

Notes to the Financial Statements

For the year ended 31 December 2002

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on the Stock Exchange.

The Company acts as an investment holding company and provides corporate management services. Details of the activities of its principal subsidiaries are set out in note 15.

2. SIGNIFICANT ACCOUNTING POLICIES

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

In the current year, the Group adopted the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34	:	Employee benefits

The new and revised standards have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosure for the prior year have been restated in order to achieve a consistent presentation. The adoption of these new and revised standards has not resulted in any major changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

i. SSAP 1 (revised): Presentation of financial statements

SSAP 1 (revised) has introduced new format of presentation in reporting changes in equity. The presentation in the prior year's financial statements has been restated in order to achieve a consistent presentation.

Notes to the Financial Statements

For the year ended 31 December 2002

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

ii. SSAP 15 (revised): Cash flow statements

SSAP 15 (revised) has changed the classifications of cash flows in the cash flow statement and the definition of cash equivalents by excluding cash balances held for investment purposes and short-term loans that are financing in nature. The presentation in the prior year's cash flow statement has been restated in accordance with the format.

iii. SSAP 33: Discontinuing operations

As a result of the adoption of SSAP 33, comparative amounts and disclosure for prior year's discontinuing operations have been restated in order to achieve a consistent presentation.

iv. SSAP 34: Employee benefits

SSAP 34 has introduced a formal framework for the recognition of liabilities and expenses in respect of employee benefits. The adoption of this new accounting standard has not resulted in any significant effects on the financial statements of the prior year and accordingly, no prior year adjustment has been recognised. The accounting policy for employee benefits is set out in note 2(p).

The adoption of the SSAP 11 (revised) has no significant effect on the current or prior year's accounts.

A summary of significant accounting policies followed by the Group in the preparation of the financial statements is set out below:

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities as explained in the accounting policies set out below.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

Notes to the Financial Statements

For the year ended 31 December 2002

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of consolidation *(Continued)*

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

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

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

(c) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's share of the fair value of the identifiable assets and liabilities of acquired subsidiaries, associates and jointly controlled entities at the dates of acquisition.

Goodwill arising on acquisitions is capitalised and amortised on a straight-line basis over its useful economic life of five years.

Goodwill arising on the acquisition of associates or jointly controlled entities is stated at cost less any accumulated amortisation and any impairment losses, and is included the carrying amount of the interest in associates or jointly controlled entities. Goodwill arising on the acquisition of consolidated subsidiaries is stated at cost less any accumulated amortisation and any impairment losses, and is presented separately in the consolidated balance sheet.

On disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of unamortised goodwill is included in the calculation of the profit or loss on disposal.

(d) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, revenue is recognised in the income statement as follows:

- i. Sales of goods are recognised when goods are delivered and title has passed.

Notes to the Financial Statements

For the year ended 31 December 2002

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Revenue recognition *(Continued)*

- ii. Service income is recognised when services are provided.
- iii. Guaranteed return is accrued on a time basis and is recognised when the guaranteed return becomes due and recoverability is reasonably assured.
- iv. Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.
- v. Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.
- vi. Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of leasehold land is amortised over the period of the lease using the straight-line method. Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	2%
Plant and machinery	5% – 20%
Furniture, fixtures and equipment	20% – 33%
Motor vehicles	20%

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

Notes to the Financial Statements

For the year ended 31 December 2002

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement on the date of disposal or retirement.

(f) Investments in subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(g) Interests in associates

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates and the goodwill (net of accumulated amortisation) on acquisition, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

(h) Jointly controlled entities

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

Notes to the Financial Statements

For the year ended 31 December 2002

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Jointly controlled entities *(Continued)*

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities and the goodwill (net of accumulated amortisation) on acquisition, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

The Company's investments in jointly controlled entities are stated at cost, as reduced by any identified impairment loss. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(i) Investments

Guaranteed income investments are accounted for as investments where the return therefrom is fixed. Such investments are initially recorded at cost less amortisation and impairment losses recognised.

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains or losses included in net profit or loss for the year.

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

Notes to the Financial Statements

For the year ended 31 December 2002

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(k) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

(l) Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Notes to the Financial Statements

For the year ended 31 December 2002

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Assets held under leases

i. Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the income statement over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

ii. Operating leases

Leases where substantially all the risks and rewards of ownership of asset remain with the leasing company are accounted for as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

(n) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Notes to the Financial Statements

For the year ended 31 December 2002

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

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

(p) Employee benefits

- i. Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- ii. The Group has participated in an approved Mandatory Provident Fund ("MPF") scheme effective from 1 December 2000 to provide MPF scheme to all eligible employees in Hong Kong. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution limited to 5% of HK\$20,000 for each eligible employee) as calculated under the MPF legislation. Contributions to MPF scheme are recognised as an expense in the income statement as incurred.
- iii. Employees in the Group's subsidiaries in the People's Republic of China (the "PRC") are required to participate in defined contribution retirement scheme operated by relevant government authorities. The PRC subsidiaries are required to contribute a certain percentage of the employee payroll to the scheme in accordance with the relevant regulations in the PRC and are charged to the income statement as incurred. There were no forfeited contributions used to reduce the future contributions as at 31 December 2002.
- iv. When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.
- v. Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Notes to the Financial Statements

For the year ended 31 December 2002

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Cash and cash equivalents

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

(r) Borrowing costs

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

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

(s) Provisions

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

(t) Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

Notes to the Financial Statements

For the year ended 31 December 2002

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Contingencies *(Continued)*

A contingent asset is a possible asset that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(u) Related party transactions

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. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments information be presented as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

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

Notes to the Financial Statements

For the year ended 31 December 2002

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Segment reporting (Continued)

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

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

3. TURNOVER

Turnover represents the amount received and receivable for goods sold to outside customers, less returns and allowances, service income and guaranteed return for the year, and is analysed as follows:

	2002 HK\$'000	2001 HK\$'000
Continuing operations:		
Software design and development	1,250	–
Internet software services	356	285
Return from a power plant in the PRC (note below)	–	374
Return from an investment in a motor spare parts business in the PRC (note below)	–	–
	<u>1,606</u>	<u>659</u>
Discontinuing operations:		
Manufacture and sale of coke, coal gas, coal tar and benzene (note 8)	–	99,919
Automobile repair and maintenance services (note 8)	–	26,239
	<u>1,606</u>	<u>126,817</u>

Note:

No return has been recognised in the current year as the recoverability of the guaranteed return for the current year is considered by the directors to be uncertain.

