	US$1	100	–	Investment holding
Kongnet Group Limited	British Virgin Islands	US$1	–	100	Investment holding
Tianjin Weikang Communication Company Limited	People's Republic of China	US$160,000	–	90	Sales of Internet phone sets and provision of related services

15. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered and paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Yanion Company Limited	Hong Kong	HK$31,202,370	–	100	Trading of cassette deck mechanisms, CD/VCD mechanisms and players, amplifiers and related products, personal office appliances and medical devices
Chia Neng Spring (HK) Limited	Hong Kong	HK$1,350,000	–	77.78	Manufacture and trading of precision springs
Dongguan Yanion Electronics Manufacturing Limited	People's Republic of China	HK$153,000,000	–	100	Manufacture and trading of cassette deck mechanisms, CD/VCD mechanisms and players, amplifiers and related products, personal office appliances and medical devices
Dongguan Yanion Mould & Die Manufacturing Limited	People's Republic of China	HK$21,499,997	–	100	Manufacture and trading of precision moulds and dies
Modern Vocal Limited ("Modern Vocal") *(note a)*	British Virgin Islands	US$1,000	–	60	Investment holding
Tianjin Jitong Network Technology Company Limited ("Tianjin Jitong") *(note a)*	People's Republic of China	US$160,000	–	54	Promotion, sales, distribution, service support and development of a digital data/voice transmission device over the Internet

15. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Korning Investments Limited ("Korning") *(note b)*	British Virgin Islands	US$1	–	87	Investment holding
Star Wisdom Investments Limited ("Star Wisdom") *(note b)*	British Virgin Islands	US$1	–	87	Investment holding
Huayi Pharmaceutical Company Limited ("Huayi") *(note b)*	People's Republic of China	RMB73,449,124	–	52	Manufacturing, trading and contracting of Chinese medicine products

The above table lists the subsidiaries of the Company as at 31 December 2002 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes:

(a) On 22 March 2002, the Group acquired 60% equity interest in Modern Vocal for a cash consideration of HK$13.5 million. Modern Vocal is an investment holding company incorporated in the British Virgin Islands. The principal asset of Modern Vocal is its 90% equity interest in a sino-foreign enterprise, Tianjin Jitong. This transaction has been accounted for by the acquisition method of accounting.

Modern Vocal and Tianjin Jitong engaged in developmental activities since the date of their acquisitions to 31 December 2002. The Group's interest in Modern Vocal was principally reflected as goodwill arising on the acquisition of approximately HK$13.5 million, and the details of which are set out in notes 14 and 29(b) to the financial statements.

(b) On 9 August 2002, the Group completed the acquisition of an 87% equity interest in Korning for a cash consideration of US$12.8 million (equivalent to HK$99.84 million). The assets of Korning are its direct interest in Star Wisdom and its indirect interest in Huayi, a sino-foreign pharmaceutical joint venture. The Group's interest in Korning was principally reflected as goodwill arising on the acquisition of approximately HK$102.9 million and the details of which are set out in notes 14 and 29(b) to the financial statements.

Pursuant to the joint venture agreement, the total investment and registered capital of Huayi is RMB126 million and the Group's share in its capital contribution is approximately HK$63 million. As at 31 December 2002, approximately HK$43.0 million of contribution payable to Huayi is disclosed as a capital commitment in note 32.

16. INTERESTS IN ASSOCIATES

	Group 2002 HK$'000	Group 2001 HK$'000
Unlisted shares, at cost	**250,000**	250,000
Provision for impairment	**(250,000)**	–
	–	250,000

Particulars of the associates at 31 December 2002 are as follows:

Company	Business structure	Place of incorporation and operations	Percentage of equity attributable to the Group 2002	Percentage of equity attributable to the Group 2001	Principal activities
Global Cyber Limited*# ("Global Cyber")	Corporation	British Virgin Islands	**27**	27	Investment holding

The underlying investment of Global Cyber is:

