

1. GENERAL

The Company was incorporated in Bermuda on 23 June 1992 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Group was principally engaged in the trading of bags, property investment and investment holding.

The financial statements for the current period cover the twelve months ended 31 December 2002. The corresponding amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover a eighteen-month period from 1 July 2000 to 31 December 2001 and therefore may not be comparable with amounts shown for the current year.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The current directors were appointed on or after 15 October 2001 and have used their best endeavours to locate all the financial and business records of the Group. However, the directors have encountered the following difficulties in preparing the consolidated financial statements.

(a) The directors are unable to obtain sufficient documentary evidence to satisfy themselves as to whether the following amounts included in the consolidated income statement based on unaudited management accounts relating to subsidiaries, which were either disposed of or liquidated during the period from 1 July 2000 to 31 December 31 2001, were free from material misstatement:

- Turnover of HK\$12,202,000
- Cost of sales of HK\$17,511,000
- Other operating income of HK\$35,000
- Selling and distribution costs of HK\$594,000
- Administrative expenses of HK\$9,209,000
- Finance costs of HK\$11,435,000

Against this background, the directors are also unable to satisfy themselves as to whether the gain on disposal and liquidation of these subsidiaries of HK\$145,038,000 included in the consolidated income statement for the period from 1 July 2000 to 31 December 2001 was free from material misstatement.

For the year ended 31 December 2002

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(Continued)*

- (b) The directors are unable to obtain sufficient documentary evidence and financial information to satisfy themselves as to the recoverable amount of the exchangeable loan receivable of HK\$25,000,000 included in the consolidated balance sheet at 31 December 2001. Although as explained in note 22, full allowance has been made for this amount in the consolidated income statement for the year ended 31 December 2002, the directors were unable to satisfy themselves that such allowance should not have been made in the period from 1 July 2000 to 31 December 2001.

3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants. The adoption of these standards has led to a number of changes in the Group's accounting policies as mentioned below, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required. In addition, the new and revised standards have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior period have been restated in order to achieve a consistent presentation.

Presentation of financial statements

The adoption of SSAP 1 (Revised) "Presentation of financial statements" results in the presentation of the statement of changes in equity in lieu of the statement of recognised gains and losses.

Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flow statements

Under SSAP 15 (Revised) "Cash Flow Statements", cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest received and interest paid, which were previously presented under a separate heading, are classified as investing and operating cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Segment reporting

The Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment Reporting". Segment disclosures for the period from 1 July 2000 to 31 December 2001 have been amended so that they are presented on a consistent basis.

3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(Continued)*

Consolidation

SSAP 32 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries" requires that subsidiaries excluded from consolidation on the basis that control is intended to be temporary should be accounted for as if they are investments in securities in accordance with SSAP 24 "Accounting for Investments in Securities". In August 2001, the Group acquired a 83% interest in Leckford Limited ("Leckford"). In the financial statements for the period from 1 July 2000 to 31 December 2001, investment in Leckford was accounted for at the lower of cost and net realisable value, in accordance with SSAP 7 "Group Accounts", as explained in note 19. This change in accounting policy has been applied retrospectively and investment in Leckford has been accounted for in accordance with the Group's accounting policy for investments in securities. The Group's interest in Leckford was disposed of in April 2002, as described in note 19.

Employee benefits

SSAP 34 "Employee Benefits" introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements. Other changes in measuring employment benefits have not had any material effect on the results for the current or prior accounting periods.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and certain investments in securities. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, other than those excluded for reasons referred to below, made up to the balance sheet date.

Where an interest in a subsidiary is acquired with the intention that control is to be temporary, the Group's interest in the subsidiary is accounted for in accordance with the Group's accounting policy for investments other than held-to-maturity securities in accordance with SSAP 24 "Accounting for Investments in Securities".

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

For the year ended 31 December 2002

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in subsidiaries

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

Investments in securities

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 and losses included in net profit or loss for the year.

Revenue recognition

Sale of goods is recognised when goods are delivered and title has passed.

Sale proceeds on trading of securities are recognised on a trade date basis when the sale and purchase agreement becomes unconditional.

Rental income in respect of properties under operating leases, where substantially all the risks and rewards of ownership of assets remain with the lessor, is recognised over the lease term of the respective tenancy on a straight-line basis.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives using the straight line method, at the rate of 20% per annum.