Notes to the Financial Statements

For the year ended 31 December 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four operating divisions – provision of software design and development, Internet software services, power plant and motor spare parts business. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Software design and development	–	E-commerce consultancy, software development, system integration, web design and sales of software (<i>note 31</i>)
Internet software services	–	Provision of Internet software services
Power plant	–	Guaranteed income investment in a power plant in the PRC
Motor spare parts business	–	Guaranteed income investment in a motor spare parts business in the PRC

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

The Group was also engaged in the manufacture and sale of coke, coal gas, coal tar and benzene, as well as the provision of automobile repair and maintenance services. These operations were disposed of during the year ended 31 December 2001 (*notes 8 and 32*).

Notes to the Financial Statements

For the year ended 31 December 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Segment information about these businesses is presented below:

2002

	Continuing operations					Consolidated HK\$'000
	Software design and development	Internet software services	Power plant	Motor spare parts business	Unallocated corporate	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
TURNOVER						
External sales	1,250	356	–	–	–	1,606
RESULTS						
Segment loss	(16,377)	(64)	(504)	–	–	(16,945)
Unallocated corporate expenses	–	–	–	–	(50,916)	(50,916)
Loss from operations	(16,377)	(64)	(504)	–	(50,916)	(67,861)
Finance costs	(3)	–	–	–	(1,909)	(1,912)
Net investment gain (loss)	–	2	–	–	(35,400)	(35,398)
Share of results of associates	–	–	–	–	(13,593)	(13,593)
Impairment losses	(20,000)	–	(8,992)	–	(217)	(29,209)
Loss before taxation	(36,380)	(62)	(9,496)	–	(102,035)	(147,973)
Taxation	–	–	–	–	–	–
Loss after taxation	(36,380)	(62)	(9,496)	–	(102,035)	(147,973)
Minority interests	–	–	–	–	(7)	(7)
Net loss for the year	(36,380)	(62)	(9,496)	–	(102,042)	(147,980)
OTHER INFORMATION						
Capital additions	721	126	–	–	4,965	5,812
Depreciation and amortisation	14,045	12	504	–	2,427	16,988
Allowance for:						
– trade and other receivables	–	–	–	–	11,000	11,000

Notes to the Financial Statements

For the year ended 31 December 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

2002

BALANCE SHEET

	Continuing operations				Consolidated HK\$'000
	Software design and development HK\$'000	Internet software services HK\$'000	Power plant HK\$'000	Motor spare parts business HK\$'000	
ASSETS					
Segment assets	3,470	323	–	–	3,793
Interests in associates					24,055
Unallocated corporate assets					87,737
Consolidated total assets					115,585
LIABILITIES					
Segment liabilities	733	101	–	–	834
Unallocated corporate liabilities					21,595
Consolidated total liabilities					22,429

Notes to the Financial Statements

For the year ended 31 December 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2001

	Discontinuing operations		Continuing operations					Consolidated HK\$'000
	Manufacture and sale of coke, coal gas, coal tar and benzene HK\$'000	Automobile repair and maintenance services HK\$'000	Software design and development HK\$'000	Internet software services HK\$'000	Power plant HK\$'000	Motor spare parts business HK\$'000	Unallocated corporate HK\$'000	
TURNOVER								
External sales	99,919	26,239	-	285	374	-	-	126,817
RESULTS								
Segment gain (loss)	10,062	2,300	-	(3,241)	(130)	(10)	-	8,981
Unallocated corporate expenses	-	-	-	-	-	-	(58,420)	(58,420)
Profit (loss) from operations	10,062	2,300	-	(3,241)	(130)	(10)	(58,420)	(49,439)
Finance costs	(4,563)	(567)	-	-	-	-	(3,507)	(8,637)
Net investment gain	110	8	-	6	-	-	13,678	13,802
Share of results of associates	-	-	-	-	-	-	(21,781)	(21,781)
Share of results of jointly controlled entities	-	-	-	-	-	-	(1,085)	(1,085)
Gain on disposal of jointly controlled entities	-	-	-	-	-	-	11,618	11,618
Loss on disposal of associates	-	-	-	-	-	-	(7,762)	(7,762)
Profit (loss) on disposal of discontinuing operations	2,685	(13,568)	-	-	-	-	-	(10,883)
Impairment losses	-	-	-	-	-	-	(693)	(693)
Profit (loss) before taxation	8,294	(11,827)	-	(3,235)	(130)	(10)	(67,952)	(74,860)
Taxation	(219)	(1,093)	-	-	-	-	-	(1,312)
Profit (loss) after taxation	8,075	(12,920)	-	(3,235)	(130)	(10)	(67,952)	(76,172)
Minority interests	-	(130)	-	-	-	-	-	(130)
Net profit (loss) for the year	8,075	13,050	-	(3,235)	(130)	(10)	(67,952)	(76,302)
OTHER INFORMATION								
Capital additions	8,356	1,085	-	107	-	-	1,521	11,069
Depreciation and amortisation	4,227	816	-	1,635	504	-	19,282	26,464
Allowance for:								
- trade and other receivables	-	-	-	692	-	-	-	692
- amount due from a former associate	-	-	-	-	-	-	4,000	4,000

Notes to the Financial Statements

For the year ended 31 December 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2001

BALANCE SHEET

	Discontinuing operations		Continuing operations				Consolidated HK\$'000
	Manufacture and sale of coke, coal gas, coal tar, and benzene HK\$'000	Automobile repair and maintenance services HK\$'000	Software design and development HK\$'000	Internet software services HK\$'000	Power plant HK\$'000	Motor spare parts business HK\$'000	
ASSETS							
Segment assets	–	–	–	368	9,496	–	9,864
Interests in associates							74,933
Unallocated corporate assets							195,715
Consolidated total assets							280,512
LIABILITIES							
Segment liabilities	–	–	–	84	–	–	84
Unallocated corporate liabilities							39,299
Consolidated total liabilities							39,383

Notes to the Financial Statements

For the year ended 31 December 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments

All the turnover of the Group arose from PRC excluding the Hong Kong and Macau Special Administrative Regions.