Company	Business structure	Place of incorporation and operations	2002	2001	Principal activities
Shanghai Dazheng WorldVest Technology Company Limited* ("Shanghai Dazheng")	Corporation	People's Republic of China	**21.6**	21.6	Provision of research & development of video-on-demand systems

* *Not audited by Horwath Hong Kong CPA Limited or other Horwath International member firms.*

\# *The associate has been accounted for at cost less provision for impairment in the consolidated financial statements of the Group.*

16. INTERESTS IN ASSOCIATES (continued)

Global Cyber is an investment holding company. The principal asset of Global Cyber is its 80% equity interest in Shanghai Dazheng, a sino-foreign joint venture established in the PRC. Pursuant to the terms of the joint venture agreement dated 16 December 1999, the PRC party to the Shanghai Dazheng joint venture (the "PRC Party") is required to contribute its video-on-demand ("VOD") technology as part of its capital contribution in exchange for its 20% equity interest in Shanghai Dazheng. The principal activities of Shanghai Dazheng are the research and development of VOD systems in the PRC which involves the re-engineering of existing cable TV stations in the PRC by employing related operating software, servers and set-top boxes.

In October 2001, the directors of Global Cyber and the Company became aware that the PRC Party had applied to the State Intellectual Property Office of the PRC for the registration of a VOD chip in its own name, which the directors believe to have been developed based on Shanghai Dazheng's VOD technology. The directors of Global Cyber consider that such registration may infringe the intellectual property rights of the Shanghai Dazheng VOD technology, and they communicated to the PRC Party their concern and disapproval of the situation. Attempts were made to clarify the ownership rights and legal title to the VOD technology and whether the PRC Party's application to the patent office infringed the intellectual property rights and commercial interests of Shanghai Dazheng. The matter was and remains disputed by the PRC Party. As the relationship with the PRC Party deteriorated, the books and records in respect of Shanghai Dazheng have not been made available for examination by the directors of Global Cyber. The directors of Global Cyber and the Company have sought advice from PRC legal counsel as to the appropriate course of action, including arbitration and/or the legal action that should be taken. At the date of approval of these financial statements, the directors of the Company are not in a position either (i) to equity account for this investment; or (ii) to quantify the outcome and the effect of such dispute. In the opinion of the directors of the Company, there has been an impairment loss on the carrying value of the investment in Global Cyber as at 31 December 2002 and for conservative reason, full provision has been made against the investment cost of HK$250 million.

17. LONG TERM INVESTMENT

	Group	
	2002	2001
	HK$'000	*HK$'000*
Unlisted equity investments, at cost	**1,000**	1,000

In the opinion of the directors, there has been no impairment loss on the carrying value of the long term investment as at 31 December 2002.

18. INVENTORIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Raw materials	**15,686**	17,044
Work in progress	**6,880**	3,681
Finished goods	**8,840**	7,351
	31,406	28,076

The amount of inventories carried at net realisable value included in the above balance was HK$8,906,000 (2001: HK$4,475,000) at the balance sheet date.

19. ACCOUNTS RECEIVABLE

The Group maintains a defined credit policy and allows credit periods ranged from 15 to 90 days to its trade customers. Under exceptional cases, the Group may extend credits to specific customer for periods beyond 90 days upon special approval. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed and monitored by senior management.

An aged analysis of the accounts receivable as at the balance sheet date, based on payment due date, and net of provisions is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within 1 month	**21,820**	5,551
2 to 3 months	**6,665**	3,565
4 to 6 months	**1,327**	459
7 to 12 months	**643**	–
Over 1 year	**2,116**	–
	32,571	9,575

20. SHORT TERM INVESTMENT

	Group and Company	
	2002	2001
	HK$'000	*HK$'000*
Participating redeemable preference shares in a fund	**23,415**	–

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**31,658**	26,421	**19,394**	24,663
Time deposits	**4,636**	13,839	**–**	–
	36,294	40,260	**19,394**	24,663
Less: Pledged time deposits for trust receipt, export loans and bank overdraft facilities *(note 24)*	**(4,636)**	(13,839)	**–**	–
Cash and cash equivalents	**31,658**	26,421	**19,394**	24,663

22. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the balance sheet date, based on payment due date, is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within 1 month	**10,521**	5,777
2 to 3 months	**17,826**	9,545
4 to 6 months	**6,071**	3,604
7 to 12 months	**136**	504
Over 1 year	**2,257**	1,848
	36,811	21,278

23. DUE TO A DIRECTOR

The balance due to a director is unsecured, interest free and has no fixed terms of repayment.

24. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Bank overdrafts, secured	**888**	917
Bank loans, secured	**10,454**	25,904
	11,342	26,821
Other borrowings – unsecured	**3,405**	1,250
	14,747	28,071
Bank overdrafts repayable within one year or on demand	**888**	917
Bank loans repayable:		
Within one year	**10,313**	24,104
In the second year	**141**	1,658
In the third to fifth years, inclusive	**–**	142
	10,454	25,904
Other borrowings repayable:		
Within one year	**1,414**	1,250
In the second year	**1,991**	–
	3,405	1,250
	14,747	28,071
Portion classified as current liabilities	**(12,615)**	(26,271)
Long term portion	**2,132**	1,800

The above bank loans are secured by the following:

(i) a fixed charge on the Group's leasehold land and buildings in Hong Kong with a net book value of HK$7,072,000 (2001: HK$8,085,000); and

(ii) a fixed charge on the Group's time deposits of HK$4,636,000 (2001: HK$13,839,000) (note 21).

Included in bank loans is a total of HK$4,905,000 (2001: HK$17,530,000) of trust receipt and export loans and a term loan of HK$1,799,000 (2001: HK$3,374,000) with maturity dates of over three months. The remaining balance of HK$3,750,000 (2001: HK$5,000,000) is repayable within three months from the date of advance.

25. FINANCE LEASES PAYABLES

The Group leases a motor vehicle for its general business purposes. The lease is classified as finance lease and has remaining lease term of one year.

At 31 December 2002, the total future minimum lease payments under the finance lease and their present values, were as follows:

Group

	Minimum lease payments 2002 *HK$'000*	Minimum lease payments 2001 *HK$'000*	**Present value of minimum lease payments 2002 *HK$'000***	Present value of minimum lease payments 2001 *HK$'000*
Amounts payable:				
Within one year	**355**	356	**332**	332
In the second year	**–**	355	**–**	293
Total minimum finance lease payments	**355**	711	**332**	625
Future finance charges	**(23)**	(86)		
Total net finance lease payables	**332**	625		
Portion classified as current liabilities	**(332)**	(332)		
Long term portion	**–**	293		

26. DEFERRED TAXATION

	Group	
	2002	2001
	HK$'000	*HK$'000*
At beginning of year	**136**	341
Credit for the year *(note 9)*	**–**	(205)
At 31 December 2002	**136**	136

The principal components of the Group's provision for deferred tax, and net deferred tax asset position not recognised in the financial statements are as follows:

	Provided		Not provided	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accelerated capital allowances	**136**	136	**2,773**	3,499
Tax losses	**–**	–	**(32,632)**	(30,045)
	136	136	**(29,859)**	(26,546)

The Company had no unprovided deferred tax at the balance sheet date (2001: Nil).

27. SHARE CAPITAL

Shares

	2002	2001
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$0.50 each	**500,000**	500,000
Issued and fully paid:		
571,650,673 (2001: 520,750,673) ordinary shares of HK$0.50 each	**285,825**	260,375

The movements in the issued share capital of the Company during the year were as follows:

	Number of ordinary shares	**Share capital** *HK$'000*
At beginning of year	520,750,673	260,375
Issue of new ordinary shares	50,900,000	25,450
At 31 December 2002	571,650,673	285,825

On 24 May 2002, the Company, through Dao Heng Securities Limited, proposed to place a maximum of 104,000,000 new ordinary shares with a par value of HK$0.50 each in the Company to independent investors at a consideration of HK$1.40 per placing share. At the date immediately prior to the entering into the placing agreement, the Company's share price was HK$1.45 per share. The corresponding issue and allotment of new shares was completed on 12 June 2002 and a total of 50,900,000 shares was issued. The excess of the share consideration over the nominal value of the issued shares of HK$45,810,000 was credited to the share premium account (note 28). The net proceeds from the placing of HK$69.5 million are to be used to finance the capital contribution to the equity interest in Huayi and for general working capital of the Group. The details of the set up of Huayi are set out in note 15 to the financial statements.