The gain or loss arising on 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment

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

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Assets held under finance leases

Finance leases are leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as obligations under finance leases. Finance costs, which represent the difference between the total lease commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant contract so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

For the year ended 31 December 2002

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Operating leases

Rentals payable in respect of operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated 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 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 year in which the operation is disposed of.

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 using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme (the "MPF Scheme") are charged as an expense as they fall due.

5. TURNOVER AND SEGMENT INFORMATION

Turnover represents the aggregate of proceeds from sale of goods, proceeds from securities trading and rental income.

Business segments

For management purposes, the Group is currently organised into three operating divisions – trading of bags, property investment and investment holding. These divisions are the basis on which the Group reports its primary segment information.

In prior years, the Group was also involved in the manufacture and trading of cut sew products, plastic items and porcelain products. That operation was discontinued from February 2001.

For the year ended 31 December 2002

5. TURNOVER AND SEGMENT INFORMATION *(Continued)***Business segments** *(Continued)*

Segment information about these businesses is presented below.

INCOME STATEMENT

For the year ended 31 December 2002

	Trading of bags <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Manufacture and trading of cut and sew products, plastic items and porcelain products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
SEGMENT REVENUE	<u>28,286</u>	<u>10,804</u>	<u>4,036</u>	<u>–</u>	<u>43,126</u>
RESULTS					
Segment result	<u>(5,027)</u>	<u>(54,929)</u>	<u>(2)</u>	<u>–</u>	<u>(59,958)</u>
Other operating income					76
Unallocated corporate expenses					<u>(11,601)</u>
Loss from operations					(71,483)
Finance costs					<u>(3,170)</u>
Loss before taxation					(74,653)
Taxation					<u>(8,696)</u>
Net loss for the year					<u>(83,349)</u>

Notes to the Financial Statements

For the year ended 31 December 2002

5. TURNOVER AND SEGMENT INFORMATION (Continued)

INCOME STATEMENT (Continued)

For the period from 1 July 2000 to 31 December 2001

	Trading of bags <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Manufacture and trading of cut and sew products, plastic items and porcelain products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
SEGMENT REVENUE	<u>74,868</u>	<u>115,481</u>	<u>–</u>	<u>12,202</u>	<u>202,551</u>
RESULTS					
Segment result	<u>601</u>	<u>(77,913)</u>	<u>–</u>	<u>(15,075)</u>	(92,387)
Other operating income					321
Unallocated corporate expenses					<u>(29,164)</u>
Loss from operations					(121,230)
Waiver of short term loans from a business associate				10,162	10,162
Waiver of other short term loans					211
Gain on disposal and liquidation of subsidiaries and associates				145,038	145,038
Finance costs					<u>(20,710)</u>
Profit before taxation					13,471
Taxation					<u>(14,733)</u>
Net loss for the period					<u>(1,262)</u>

For the year ended 31 December 2002

5. TURNOVER AND SEGMENT INFORMATION (Continued)**BALANCE SHEET**

At 31 December 2002

	Trading of bags <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Manufacture and trading of cut and sew products, plastic items and porcelain products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS					
Segment assets	131	113,164	301,527	–	414,822
Unallocated corporate assets					2,053
Consolidated total assets					<u>416,875</u>
LIABILITIES					
Segment liabilities	1,000	125	7,404	–	8,529
Unallocated corporate liabilities					205,006
Consolidated total liabilities					<u>213,535</u>

At 31 December 2001

	Trading of bags <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Manufacture and trading of cut and sew products, plastic items and porcelain products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS					
Segment assets	12,419	118,400	–	–	130,819
Unallocated corporate assets					4,591
Consolidated total assets					<u>135,410</u>
LIABILITIES					
Segment liabilities	8,273	112	–	–	8,385
Unallocated corporate liabilities					60,680
Consolidated total liabilities					<u>69,065</u>

Notes to the Financial Statements

For the year ended 31 December 2002

5. TURNOVER AND SEGMENT INFORMATION (Continued)

OTHER INFORMATION

For the year ended 31 December 2002

	Trading of bags <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Manufacture and trading of cut and sew products, plastic items and porcelain products <i>HK\$'000</i>
Additions to investment properties and property, plant and equipment	–	–	300,000	–
Depreciation and amortisation	44	–	–	–
Allowance for doubtful loans receivable	–	30,000	–	–
Allowance for amount receivable in respect of disposal of an investee company	–	25,000	–	–