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	83,890	216,289	5,345	1,477
Other regions of PRC	26,218	57,907	467	9,549
Overseas	5,477	6,316	–	43
	<u>115,585</u>	<u>280,512</u>	<u>5,812</u>	<u>11,069</u>

Notes to the Financial Statements

For the year ended 31 December 2002

5. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

	2002 HK\$'000	2001 HK\$'000
Auditor's remuneration	529	1,500
Depreciation and amortisation of:		
– guaranteed income investments	504	504
– property, plant and equipment – owned assets	2,701	8,441
– leased assets	39	–
– goodwill arising on acquisition of subsidiary (included in other operating expenses)	11,475	–
– goodwill arising on acquisition of associates (included in other operating expenses)	2,269	9,282
– goodwill arising on acquisition of jointly controlled entities (included in other operating expenses)	–	8,237
	<u>16,988</u>	<u>26,464</u>
(Gain) loss on disposal of property, plant and equipment	(49)	1,180
Allowance for:		
– trade and other receivables	11,000	692
– amounts due from a former associate	–	4,000
Operating leases in respect of land and buildings	5,567	2,926
Research and development costs	202	–
Staff costs, including directors' remuneration		
– Salaries, wages and other benefits	24,185	19,538
– Contributions to defined contribution retirement scheme	166	924
	<u>24,351</u>	<u>20,462</u>

Notes to the Financial Statements

For the year ended 31 December 2002

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2002 HK\$'000	2001 HK\$'000
Directors' remuneration		
Fees:		
Executive directors	3,600	–
Independent non-executive directors	–	–
	<u>3,600</u>	<u>–</u>
Other emoluments (executive directors):		
Salaries and other benefits	6,345	7,209
Contributions to defined contribution retirement scheme	36	36
	<u>6,381</u>	<u>7,245</u>
	<u>9,981</u>	<u>7,245</u>

The emoluments of the directors were within the following bands:

	2002 Number of directors	2001 Number of directors
Nil to HK\$1,000,000	4	10
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$5,000,001 to HK\$5,500,000	<u>1</u>	<u>–</u>

Notes to the Financial Statements

For the year ended 31 December 2002

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Employees' remuneration

During the year, the five highest paid individuals of the Group included three directors (2001: two directors) of the Company. The emoluments of the remaining two (2001: three) highest paid individual(s) were as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	1,820	5,267
Contributions to defined contribution retirement scheme	23	25
	<u>1,843</u>	<u>5,292</u>

The emoluments of the employee(s) were within the following bands:

	2002 Number of employees	2001 Number of employees
Up to HK\$1,000,000	2	1
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$3,000,001 to HK\$3,500,000	–	1
	<u>–</u>	<u>1</u>

7. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on bank borrowings wholly repayable within five years	1,902	8,637
Interest element of finance leases	3	–
Other borrowing costs	7	–
Total borrowing costs	<u>1,912</u>	<u>8,637</u>

Notes to the Financial Statements

For the year ended 31 December 2002

8. DISCONTINUING OPERATIONS

- (a) On 6 December 2001, the Group disposed of its 80% interests in issued share capital of Henan Motor Car Repairing Company Limited 河南小汽車修理有限公司 (“HMCR”) to Amandine Asia Limited at a consideration of HK\$10,000,000. HMCR is incorporated in the PRC and is engaged in the provision of automobile repair and maintenance services. For the year ended 31 December 2001, HMCR contributed a turnover of HK\$26,239,000 and a profit after taxation of HK\$648,000 to the Group.
- (b) On 31 December 2001, the Group disposed of its entire shareholding in Grace Melody Enterprises Limited (“Grace Melody”), which holds the entire issued share capital of Henan Hong Kong (Jiyuan) Coking Company Limited 豫港(濟源)焦化有限公司 (“HH Coking”), to Buildnow Industries Limited at a consideration of RMB23,588,000 (approximately HK\$22,045,000). HH Coking is incorporated in the PRC and is engaged in the manufacture and sale of coke, coal gas, coal tar and benzene. For the year ended 31 December 2001, HH Coking contributed a turnover of HK\$99,919,000 and a profit after taxation of HK\$5,390,000 to the Group.

The turnover, results, cash flows and net assets of the above discontinuing operations were as follows:–

	Manufacture and sale of coke, coal gas, coal tar and benzene From 1 January 2001 to 31 December 2001 HK\$'000	Automobile repair and maintenance services From 1 January 2001 to 6 December 2001 HK\$'000
Turnover	99,919	26,239
Operating costs	(89,857)	(23,939)
Profit from operations	10,062	2,300
Finance costs	(4,563)	(567)
Net investment gain	110	8
Profit before taxation	5,609	1,741
Taxation	(219)	(1,093)
Profit after taxation	5,390	648
Net operating cash inflow	17,535	2,738
Net investing cash outflow	(2,909)	(270)
Net financing cash inflow	4,869	869
Total net cash inflow	19,495	3,337

Notes to the Financial Statements

For the year ended 31 December 2002

8. DISCONTINUING OPERATIONS (Continued)

	Manufacture and sale of coke, coal gas, coal tar and benzene At 31 December 2001 HK\$'000	Automobile repair and maintenance services At 6 December 2001 HK\$'000
Property, plant and equipment	67,296	31,587
Current assets	96,005	14,902
Total assets	163,301	46,489
Total liabilities	(143,941)	(22,921)
Net assets	19,360	23,568
Net assets sold	19,360	23,568
Proceeds from sale	22,045	10,000
Profit (loss) on disposal of discontinuing operations	2,685	(13,568)
Taxation thereon	–	–
After-tax profit (loss) on disposal	2,685	(13,568)

The net cash outflow on sale is determined as follows:

Proceeds from sale	22,045	10,000
Less: Trade and other receivables	(12,803)	(8,000)
Cash and cash equivalents in subsidiaries sold	(25,664)	(5,214)
Sale of subsidiaries, net of cash disposed	(16,422)	(3,214)

Further details of the aforesaid disposals are set out in note 32.