27. SHARE CAPITAL (continued)

Share options

The Company has adopted a new share option scheme on 7 June 2002, details of which are set out under the heading "Share option scheme" in the Report of the Directors.

Movements in share options during the year were as follows:

	Number of share options
Share options outstanding at beginning of year	–
Share options granted and accepted during the year	44,390,000
Share options outstanding at end of year	44,390,000

On 21 October 2002, the Company granted a total of 44,390,000 share options for a consideration of HK$1.00 per grantee which entitled the holders to subscribe for shares of the Company at any time during the period from 5 November 2002 to 4 November 2003. The subscription price payable upon the exercise of each option was HK$0.79, subject to adjustment. As at the date of this report, no share options granted have been exercised.

28. RESERVES

Company

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2001	95,220	76,838	(99,016)	73,042
Issue of new shares	179,276	–	–	179,276
Share issue expenses	(3,301)	–	–	(3,301)
Net loss for the year	–	–	(119,218)	(119,218)
At 31 December 2001	271,195	76,838	(218,234)	129,799
Issue of new shares	45,810	–	–	45,810
Share issue expenses	(1,790)	–	–	(1,790)
Net loss for the year	–	–	(294,390)	(294,390)
At 31 December 2002	**315,215**	**76,838**	**(512,624)**	**(120,571)**

The Company's contributed surplus is derived from the difference between the fair value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued in exchange therefor pursuant to the Group reorganisation in 1991. Under the Companies Act 1981 of Bermuda, a company may make distributions to its members out of its contributed surplus under certain circumstances.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before tax to net cash outflow generated from operations:

	Group	
	2002	2001
	HK$'000	*HK$'000*
		(As restated)
Loss before tax	**(316,615)**	(75,822)
Provision for impairment in value of investment	**250,000**	–
Provision for impairment in value of fixed assets	**6,576**	3,503
Provision for impairment in value of goodwill	**14,015**	21,047
Provision against inventories	**3,848**	9,504
Provision for doubtful debts	**1,600**	2,687
Depreciation	**17,168**	13,526
Amortisation of intangible assets	**1,912**	4,468
Amortisation of goodwill	**11,071**	5,656
Loss on disposal of fixed assets	**32**	–
Interest income	**(570)**	(1,149)
Interest expense	**1,279**	3,344
Operating loss before working capital changes	**(9,684)**	(13,236)
(Increase)/decrease in inventories	**(340)**	12,492
(Increase)/decrease in accounts receivable	**(19,128)**	17,344
(Increase)/decrease in prepayments and other receivables	**(8,521)**	8,613
Increase/(decrease) in accounts payable	**13,464**	(17,769)
Increase/(decrease) in other payables and accruals	**1,960**	(8,226)
Increase in amounts due to related companies	**292**	91
Decrease in trust receipt and export loans with maturity over three months	**(12,625)**	(12,005)
Net cash outflow generated from operations	**(34,582)**	(12,696)

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

(b) Acquisition of subsidiaries:

	Group 2002 HK$'000	2001 HK$'000
Net asset acquired of:		
Fixed assets	**9,732**	–
Intangible assets	**23,532**	–
Inventories	**6,838**	2,576
Accounts receivable	**5,468**	1,120
Prepayments and other receivables	**2,372**	–
Cash and bank balances	**1,713**	10
Accounts payable	**(2,069)**	–
Other payables and accruals	**(5,407)**	(2,523)
Minority interests *(note 29(c))*	**(45,232)**	(118)
	(3,053)	1,065
Goodwill on acquisition	**116,393**	33,935
	113,340	35,000
Satisfied by:		
Cash consideration	**113,340**	35,000