For the period from 1 July 2000 to 31 December 2001

	Trading of bags <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Manufacture and trading of cut and sew products, plastic items and porcelain products <i>HK\$'000</i>
Additions to property, plant and equipment	219	1,632	–	–
Depreciation and amortisation	44	244	–	–
Loss on disposal of property, plant and equipment	–	201	–	–
Allowance for amount receivable in respect of disposal of subsidiaries	–	3,500	–	–
Loss on disposal of subsidiaries	–	15,117	–	–

For the year ended 31 December 2002

5. TURNOVER AND SEGMENT INFORMATION (Continued)**Geographical segments**

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market	
	1.1.2002 to 31.12.2002 <i>HK\$'000</i>	1.7.2000 to 31.12.2001 <i>HK\$'000</i>
Hong Kong	41,549	179,290
United States of America	1,577	15,806
Other countries	–	7,455
	<u>43,126</u>	<u>202,551</u>

Revenue from the Group's discontinued operation of manufacture and trading of cut and sew products, plastic items and porcelain products of HK\$11,895,000 and HK\$307,000 for the period from 1 July 2000 to 31 December 2001 were derived from Hong Kong and other countries respectively.

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

	Carrying amount of segment assets		Additions to investment properties and property, plant and equipment	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	1.1.2002 to 31.12.2002 <i>HK\$'000</i>	1.7.2000 to 31.12.2001 <i>HK\$'000</i>
Hong Kong	414,822	101,157	300,383	1,898
Taiwan	–	25,000	–	–
United States of America	–	3,209	–	–
Other countries	–	1,453	–	–
	<u>414,822</u>	<u>130,819</u>	<u>300,383</u>	<u>1,898</u>

Notes to the Financial Statements

For the year ended 31 December 2002

6. OTHER OPERATING INCOME

Included in other operating income is interest income of HK\$5,000 (1.7.2000 to 31.12.2001: HK\$2,388,000).

7. ALLOWANCE FOR AMOUNT RECEIVABLE IN RESPECT OF DISPOSAL OF AN INVESTEE COMPANY

	THE GROUP	
	1.1.2002 to 31.12.2002 HK\$'000	1.7.2000 to 31.12.2001 HK\$'000
Allowance for proceeds receivable from disposal of an investee company (<i>note 19(a)</i>)	26,250	–
Less: Reversal of deferred gain on disposal	(1,250)	–
	<u>25,000</u>	<u>–</u>

8. LOSS FROM OPERATIONS

	THE GROUP	
	1.1.2002 to 31.12.2002 HK\$'000	1.7.2000 to 31.12.2001 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Auditors' remuneration	489	619
Depreciation		
Owned assets	55	7,422
Assets held under finance lease	52	120
Minimum lease payments paid under operating lease in respect of rented premises	183	1,432
Staff costs including directors' emoluments	3,730	33,140
Loss on disposal of property, plant and equipment	–	201
Exchange gain	(159)	–
Rental income less outgoings	(3,064)	–
	<u>(3,064)</u>	<u>–</u>

9. WAIVER OF SHORT TERM LOANS

	THE GROUP	
	1.1.2002 to 31.12.2002 HK\$'000	1.7.2000 to 31.12.2001 HK\$'000
Waiver of short term loans from a business associate (<i>note</i>)	–	10,162
Waiver of other short term loans	–	211
	<u>–</u>	<u>10,373</u>

Note: Li Mei Trading Company ("Li Mei"), a business associate of the Group, filed a winding-up petition against the Company with the court in late March 2000 as a result of the failure to repay outstanding loan due from the Group. On 1 August 2000, the Group, Li Mei and an independent party entered into a settlement agreement and a deed of undertaking so that the independent party would settle, by installments, the loan due by the Group to Li Mei and the settlement will not be financed by or recoverable from the Group. Li Mei has withdrawn the winding-up petition against the Company and, on 14 August 2000, the court dismissed the winding-up petition. Li Mei has no recourse against the Group in the event of default of payment by the third party.

10. FINANCE COSTS

	THE GROUP	
	1.1.2002 to 31.12.2002 HK\$'000	1.7.2000 to 31.12.2001 HK\$'000
Interest on:		
Bank borrowings	2,504	99
Convertible bond	–	5,924
Finance lease	21	15
Other loans wholly repayable within five years	120	14,672
Fee for arrangement of a loan	525	–
	<u>3,170</u>	<u>20,710</u>

Notes to the Financial Statements

For the year ended 31 December 2002

11. DISCONTINUED OPERATIONS

On 5 February 2001, Pam & Frank Industrial Company Limited, a subsidiary of the Company engaged in the design, manufacture and trading of bags and stuffed toys, was put into liquidation. Since then the Group disposed of other subsidiaries engaged in similar business. The gain on disposal and liquidation of these subsidiaries amounted to HK\$145,038,000 (note 5).