Notes to the Financial Statements

For the year ended 31 December 2002

9. NET INVESTMENT (LOSS) GAIN

	2002 HK\$'000	2001 HK\$'000
Gain on disposal of unlisted investments in the PRC	700	–
Unrealised holding (loss) gain on other investments	(25,871)	2,813
(Loss) gain on disposal of other investments	(10,560)	7,847
Dividend income	30	–
Interest income	303	3,142
	<u>(35,398)</u>	<u>13,802</u>

The unrealised holding (loss) gain on other investments has been calculated by reference to the market prices of the equity securities at the balance sheet date.

10. IMPAIRMENT LOSSES

	2002 HK\$'000	2001 HK\$'000
Impairment losses recognised in respect of:		
– investment securities	–	693
– property, plant and equipment	217	–
– goodwill on acquisition of subsidiaries (note 14)	20,000	–
– guaranteed income investments (note 18)	8,992	–
	<u>29,209</u>	<u>693</u>

11. TAXATION

Hong Kong profits tax is calculated at 16% (2001: 16%) on the estimated assessable profit for the year. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

No provision for Hong Kong profits tax has been made in the financial statements as the companies operating in Hong Kong did not have any assessable profit in both years.

No provision for PRC income tax has been made in the financial statements for the year ended 31 December 2002 as the companies operating in the PRC had no assessable profit for the year. The charge for the year ended 31 December 2001 represents PRC income tax on estimated assessable income calculated at the prevailing rates.

Details of the Group's potential deferred taxation are set out in note 29.

Notes to the Financial Statements

For the year ended 31 December 2002

12. LOSS PER SHARE

The calculation of loss per share is based on net loss for the year of approximately HK\$147,980,000 (2001: HK\$76,302,000) and 2,663,370,147 shares (2001: 2,663,370,147 shares) in issue during the year.

No diluted loss per share has been calculated as the exercise of the share options would result in a decrease in loss per share for both years.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP				
COST				
At 1 January 2002	839	3,661	5,664	10,164
Acquisition of subsidiary	–	1,215	–	1,215
Additions	–	2,862	2,950	5,812
Disposals	–	(63)	(1,258)	(1,321)
At 31 December 2002	839	7,675	7,356	15,870
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At 1 January 2002	20	2,054	3,754	5,828
Acquisition of subsidiary	–	540	–	540
Provided for the year	18	1,470	1,252	2,740
Impairment losses	–	217	–	217
On disposal written back	–	(51)	(857)	(908)
At 31 December 2002	38	4,230	4,149	8,417
NET BOOK VALUES				
At 31 December 2002	801	3,445	3,207	7,453
At 31 December 2001	819	1,607	1,910	4,336

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

Notes to the Financial Statements

For the year ended 31 December 2002

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

At 31 December 2002, the net book value of furniture, fixtures and equipment held by the Group under finance leases amounted to approximately HK\$356,000 (2001: HK\$ Nil).

The Group enters into finance lease arrangement for certain of its equipment. The term of finance lease entered into is three years. At the end of the lease term, the Group has the option to renew the lease on the same terms and conditions as set out in the lease agreement. None of the leases includes contingent rentals.

	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE COMPANY			
COST			
At 1 January 2002	364	1,348	1,712
Disposal	–	(455)	(455)
At 31 December 2002	364	893	1,257
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
At 1 January 2002	211	1,125	1,336
Provided for the year	49	223	272
On disposal written back	–	(455)	(455)
At 31 December 2002	260	893	1,153
NET BOOK VALUES			
At 31 December 2002	104	–	104
At 31 December 2001	153	223	376

Notes to the Financial Statements

For the year ended 31 December 2002

14. GOODWILL

	HK\$'000
COST	
Acquisition of subsidiary	40,899
Transferred from interests in associate	37,129
Impairment loss	(20,000)
At 31 December 2002	<u>58,028</u>
ACCUMULATED AMORTISATION	
Amortisation for the year and at 31 December 2002	<u>(13,744)</u>
CARRYING AMOUNT	
At 31 December 2002	<u>44,284</u>

The goodwill represents the excess of the cost of acquisition of the entire interest of Sharpo Holdings Limited over the Group's share of the fair value of identifiable assets and liabilities of Sharpo Holdings Limited at the date of acquisition, further details of which are set out in note 31.

As at 31 December 2002, the Group performed an assessment of the fair value of its goodwill. The assessment was based on value in use of the assets as determined at the cash generating unit based on the present value of estimated future cash flows. As a result of this assessment, the Group has recognised an impairment loss for goodwill attributable to the interest in Sharpo Holdings Limited of approximately HK\$20 million in the income statement for the year ended 31 December 2002.

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares/investments, at cost	1	1
Amounts due from subsidiaries	<u>395,191</u>	<u>503,543</u>
	395,192	503,544
Allowance for amounts due from subsidiaries	<u>(224,420)</u>	<u>(313,290)</u>
	<u>170,772</u>	<u>190,254</u>

Notes to the Financial Statements

For the year ended 31 December 2002

15. INVESTMENTS IN SUBSIDIARIES (Continued)

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, no part of the balances will be repayable within twelve months from the balance sheet date and the balances are therefore shown as non-current.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

Particulars of the Company's principal subsidiaries as at 31 December 2002 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid registered capital/ share capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Miracle Luck Limited (Note (i))	Hong Kong	HK\$20	–	100%	Investment in securities
Originsoft (Zhengzhou) Co., Ltd. ("Originsoft") 思源(鄭州)軟件有限公司 (Notes (i) & (ii))	PRC	RMB5,000,000	–	100%	Provision of Internet software services
Sharpo Limited	Hong Kong	HK\$10,000	–	100%	Management & corporate services
Chainstoreonline.net Limited	Hong Kong	HK\$30,000	–	100%	Web site design, development, installation and maintenance of computer software, sale of related computer products in Hong Kong
Sharpo Solutions Limited	British Virgin Islands	US\$1	–	100%	Trading of computer products and the provision of maintenance support services
廣州宏中電腦科技有限公司 ("廣州宏中") (Notes (i) & (iii))	PRC	RMB760,000	–	95%	Web site design, development, installation and maintenance of computer software, sale of related computer products in PRC

Notes to the Financial Statements

For the year ended 31 December 2002

15. INVESTMENTS IN SUBSIDIARIES (Continued)

Notes:

- (i) Statutory accounts of subsidiaries not audited by HLB Hodgson Impey Cheng
- (ii) Originsoft is a wholly foreign-owned enterprise established in the PRC with an operational term of 20 years until 3 April 2020.
- (iii) 廣州宏中 is a wholly foreign-owned enterprise established in the PRC with an operational term of 10 years until 26 April 2011.