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

	Group 2002 HK$'000	2001 HK$'000
Cash consideration	**113,340**	35,000
Deposits paid on acquisition	**(101,500)**	–
Cash and bank balances acquired	**(1,713)**	(10)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**10,127**	34,990

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

(c) Analysis of changes in financing during the year:

	Issued capital, (including share premium) HK$'000	Finance lease payables HK$'000	Due to a director, and bank and other borrowings HK$'000	Minority interests HK$'000
At 1 January 2001	209,595	1,284	2,800	1,786
Net cash inflow/(outflow) from financing	321,975	(659)	1,824	7
Share of net profit for the year	–	–	–	310
Arising from acquisition of subsidiaries	–	–	–	118
Dividends paid to minority shareholders	–	–	–	(1,350)
At 31 December 2001	531,570	625	4,624	871
Net cash inflow/(outflow) from financing	69,470	(355)	6,570	–
Interest element of finance lease payment	–	62	–	–
Share of net profit for the year	–	–	–	6,134
Arising from acquisition of subsidiaries *(note 29(b))*	–	–	–	45,232
At 31 December 2002	**601,040**	**332**	**11,194**	**52,237**

30. CONTINGENT LIABILITIES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**34,000**	50,000
Bills discounted with recourse	**3,685**	2,421	**–**	–
	3,685	2,421	**34,000**	50,000

As at 31 December 2002, credit facilities utilised by the subsidiaries under the Company's guarantee amounted to HK$15,027,000 (2001: HK$30,493,000).

31. OPERATING LEASE ARRANGEMENTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases	**10,505**	8,995
Less: Amount capitalised	**(308)**	(229)
	10,197	8,766

At 31 December 2002, the Group had total future minimum lease payments under non-cancellable operating leases in respect of its land and buildings falling due as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within one year	**11,805**	10,116
In the second to fifth years, inclusive	**10,847**	17,894
	22,652	28,010

Operating lease payments represent rentals payable by the Group on certain of its leased properties. Leases are negotiated for an average term of 3 to 4 years at fixed rental.

The Company did not have any operating lease commitments at the balance sheet date (2001: Nil).

32. CAPITAL COMMITMENTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Acquisition of a subsidiary *(note 15)*	**43,028**	2,000
Acquisition of Chinese medicine intellectual property and knowhow	**9,346**	–

The Company did not have any capital commitments at the balance sheet date (2001: HK$Nil).

33. RELATED PARTY TRANSACTIONS

Set out below are the related party transactions disclosed in accordance with SSAP 20 issued by the Hong Kong Society of Accountants.

		Group	
		2002	2001
	Notes	***HK$'000***	*HK$'000*
Purchases of raw materials from a related company:			
Simple Link Company Limited ("Simple Link")	*(i)*	**885**	920
Rental expenses paid to related companies:	*(ii)*		
Bestbond Company Limited ("Bestbond")		**1,650**	1,650
Well Hero Industries Limited ("Well Hero")		**216**	216
Kamga Investment Limited ("Kamga")		**216**	216
WorldVest Capital Limited ("WorldVest")		**804**	871
Sun View Company Limited ("Sun View")		**1,080**	1,120
Rental expenses paid to a director:			
Leung Wah Chai	*(ii)*	**720**	720
Consultancy fees paid/payable to a related company:			
WorldVest	*(iii)*	**900**	900

(i) The directors consider that the purchases of raw materials were made at prices and on conditions similar to those offered by other independent suppliers of the Group. The balance due to Simple Link at 31 December 2002 amounted to HK$778,000 (2001: HK$245,000). The balance due is unsecured, interest-free and has no fixed terms of repayment.

In a special general meeting of the Company held on 30 November 1995, two ordinary resolutions were passed whereby the Group's purchases of lathe parts (the "Purchases") from Simple Link, a company of which Leung Wah Chai was a director and controlling shareholder for the period from 1 January 1992 up to 30 November 1995, were approved, ratified and confirmed. In addition, it was stipulated that the aggregate amount of the Purchases for the year ended 31 December 1995 and for each subsequent financial year should not exceed 3% of the annual purchases of the Group.