The results of these subsidiaries for the period from 1 July 2000 to the date of discontinuance, which have been included in the consolidated income statement, were as follows:

	1.7.2000 to 31.12.2001 <i>HK\$'000</i>
Turnover	<u>12,202</u>
Loss before taxation	<u>16,350</u>

12. DIRECTORS' EMOLUMENTS

	THE GROUP	
	1.1.2002 to 31.12.2002 <i>HK\$'000</i>	1.7.2000 to 31.12.2001 <i>HK\$'000</i>
Directors' fees	740	765
Other emoluments – executive directors		
Salaries and other benefits	1,960	23,116
Retirement benefit scheme contributions	–	30
	<u>2,700</u>	<u>23,911</u>

The directors' fees disclosed above include directors' fees of HK\$190,000 (1.7.2000 to 31.12.2001: HK\$190,000) payable to independent non-executive directors.

For the year ended 31 December 2002

12. DIRECTORS' EMOLUMENTS *(Continued)*

Emoluments of the directors were within the following bands:

	1.1.2002 to 31.12.2002 Number of directors	1.7.2000 to 31.12.2001 Number of directors
Nil to HK\$1,000,000	8	15
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$9,500,001 to HK\$10,000,000	–	1
HK\$11,000,001 to HK\$11,500,000	–	1
	<u>8</u>	<u>18</u>

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (1.7.2000 to 31.12.2001: four) are directors of the Company whose emoluments are included in note 12 above. The emoluments of the remaining two (1.7.2000 to 31.12.2001: one) are as follows:

	THE GROUP	
	1.1.2002 to 31.12.2002 <i>HK\$'000</i>	1.7.2000 to 31.12.2001 <i>HK\$'000</i>
Salaries and other benefits	504	558
Retirement benefit scheme contributions	24	–
Contractual severance payment for compensation for loss of office	–	137
	<u>528</u>	<u>695</u>

Notes to the Financial Statements

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13. EMPLOYEES' EMOLUMENTS *(Continued)*

Their emoluments were within the following bands:

	1.1.2002 to 31.12.2002 Number of employees	1.7.2000 to 31.12.2001 Number of employee
Nil to HK\$1,000,000	<u>2</u>	<u>1</u>

14. TAXATION

The charge for the year/period comprises:

	THE GROUP	
	1.1.2002 to 31.12.2002 <i>HK\$'000</i>	1.7.2000 to 31.12.2001 <i>HK\$'000</i>
Hong Kong Profits Tax	53	14,733
Deferred tax <i>(note 29)</i>	<u>8,643</u>	<u>–</u>
	<u>8,696</u>	<u>14,733</u>

No provision for Hong Kong Profits Tax has been made for the year as the Group has no assessable profit. The tax charge for the year represents under provision in prior years. Hong Kong Profits Tax for the period from 1 July 2000 to 31 December 2001 was calculated at 16% of the estimated assessable profit for the period.

15. LOSS PER SHARE

The calculation of basic and diluted loss per share for both periods, which have been adjusted for the consolidation of the Company's ordinary shares subsequent to the balance sheet date as described in note 39, is based on the following data:

	THE GROUP	
	1.1.2002 to 31.12.2002 <i>HK\$'000</i>	1.7.2000 to 31.12.2001 <i>HK\$'000</i>
Earnings		
Loss for the year/period	<u>(83,349)</u>	<u>(1,262)</u>
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of shares	<u>110,254</u>	<u>50,697</u>

The computation of diluted loss per share for the year does not assume the exercise of the outstanding share options and warrants since their exercises would not increase the loss per share.

The computation of diluted loss per share for the prior period does not assume the conversion of the outstanding convertible bond and exercise of share options since their conversion or exercise would not increase the loss per share.

Notes to the Financial Statements

For the year ended 31 December 2002

16. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST			
At 1 January 2002	266	–	266
Additions	39	344	383
Disposals	(36)	–	(36)
	<u>269</u>	<u>344</u>	<u>613</u>
At 31 December 2002			
ACCUMULATED DEPRECIATION			
At 1 January 2002	45	–	45
Provided for the year	55	52	107
Eliminated on disposals	(7)	–	(7)
	<u>93</u>	<u>52</u>	<u>145</u>
At 31 December 2002			
NET BOOK VALUES			
At 31 December 2002	<u>176</u>	<u>292</u>	<u>468</u>
At 31 December 2001	<u>221</u>	<u>–</u>	<u>221</u>

The motor vehicle is held under a finance lease.