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.

16. GAIN ON DISPOSAL OF JOINTLY CONTROLLED ENTITIES

On 19 April 2001, the Group acquired 60% of the issued share capital of CTIA VSAT Network Limited ("CTIA") by acquiring the entire share capital of CTIA's holding company, Excellent Idea Group Limited ("EIGL"). The acquisition was made at a cash consideration of approximately HK\$65,504,000 inclusive of incidental costs. CTIA was incorporated in Hong Kong and is engaged in investment holding. CTIA's 60% subsidiary is engaged in providing telecommunication services and has a 35% interest in a company which is an integrator and provider of information and data for broadcasting in the PRC. CTIA and its subsidiary were not consolidated and were treated as jointly controlled entities as the Group's ability to appoint the majority of the board of directors to CTIA was limited. The Group and the other shareholder of CTIA both had the right to appoint an equal number of directors to the board of directors. CTIA was accounted for in the Group's consolidated financial statements using the equity method of accounting. Goodwill arising on acquisition of EIGL was HK\$61,779,000 the amortisation for the year ended 31 December 2001 was HK\$8,237,000.

In December 2001, the Group disposed of its entire shareholding in EIGL to Elite Alliance Limited at a consideration of HK\$68,000,000, resulting in a gain of HK\$11,618,000 after netting off the incidental cost of HK\$200,000.

Notes to the Financial Statements

For the year ended 31 December 2002

17. INTERESTS IN ASSOCIATES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	24,055	37,009
Goodwill recognised	–	46,411
Less: Amortisation for the period	–	(9,282)
Goodwill, net	–	37,129
Amounts due from associates	–	795
	24,055	74,933

The amounts due from associates were unsecured, interest-free and had no fixed repayment terms. In the opinion of the directors, no part of the amounts were repayable within twelve months from the balance sheet date and the amounts were therefore shown as non-current.

On 20 January 2001, the Group acquired 45% of the issued share capital of Sharpo Holdings Limited and Sharpo Holdings Limited was an associate of the Group as at 31 December 2001. On 25 March 2002, the Group acquired the remaining 55% issued share capital of Sharpo Holdings Limited and Sharpo Holdings Limited then became a wholly-owned subsidiary of the Group, further details of which are set out in note 31.

On 29 September 2001, the Group disposed of its 49% interests in issued share capital of Sharp Capital Investments Limited ("Sharp Capital") to Sunny Field Limited, at a consideration of HK\$25,000,000, resulting in a loss of HK\$7,762,000 for the year ended 31 December 2001. Sharp Capital was incorporated in Hong Kong and is engaged in property investment.

Notes to the Financial Statements

For the year ended 31 December 2002

17. INTERESTS IN ASSOCIATES (Continued)

Particulars of the Group's associate as at 31 December 2002 are as follows:

Name of Company	Place of establishment and operation	Fully paid registered capital	Proportion of ownership interest	Principal activities
Henan Zhongzhou Radio & TV Information Network Co., Ltd. 河南中洲廣電信息網絡有限公司	PRC	RMB165,000,000	49%	Construction, maintenance enhancement and running of cable broadcasting and television network in Henan Province, the PRC.

The following financial information has been extracted from the unaudited management accounts of Henan Zhongzhou Radio & TV Information Network Co., Ltd. 河南中洲廣電信息網絡有限公司 for the years ended 31 December 2001 and 2002:

	2002 HK\$'000	2001 HK\$'000
Income statement		
Turnover	<u>9,486</u>	<u>6,053</u>
Depreciation and amortisation	<u>21,630</u>	<u>36,998</u>
Loss before taxation	<u>26,437</u>	<u>41,121</u>
Loss before taxation attributable to the Group	<u>12,954</u>	<u>20,149</u>

Notes to the Financial Statements

For the year ended 31 December 2002

17. INTERESTS IN ASSOCIATES (Continued)

	2002 HK\$'000	2001 HK\$'000
Balance sheet		
Non-current assets	116,378	106,725
Current assets	99,449	120,006
Current liabilities	(166,734)	(151,201)
Net assets	<u>49,093</u>	<u>75,530</u>
Net assets attributable to the Group	<u>24,055</u>	<u>37,009</u>

18. GUARANTEED INCOME INVESTMENTS

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unlisted investments in the PRC, at cost	124,299	124,299	121,495	121,495
Accumulated amortisation	(22,244)	(21,740)	(21,683)	(21,178)
	<u>102,055</u>	102,559	<u>99,812</u>	100,317
Impairment loss recognised	(102,055)	(93,063)	(99,812)	(90,821)
	<u>–</u>	<u>9,496</u>	<u>–</u>	<u>9,496</u>

The unlisted investments in the PRC represents the Group's investments in Henan Taiwu Electric Power Co., Ltd. 河南太屋電力有限公司 ("Taiwu") and Kaifeng Hongya Machinery Co., Ltd. 開封宏亞機械有限公司 ("Kaifeng").

Notes to the Financial Statements

For the year ended 31 December 2002

18. GUARANTEED INCOME INVESTMENTS *(Continued)*

- (a) Taiwu, a wholly owned subsidiary of the Company, had obtained consents from relevant PRC authorities to construct and operate a 25,000KW power generating unit (the "Unit") in Henan Province, the PRC and to produce and distribute electricity to Jiyuan Shi, Henan Province, the PRC, for the period from 25 June 1996 to 24 June 2017. The development and construction of the Unit was sub-contracted to Jiyuan Power Plant Company 河南省濟源電廠 ("Jiyuan") on a turnkey basis at a fixed cost of RMB130,000,000 (approximately HK\$121,495,000). Commencing from 15 August 1997, the operation and management of the Unit has been sub-contracted to Jiyuan pursuant to an operating agreement signed between Taiwu and Jiyuan (the "Operating Agreement"). The directors of the Company do not anticipate that any additional investment into the Unit will be required in the foreseeable future. Under the Operating Agreement, Jiyuan is responsible for the management and operation of the Unit, and all the profits and losses generated from the operation as well as taxes payable will be taken up by Jiyuan. Jiyuan will pay a guaranteed return to Taiwu, which is equivalent to 17% per annum on the total investment of Taiwu. Upon the expiry of the Operating Agreement, the Unit will revert to Jiyuan at no cost.