The independent non-executive directors of the Company have reviewed the Purchases for the year ended 31 December 2002 and confirmed to the board that, in their opinion, the Purchases have been conducted in the ordinary and usual course of the Group's business and were fair and reasonable so far as the shareholders of the Company were concerned, and that the aggregate value of the Purchases did not exceed 3% of the total purchases of the Group for the year then ended.

33. RELATED PARTY TRANSACTIONS (continued)

(ii) The rental expenses related to properties rented for the purpose of providing quarters to the directors and for office purposes, and were charged in accordance with the terms of the related rental agreements. The balance due to Worldvest at 31 December 2002 was HK$67,000 (2001: HK$308,000). The balance is unsecured, interest free and has no fixed terms of repayment.

(iii) The consultancy fees were charged in accordance with the terms of the service and management fee agreements. The balance due to WorldVest at 31 December 2002 was HK$450,000 (2001: HK$450,000). The balance due is unsecured, interest-free and has no fixed terms of repayment.

Leung Wah Chai is a director and controlling shareholder of Simple Link and Bestbond. Leung Wah Chai and Butt Wing Han are directors and controlling shareholders of Well Hero and Kamga. Cheng Shu Wing, Guo Duen How, Tom and Wu Fred Fong are the directors of WorldVest. Sun View is owned by an associated person of Kao Ying Lun.

34. CONNECTED TRANSACTIONS

In addition to the related party transactions disclosed in note 33 which also constituted connected transactions under the Listing Rules, the following transactions constitute connected transactions under the Listing Rules.

		Group	
		2002	2001
	Notes	***HK$'000***	*HK$'000*
Deposit paid in respect of purchase of intellectual and operating rights of twelve Chinese medicines from a minority interest: Huahe Pharmaceutical Co., Limited ("Huahe")	*(i)*	**4,673**	–
Purchase of raw materials/herbs from Huahe	*(i)*	**1,533**	–
Sales of medicinal products to China National Group Corp. of Traditional and Herbal Medicine ("China National Medicine")	*(ii)*	**1,751**	–

34. CONNECTED TRANSACTIONS (continued)

Notes:

(i) The directors consider that the acquisition of the twelve Chinese medicines and purchase of raw materials/herbs were based on arm's length negotiation with Huahe. These transactions were made in the ordinary and usual course of business with terms made on normal commercial terms.

(ii) China National Medicine is the controlling shareholder of Huahe. The directors consider that these sales were made in the ordinary and usual course of business with terms made on normal commercial terms.

35. POST BALANCE SHEET EVENTS

(a) In January 2003, the shareholders of the Huayi agreed in principle to extend the period for capital contribution from six months as stipulated in the joint venture agreement to one year, starting from the date of business registration of Huayi. This was agreeable by the parties and reflects the circumstances that subsequent to the signing of the joint venture agreement, the approval process for the joint venture by varies ministries and authorities and the setting up of the business took an extended period of time far exceeding what the parties had originally anticipated. Commitment to fully capitalize Huayi has now been extended to 26 July 2003.

(b) On 20 November 2002, the Group advanced HK$10,853,000 to Korning, a non-wholly owned subsidiary, to meet its capital contribution obligation to its indirect subsidiary – Huayi. The minority shareholder of Korning, an investment company not connected with the members of the Group and its directors, did not choose for reason explained below to make their share of capital contribution at the time. The Group considers that, under the terms of the Korning shareholders' agreement, it has the right to subscribe for an additional 6.55% of the shares in Korning as a result of the above contribution and has requested for Korning's shareholder approval. However, the minority shareholder of Korning is of the view that its legal obligation to contribute funds to Huayi has yet to expire as the deadline for capital contribution has been extended (refer to the above note (a)). As at the date of this report, the applicable provisions of the shareholders agreement were being reviewed by the parties and their respective professional advisers. Decision for approving the issue of any additional shares by Korning to the Group was pending.