17. INVESTMENT PROPERTIES

	THE GROUP <i>HK\$'000</i>
VALUATION	
At 1 January 2002	–
Addition through acquisition of a subsidiary (<i>note 30</i>)	300,000
 At 31 December 2002	 300,000

Investment properties are located in Hong Kong under long leases. Investment properties were valued on the open market value at 31 December 2002 by LCH (Asia-Pacific) Surveyors Limited, a firm of chartered surveyors, on an open market existing use basis. This valuation did not give rise to any revaluation surplus or deficit.

18. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unlisted shares, at cost	1	1
Amounts due from subsidiaries	289,719	97,740
	289,720	97,741
Less: Allowances	(95,567)	(34,500)
	194,153	63,241

Notes to the Financial Statements

For the year ended 31 December 2002

18. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries at 31 December 2002, which are all operating in Hong Kong, are as follows:

Name	Place of incorporation	Issued and fully paid ordinary share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			Directly	Indirectly	
Bornwise Technology Limited	British Virgin Islands	Ordinary US\$1	100%	–	Investment holding
Champion Well Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Inactive
China Faith Limited (“China Faith”)	Hong Kong	Ordinary HK\$10,000	–	100%	Property investment
Delight Link Enterprises Limited	Hong Kong	Ordinary HK\$2	100%	–	Provision of administrative services to group companies
Functional Industries Limited	British Virgin Islands	Ordinary US\$1	100%	–	Investment holding
Greater China Corporate Service Limited	Hong Kong	Ordinary HK\$1,000	100%	–	Provision of nominee and corporate services
Megayield Investment Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Inactive
Mention International Limited	British Virgin Islands	Ordinary US\$1	–	100%	Investment holding
Password Finance Limited	British Virgin Islands	Ordinary US\$1	–	100%	Investment holding
Profit Capital Limited	British Virgin Islands	Ordinary US\$1	100%	–	Investment holding

18. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation	Issued and fully paid ordinary share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			Directly	Indirectly	
Royal Treasure Industrial Limited	Hong Kong	Ordinary HK\$2	–	100%	Trading of bags
Sharp Star Investment Corporation	British Virgin Islands	Ordinary US\$1	100%	–	Investment holding
Southern Pearl Investment Ltd.	British Virgin Islands	Ordinary US\$50,000	–	100%	Investment holding

None of the subsidiaries had issued any debt securities at the balance sheet date.

19. INVESTMENT IN SECURITIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Other investments		
Unlisted equity investment in Leckford (note a)	–	25,000
Other unlisted equity investments, at cost	37,010	37,010
Less: unrealised holding loss	(37,010)	(34,610)
	–	2,400
Equity investments listed in Hong Kong, at market value (note b)	113,065	–
	<u>113,065</u>	<u>27,400</u>
Carrying amount analysed for reporting purpose as:		
Non-current	–	2,400
Current	113,065	25,000
	<u>113,065</u>	<u>27,400</u>

Notes to the Financial Statements

For the year ended 31 December 2002

19. INVESTMENT IN SECURITIES (Continued)

Notes:

- (a) The investment represented a 83% interest in Leckford, the control of which is intended to be temporary. Leckford holds 49% interest in One Peak Investment Corp., which in turn holds 41% interest in Maytron Enterprises Limited, a company engaged in general trading.

Subsequent to the acquisition of the 83% interest in Leckford from its former shareholder in August 2001, in September 2001, the Group granted an option to the former shareholder to repurchase the 83% interest in Leckford (the "buy back option") for a consideration of HK\$26,250,000 on or before 20 September 2002 in the event of a significant change in the management of the Company (including the resignation of Dr. Li Zhong Yuan and/or Mr. Wong Chong Kwong, Derek as directors of the Company which happened in October 2001). In April 2002, the former shareholder served a notice to the Group to exercise the buy back option. The sale of Leckford was executed and reported in the interim results for the six months ended 30 June 2002. In accordance with the terms of the buy back option, the consideration shall be satisfied either in the form of cash, or listed securities or assets with equivalent value. In the opinion of the directors, the former shareholder cannot offer assets with equivalent value for the settlement of the consideration and accordingly, a full allowance has been recognised in respect of this amount. On the other hand, the gain on disposal of Leckford of HK\$1,250,000 is offset against the allowance.