The Group's guaranteed return in Taiwu was pledged to a bank to secure banking facilities granted to the Group, details of which are set out in note 25.

- (b) In 1999, the Group acquired a 37.5% interest in Kaifeng, a company which is engaged in the manufacture and sales of spare parts for automobiles in Henan Province, the PRC. The Group entered into an operating agreement (the "Agreement") with an independent third party 開封宏達撥叉(集團)有限公司 ("宏達") for the operation and management of Kaifeng for a period of ten years. The directors of the Company do not anticipate that any additional investment in Kaifeng will be required in the foreseeable future. Under the Agreement, 宏達 is responsible for the management and operation of Kaifeng, and all the profits and losses generated from the operation as well as taxes payable will be taken up by 宏達. 宏達 will pay to the Group a guaranteed return of RMB750,000 per annum for the first four years and RMB700,000 per annum for the remaining six years.
- (c) Since the Group has no control over the assets or management or operations of Taiwu and Kaifeng, and only receives passive income from Jiyuan and 宏達 respectively, the directors of the Company consider that it is more appropriate to classify the investments as guaranteed income investments and state at cost less impairment loss and amortisation on a straight-line basis over the operating tenure of twenty years and ten years, respectively. The Group does not have any further commitment to invest in Taiwu and Kaifeng.

Notes to the Financial Statements

For the year ended 31 December 2002

18. GUARANTEED INCOME INVESTMENTS *(Continued)*

- (d) Since 2000, the Group experienced difficulties in collecting the guaranteed returns in respect of its investments in Taiwu, principally because of the restriction in operation imposed by the PRC government on smaller power generating units, and Kaifeng. An aggregate amount of RMB4,650,000 (approximately HK\$4,346,000) has been received by the Group up to 31 December 2002. The Group has issued demand letters through solicitors to Jiyuan and 宏達 and is considering to take further actions to collect the outstanding guaranteed income amounts. As the recoverability of the aggregate outstanding guaranteed income of RMB63,900,000 (approximately HK\$59,720,000) was considered by the directors to be uncertain, it has not been recognised by the Group as revenue in the financial statements.
- (e) Taking into the account of the restriction in operation of Taiwu and the inability to collect on the guaranteed return arrangements, the directors consider that there had been a decline in the recoverable amount of these guaranteed income investments and a further impairment loss of HK\$8,992,000 has been recognised in the financial statements for the year ended 31 December 2002, thus reducing the carrying value of the guaranteed income investments at 31 December 2002 to nil, being the estimated net sale proceeds of these investments as of 31 December 2002.

Notes to the Financial Statements

For the year ended 31 December 2002

19. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Investment securities:				
Unlisted overseas investment, at cost less impairment loss	3,119	3,119	–	3,119
Unlisted investments in the PRC, at cost	–	10,000	–	–
Club membership in Hong Kong, at cost	220	220	–	–
Club membership in the PRC, at cost	630	630	630	630
	<u>3,969</u>	<u>13,969</u>	<u>630</u>	<u>3,749</u>
Other investments:				
Listed shares in Hong Kong, at market value	12,387	7,465	3,423	7,465
	<u>16,356</u>	<u>21,434</u>	<u>4,053</u>	<u>11,214</u>
Carrying amount analysed for reporting purposes as:				
Current	12,387	7,465	3,423	7,465
Non-current	3,969	13,969	630	3,749
	<u>16,356</u>	<u>21,434</u>	<u>4,053</u>	<u>11,214</u>

Investment securities:

The unlisted overseas investment represents the Group's 1.66% interests in StemCyte, Inc., a company incorporated in the United States of America specialising in stem cell banking. The consideration of US\$1,000,000 was paid by the Company in August 2000. The directors estimate that the recoverable amount of this investment is its estimated net selling price in the current market. After considering the current operations of this Company, the directors considered that these had been a decline in the recoverable amount of this investment. As at 31 December 2002, an aggregate amount of impairment losses of HK\$4,693,000 had been recognised, being HK\$4,000,000, HK\$693,000 and HK\$nil for each of the three years ended 31 December 2002 respectively. StemCyte, Inc. is not related to the Group, the Company's directors or substantial shareholders. Subsequent to 31 December 2002, these unlisted overseas investment was disposed of at a consideration of HK\$2,500,000.

Notes to the Financial Statements

For the year ended 31 December 2002

19. INVESTMENTS IN SECURITIES (Continued)

Investment securities: (Continued)

The unlisted investments in the PRC as at 31 December 2001 represented the Group's 19.8% interests in Goldfit Assets Limited ("Goldfit"), a company incorporated in the British Virgin Islands. Goldfit has a 29.7% interest in China Real Estate Development Beijing Company Limited 中國房地產開發北京有限公司, a company incorporated in PRC and is engaged in property development and management. Goldfit and China Real Estate Development Beijing Company Limited 中國房地產開發北京有限公司 are not related to the Group, the Company's directors or substantial shareholders. During the year ended 31 December 2002, these unlisted investments in the PRC were disposed of at a consideration of HK\$10,700,000.

20. INVENTORIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Finished goods, at cost	21	–

21. TRADE AND OTHER RECEIVABLES

The Group and the Company allows an average credit period of 30 days to its trade customers. The ageing analysis of trade receivables is as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Up to 30 days	744	–	–	–
31 to 60 days	–	–	–	–
61 to 90 days	–	–	–	–
91 days or above	39	–	–	–
Total trade receivables	783	–	–	–
Other receivables (note)	19,648	112,335	4,951	21,125
	<u>20,431</u>	<u>112,335</u>	<u>4,951</u>	<u>21,125</u>

Notes to the Financial Statements

For the year ended 31 December 2002

21. TRADE AND OTHER RECEIVABLES (Continued)

Note:

As of 31 December 2002, included in other receivables are the outstanding balances for the purchase consideration due from the purchasers as a result of the disposal of the Group's a subsidiary and an associate during the year ended 31 December 2001. A breakdown of these outstanding balances, which are all repayable within one year from the balance sheet date, is as follows:

	THE GROUP HK\$'000	THE COMPANY HK\$'000
Buildnow Industries Limited (note 8(b))	10,916	10,916
Sunny Field Limited (note 17)	10,000	–
	<hr/>	<hr/>
	20,916	10,916
Allowance for trade and other receivables	(11,000)	(6,000)
	<hr/>	<hr/>
	9,916	4,916
	<hr/>	<hr/>

The directors of the Company are currently negotiating for the recovery of the outstanding balances. As the recoverability of these other receivables is considered by the directors to be uncertain, a provision for doubtful debts of approximately HK\$11,000,000 has been made during the year.