- (b) Included in the listed other investments at 31 December 2002 is an investment, with a carrying value of HK\$111,831,000, in 8.9% interest in China Gas Holdings Limited ("China Gas") (formerly known as Hai Xia Holdings Limited), which is principally engaged in investing in natural gas/energy projects, property investment, financing and securities investment.

20. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 90 days to 120 days to its trade customers. Rentals receivable from tenants are payable on presentation of invoices.

The following is an aged analysis of trade and other receivables of the Group at the balance sheet date:

	2002 HK\$'000	2001 HK\$'000
0 – 60 days	176	1,121
61 – 90 days	67	909
Over 90 days	556	230
	<u>799</u>	<u>2,260</u>

21. TRADE RECEIVABLE DUE FROM AN ASSOCIATE OF AN INVESTEE COMPANY

The Group allowed an average credit period of 90 days to 120 days to the associate of an investee company.

At 31 December 2001, the age of trade receivable due from this entity was less than 60 days.

22. EXCHANGEABLE LOANS RECEIVABLE

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Exchangeable loans receivable	30,000	30,000
Less: allowances	<u>(30,000)</u>	<u>—</u>
	<u>—</u>	<u>30,000</u>

The exchangeable loans receivable comprise:

- (a) The exchangeable loan receivable of HK\$25,000,000 is secured by an approximately 2% interest in Pioneer Technology Engineering Co., Ltd. ("Pioneer"), a company engaged in the manufacturing of PCB fabrication equipment. The loan carries interest at the same amount as the dividends receivable from the 2% interest in Pioneer. On or before the maturity date of 14 July 2002, both the borrower of the loan and the Group have the option to convert the loan into the 2% interest in Pioneer. The loan became due for repayment on 14 July 2002 as the option had not been exercised. The Company had issued a legal letter to pursue the recovery of this exchangeable loan receivable. At 31 December 2002, the directors consider that the balance cannot be recovered and a full allowance has been recognised accordingly.
- (b) The exchangeable loan receivable of HK\$5,000,000 secured by a 17% interest in Leckford. The loan carries interest at the same amount as the dividends receivable from the 17% interest in Leckford. At any time between 18 February 2002 and 15 August 2002, both the borrower, who is a shareholder of Leckford, and the Group have the option to convert the loan into the 17% interest in Leckford. The loan became due for repayment on 15 August 2002 as the option had not been exercised. In accordance with the terms of the exchangeable loan, the settlement shall be in the form either in cash, or listed securities or assets with equivalent value. In the opinion of the directors, the borrower cannot offer assets with equivalent value for the settlement of the loan and accordingly, a full allowance has been recognised.

Notes to the Financial Statements

For the year ended 31 December 2002

23. AMOUNT RECEIVABLE IN RESPECT OF DISPOSAL OF SUBSIDIARIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Proceeds receivable from disposal of subsidiaries	–	64,500
Less: allowances	–	(3,500)
	<u>–</u>	<u>61,000</u>

During the period from 1 July 2000 to 31 December 2001, the Group disposed of certain subsidiaries, the details of which are included in note 31. The outstanding consideration was partially satisfied by 500 million shares of TechCap Holdings Limited (the "TechCap Shares"), a company listed on the Stock Exchange. At 31 December 2001, the market value of the TechCap Shares had decreased and an impairment loss had been recognised in the consolidated income statement.

24. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payable of the Group at the balance sheet date:

	2002 HK\$'000	2001 HK\$'000
0 – 60 days	1,180	9,961
61 – 90 days	222	42
Over 90 days	13,169	5,329
	<u>14,571</u>	<u>15,332</u>

For the year ended 31 December 2002

25. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Amounts payable under a finance lease within one year	147	–	143	–
Less: Future finance charges	(4)	–	–	–
Present value of lease obligations	<u>143</u>	<u>–</u>	<u>143</u>	<u>–</u>

A motor vehicle of the Group is held under a finance lease. For the year ended 31 December 2002, the average effective borrowing rate was 10%. Interest rate is fixed at the contract date. The lease is on a fixed repayment basis.

Notes to the Financial Statements

For the year ended 31 December 2002

26. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Interest bearing borrowings				
Bank loan	147,400	–	–	–
Bank overdraft	173	–	–	–
Margin loans	7,949	–	–	–
Other loan	5,000	–	–	–
	<u>160,522</u>	<u>–</u>	<u>–</u>	<u>–</u>
Interest free borrowings				
Loans from directors	314	–	–	–
Other loan	12,000	39,000	12,000	39,000
	<u>12,314</u>	<u>39,000</u>	<u>12,000</u>	<u>39,000</u>
	<u>172,836</u>	<u>39,000</u>	<u>12,000</u>	<u>39,000</u>
Secured	160,349	–	–	–
Unsecured	12,487	–	12,000	–
	<u>172,836</u>	<u>39,000</u>	<u>12,000</u>	<u>39,000</u>
The maturity of the borrowings is as follows:				
Repayable				
– on demand or within one year	34,536	39,000	12,000	39,000
– between one to two years	7,800	–	–	–
– between two to five years	130,500	–	–	–
	<u>172,836</u>	<u>39,000</u>	<u>12,000</u>	<u>39,000</u>
Less: Amount due within one year shown under current liabilities	(34,536)	(39,000)	(12,000)	(39,000)
	<u>138,300</u>	<u>–</u>	<u>–</u>	<u>–</u>

The interest bearing loan of HK\$5,000,000 (2001: nil) is repayable in November 2003.

For the year ended 31 December 2002

27. SHARE CAPITAL

	Number of shares '000	Nominal amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each		
At 1 July 2000	3,000,000	300,000
Increase in authorised share capital	<u>3,000,000</u>	<u>300,000</u>
At 31 December 2001	6,000,000	600,000
Increase in authorised share capital	<u>14,000,000</u>	<u>1,400,000</u>
At 31 December 2002	<u><u>20,000,000</u></u>	<u><u>2,000,000</u></u>
Preference shares of HK\$0.10 each		
At 1 July 2000 and 31 December 2001	–	–
Increase in authorised share capital	<u>1,100,000</u>	<u>110,000</u>
At 31 December 2002	<u><u>1,100,000</u></u>	<u><u>110,000</u></u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1 July 2000	1,051,887	105,189
Placement of shares (<i>note a</i>)	3,362,370	336,237
Exercise of share options (<i>note a</i>)	<u>35,300</u>	<u>3,530</u>
At 31 December 2001	4,449,557	444,956
Issued in consideration for the acquisition of other investments (<i>note b</i>)	600,000	60,000
Issued for the partial settlement of an unsecured short term loan (<i>note c</i>)	250,000	25,000
Issued in consideration for the acquisition of a subsidiary (<i>note d</i>)	500,000	50,000
Conversion from preference shares (<i>note e</i>)	<u>1,100,000</u>	<u>110,000</u>
At 31 December 2002	<u><u>6,899,557</u></u>	<u><u>689,956</u></u>
Preference shares of HK\$0.10 each		
At 1 July 2000 and 31 December 2001	–	–
Issued in consideration for the acquisition of a subsidiary (<i>note d</i>)	1,100,000	110,000
Conversion into ordinary shares (<i>note e</i>)	<u>(1,100,000)</u>	<u>(110,000)</u>
At 31 December 2002	<u><u>–</u></u>	<u><u>–</u></u>

For the year ended 31 December 2002

27. SHARE CAPITAL *(Continued)*

Authorised share capital

Pursuant to an ordinary resolution passed in a special general meeting of the Company on 21 February 2001, the authorised share capital of the Company was increased from HK\$300,000,000 to HK\$600,000,000 by the creation of an additional 3,000,000,000 new ordinary shares.

Pursuant to an ordinary resolution passed in a special general meeting of the Company on 11 January 2002, the authorised share capital of the Company was increased from HK\$600,000,000 to HK\$1,000,000,000 by the creation of an additional 4,000,000,000 new ordinary shares.

Pursuant to an ordinary resolution passed in a special general meeting of the Company on 22 April 2002, the authorised share capital of the Company was increased from HK\$1,000,000,000 to HK\$2,110,000,000 by the creation of 10,000,000,000 new ordinary shares and 1,100,000,000 new preference shares.

The new ordinary shares rank *pari passu* in all respects with the issued shares of the Company.

The preference shares have the same right to dividend as the ordinary shares and rank in priority to the ordinary shares as to return of capital on a winding up. The preference shares are not redeemable by the Company but are convertible into new ordinary shares at the option of the holder at any time. Holders of the preference shares are not entitled to attend or vote at any general meetings of the Company, save in circumstances where a resolution is proposed to vary the rights of holders of the preference shares or to wind up the Company.