All the above companies are not related to the Group, the Company's directors or substantial shareholders.

22. REFUNDABLE DEPOSITS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Turnmile (Overseas) Limited	–	12,800
	<hr/>	<hr/>

During 2001, the Group paid deposits of HK\$12,800,000 in aggregate to Turnmile (Overseas) Limited with the intention of acquiring its telecommunication business. The directors finally decided to withdraw from this transaction and the deposit was subsequently refunded to the Group during the year ended 31 December 2002.

Turnmile (Overseas) Limited is not related to the Group, the Company's directors or substantial shareholders.

Notes to the Financial Statements

For the year ended 31 December 2002

23. TRADE AND OTHER PAYABLES

The ageing analysis of trade payables is stated as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Up to 30 days	32	–	–	–
Total trade payables	32	–	–	–
Other payables	3,374	4,553	1,636	3,534
	3,406	4,553	1,636	3,534

24. OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2002, the Group had obligations under finance leases repayable as follows:

	The Group					
	2002			2001		
	Present value of the minimum lease payments HK\$'000	Interest expense relating to future periods HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	Interest expense relating to future periods HK\$'000	Total minimum lease payments HK\$'000
Within 1 year	175	13	188	–	–	–
After 1 year but within 2 years	143	13	156	–	–	–
After 2 years but within 5 years	33	10	43	–	–	–
	176	23	199	–	–	–
	351	36	387	–	–	–

Notes to the Financial Statements

For the year ended 31 December 2002

25. BANK LOANS

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
The maturity of the bank loans is as follows:				
Within one year and shown under current liabilities	<u>18,672</u>	<u>34,830</u>	<u>18,672</u>	<u>34,830</u>

At 31 December 2002, bank loan of the Group and the Company of HK\$18,672,000 (2001: HK\$34,830,000) was guaranteed by Henan Hongkong Finance Limited ("HHF"), a wholly owned subsidiary of Henan Hongkong Enterprises Limited ("HHE"), without charge. In addition, the Group's guaranteed return in Taiwu was also pledged to the bank.

26. SHARE CAPITAL

	Number of shares		Value	
	2002	2001	2002 HK\$'000	2001 HK\$'000
Authorised:				
Ordinary shares of HK\$0.2 each	<u>6,000,000,000</u>	<u>6,000,000,000</u>	<u>1,200,000</u>	<u>1,200,000</u>
Issued and fully paid:				
Ordinary shares of HK\$0.2 each	<u>2,663,370,147</u>	<u>2,663,370,147</u>	<u>532,674</u>	<u>532,674</u>

Notes to the Financial Statements

For the year ended 31 December 2002

27. SHARE OPTIONS

- (a) At the annual general meeting of the Company held on 27 May 2002, the existing share option scheme, 1992 Share Option Scheme, which was adopted by the shareholders at general meeting on 24 July 1992, was terminated and a new share option scheme, 2002 Share Option Scheme, was approved and adopted. Details of the aforesaid share option schemes are set out in the paragraph headed "Share Options" in the Directors' Report.
- (b) At 31 December 2002, the following options to subscribe for shares were outstanding under the 1992 Share Option Scheme:

Date of grant	Number of share options	Exercisable period	Exercise price per share HK\$
26.1.2000	19,500,000	26.1.2001 to 25.1.2010	0.3300
3.2.2000	10,000,000	3.2.2001 to 2.2.2010	0.3648
19.6.2000	3,000,000	19.6.2001 to 18.6.2010	0.3152
28.7.2000	9,000,000	28.7.2001 to 27.7.2010	0.2784
	<u>41,500,000</u>		

During the year, no option was granted and exercised under the 1992 Share Option Scheme and no share option was granted under 2002 Share Option Scheme.

Notes to the Financial Statements

For the year ended 31 December 2002

28. RESERVES

	Share premium HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
THE GROUP				
At 1 January 2001	491,076	(16)	(706,303)	(215,243)
Net loss for the year	–	–	(76,302)	(76,302)
At 31 December 2001 and 1 January 2002	491,076	(16)	(782,605)	(291,545)
Net loss for the year	–	–	(147,980)	(147,980)
At 31 December 2002	491,076	(16)	(930,585)	(439,525)

The deficit of the Group includes accumulated losses of approximately HK\$54 million (2001: approximately HK\$41 million) attributable to associate of the Group.

	Share premium HK\$'000	Deficit HK\$'000	Total HK\$'000
THE COMPANY			
At 1 January 2001	491,076	(709,261)	(218,185)
Net loss for the year	–	(82,384)	(82,384)
At 31 December 2001 and 1 January 2002	491,076	(791,645)	(300,569)
Net loss for the year	–	(71,787)	(71,787)
At 31 December 2002	491,076	(863,432)	(372,356)

The Company did not have any reserves available for distribution to shareholders as at 31 December 2002 and 2001.

Notes to the Financial Statements

For the year ended 31 December 2002

29. POTENTIAL DEFERRED TAXATION

At the balance sheet date, the major components of the potential deferred taxation assets (liabilities) are as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:		
Tax losses available to set off future profits	21,182	11,800
Excess of depreciation allowances claimed for tax purpose over depreciation charged in the financial statements	(71)	(30)
	<u>21,111</u>	<u>11,770</u>

A potential deferred taxation asset has not been recognised in the financial statements as it is not certain that the tax benefits will be utilised in the foreseeable future.

The amount of unrecognised deferred tax credit of the Group for the year is as follows:

	2002	2001
	HK\$'000	HK\$'000
Tax losses incurred	9,382	2,071
Excess of depreciation allowances claimed for tax purpose over depreciation charged in the financial statements	(41)	(40)
	<u>9,341</u>	<u>2,031</u>

Notes to the Financial Statements

For the year ended 31 December 2002

30. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH FROM OPERATING ACTIVITIES

	2002 HK\$'000	2001 HK\$'000
Loss before taxation	(147,973)	(74,860)
Adjustments for:		
Impairment losses	29,209	693
Share of results of jointly controlled entities	–	1,085
Share of results of associates	13,593	21,781
Unrealised holding loss (gain) of other investments	25,871	(2,813)
Gain on disposal of investment securities	(700)	–
Gain on disposal of jointly controlled entities	–	(11,618)
Loss on disposal of associates	–	7,762
Loss on disposal of discontinuing operations	–	10,883
Dividend income from other investments	(30)	–
Interest income	(303)	(3,142)
Interest expense	1,912	8,637
Amortisation of guaranteed income investments	504	504
Amortisation of goodwill arising on acquisition of		
– subsidiary	11,475	–
– associates	2,269	9,282
– jointly controlled entities	–	8,237
Depreciation and amortisation of property, plant and equipment	2,740	8,441
(Gain) loss on disposal of property, plant and equipment	(49)	1,180
Allowance for amount due from a former associate	–	4,000
Loss (gain) on disposal of other investments	10,560	(7,847)
Operating loss before changes in working capital	(50,922)	(17,795)
Increase in inventories	(21)	(6,804)
Decrease in trade and other receivables	92,425	21,856
(Decrease) increase in trade and other payables	(2,227)	14,573
Cash generated from operations	39,255	11,830
Interest paid	(1,912)	(8,637)
Interest received	303	3,142
Tax paid		
PRC income tax received	–	737
Net cash from operating activities	37,646	7,072

Notes to the Financial Statements

For the year ended 31 December 2002

31. ACQUISITION OF A SUBSIDIARY

On 25 March 2002, the Group acquired the remaining 55% issued share capital of Sharpo Holdings Limited and the shareholder's loan due from Sharpo Holdings Limited to the vendor, an independent third party, for an aggregate cash consideration of HK\$41,000,000. Sharpo Holdings Limited and its subsidiaries are principally engaged in the e-commerce consultancy, software development, system integration, web design and sales of software. The fair value of the net identifiable assets of Sharpo Holdings Limited at the date of acquisition was approximately HK\$857,000. The resulting goodwill of approximately HK\$40,282,000 is amortised on a straight-line basis over 5 years. The acquired business contributed revenues of approximately HK\$1,250,000 and operating loss of approximately HK\$16,380,000 to the Group for the period from 25 March 2002 to 31 December 2002. As a result, the Group's net assets as at the year end have been reduced by approximately HK\$16,380,000.

	2002 HK\$'000
Net assets acquired:	
Property, plant and equipment	675
Goodwill	617
Trade and other receivables	521
Bank balances and cash	124
Trade and other payables	(1,080)
	<hr/>
	857
Interest in associate	(386)
Goodwill arising on acquisition	40,282
	<hr/>
Net purchase price	40,753
	<hr/>
Satisfied by:	
Cash consideration	40,605
Shareholder loan	395
	<hr/>
	41,000
	<hr/>
Analysis of net outflow of cash and cash equivalents on acquisition of a subsidiary:	
Consideration paid in cash	(40,605)
Expenses incurred on acquisition	(148)
Bank balances and cash acquired	124
	<hr/>
Net outflow of cash and cash equivalents on acquisition of a subsidiary	(40,629)

Notes to the Financial Statements

For the year ended 31 December 2002

32. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2001, the Group disposed of its equity interests in HMCR and Grace Melody at a consideration of HK\$10,000,000 and RMB23,588,000 respectively.

Summary of the effects of the disposal of subsidiaries are as follows:

	2001 HK\$'000
Net assets disposed of:	
Property, plant and equipment	98,883
Investment securities	421
Inventories	30,670
Trade and other receivables	48,938
Bank balances and cash	30,878
Trade and other payables	(99,379)
Amount due to related companies	(1,175)
Taxation	(2,139)
Bank loan	(60,748)
Minority interests	(3,421)
	<hr/>
	42,928
Loss on disposal of subsidiaries	(10,883)
	<hr/>
	32,045
Satisfied by:	
Cash consideration received	11,242
Trade and other receivables	20,803
	<hr/>
	32,045
Net cash outflow arising from disposal:	
Bank balances and cash disposed of	(30,878)
Cash consideration received	11,242
	<hr/>
	(19,636)

Notes to the Financial Statements

For the year ended 31 December 2002

33. OPERATING LEASE COMMITMENTS

As at 31 December 2002, the total future minimum lease payments under non-cancellable operating leases in respect of rented office premises and staff quarter are payable as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Within one year	3,306	3,811
In the second to fifth year inclusive	3,630	7,188
	<u>6,936</u>	<u>10,999</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises and staff quarter. The leases typically run for a lease term of one to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

34. CAPITAL COMMITMENTS

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	<u>-</u>	<u>347</u>

As at 31 December 2002 and 2001, the Company had no significant capital commitments.

35. RELATED PARTY TRANSACTIONS

- (a) At 31 December 2002, bank loans of HK\$18,672,000 (2001: HK\$34,830,000) were guaranteed without charge by HHF, a wholly owned subsidiary of HHE.
- (b) The Group did not recognise any guaranteed profit receivable from HHF for the year ended 31 December 2000. Details of the guaranteed profit arrangement with HHF are set out in note 36.

Notes to the Financial Statements

For the year ended 31 December 2002

36. CONTINGENCIES

In 1999, the Group acquired the entire equity interest in HH Coking from HHF. HHF was a wholly owned subsidiary of HHE, a substantial shareholder of the Company.

HHF guaranteed the profit available for distribution of HH Coking, calculated in accordance with accounting principles generally accepted in Hong Kong, to be not less than an equivalent of HK\$36,000,000 for the year ended 31 December 2000. For the year ended 31 December 2000, HH Coking incurred an operating loss of HK\$9,872,000.

The Group experienced difficulties in collecting the aforesaid guaranteed profit amount under the HH Coking guaranteed profit arrangement. The Group has issued demand letters through solicitors to the guarantor and is taking further legal actions in order to collect the guaranteed profit amount. As the recoverability of the guaranteed profit was considered by the directors to be uncertain, the guaranteed profit had not been recognised in the financial statements.

37. SUBSEQUENT EVENTS

Save as those disclosed in note 19 above, the Group has no significant post balance sheet events subsequent to 31 December 2002.