Issued share capital

- (a) Pursuant to various placement and subscription agreements during the period from 1 July 2000 to 31 December 2001, an aggregate of 3,362,370,000 ordinary shares were issued at prices ranging from HK\$0.10 to HK\$0.245 each for cash to provide additional working capital for the Group. In addition, 30,000,000 ordinary shares were issued at par and 5,300,000 ordinary shares were issued at HK\$0.16 each for cash as a result of the exercise of the Company's share options by option holders.
- (b) Pursuant to an agreement with China Gas, in January 2002, the Company subscribed for 100,000,000 new shares of China Gas in return for the issue of 600,000,000 new ordinary shares of the Company to China Gas. On the completion date, the fair value of the new shares of China Gas was HK\$50,000,000. As a result, the difference between the nominal amount and the fair value of the 600,000,000 new ordinary shares issued by the Company, amounting to HK\$10,000,000, is debited to the capital reserve.
- (c) In January 2002, the Group made a settlement of an unsecured short term loan from Sino Century Enterprises Limited of HK\$25,000,000 by the issuance of 250,000,000 new ordinary shares of the Company at par.

27. SHARE CAPITAL *(Continued)***Issued share capital** *(Continued)*

- (d) Pursuant to an agreement for the acquisition of the 100% interest in China Faith, in July 2002, the Company issued 500,000,000 new ordinary shares, 1,100,000,000 new preference shares and 500,000,000 warrants to subscribe for 500,000,000 new ordinary shares at a subscription price of HK\$0.10 per share (“Warrants”) as consideration. On the completion date, the market price of an ordinary share was HK\$0.044. As a result, the difference between the nominal amount and the market price of the 500,000,000 new ordinary shares issued by the Company, amounting to HK\$28,000,000, is debited to the capital reserve.
- (e) In December 2002, the holder of the 1,100,000,000 preference shares exercised its right to convert all the preference shares into 1,100,000,000 new ordinary shares of the Company.

Share option scheme

Pursuant to the share option scheme adopted by of the Company on 24 August 1992 (the “Old Scheme”), the board of directors of the Company might grant options to any directors or full time employees of the Group to subscribe for shares in the Company at a price not less than 80 per cent. of the average of the closing prices of the Company’s shares on the five trading days immediately preceding the offer of the options or the nominal value of the shares, whichever is the higher. The maximum number of shares in respect of which options might be granted under the Old Scheme might not exceed 10 per cent. of the issued share capital of the Company from time to time. No employee might be granted options which would enable him or her to subscribe for an aggregate of more than one per cent. of the aggregate number of shares under the Old Scheme. No consideration is payable upon the acceptance of an option and the exercise and vesting period of an option is to be determined by the board of directors at the date of grant.

At 31 December 2001, the number of shares in respect of which options had been granted under the Old Scheme was 18,500,000, representing 0.4% of the number of issued ordinary shares of the Company at that date.

Notes to the Financial Statements

For the year ended 31 December 2002

27. SHARE CAPITAL (Continued)

Share option scheme (Continued)

The following table shows movements in the Company's share options granted under the Old Scheme during the period from 1 July 2000 to 31 December 2001 and the year ended 31 December 2002:

	Option type	Outstanding at 1.7.2000			Outstanding at 31.12.2001			Outstanding at 31.12.2002	
		Granted	Exercised	Lapsed	Granted	Exercised	Lapsed	Granted	Exercised
		'000	'000	'000	'000	'000	'000	'000	'000
Directors	A	16,500	–	(13,500)	(3,000)	–	–	–	–
	B	–	143,000	–	(143,000)	–	–	–	–
	C	–	7,000	–	(7,000)	–	–	–	–
	D	–	132,000	–	(132,000)	–	–	–	–
		<u>16,500</u>	<u>282,000</u>	<u>(13,500)</u>	<u>(285,000)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Employees	A	19,500	–	(16,500)	(3,000)	–	–	–	–
	B	–	13,800	(5,300)	–	8,500	(8,500)	–	–
	C	–	10,000	–	–	10,000	(10,000)	–	–
		<u>19,500</u>	<u>23,800</u>	<u>(21,800)</u>	<u>(3,000)</u>	<u>18,500</u>	<u>(18,500)</u>	<u>–</u>	<u>–</u>
		<u>36,000</u>	<u>305,800</u>	<u>(35,300)</u>	<u>(288,000)</u>	<u>18,500</u>	<u>(18,500)</u>	<u>–</u>	<u>–</u>

Details of the share options are as follows:

Option type	Date of grant	Vesting period		Exercise period		Exercise price HK\$
		From	To	From	To	
A	25 January 2000	25 January 2000	24 July 2000	25 July 2000	24 July 2002	0.10
B	9 January 2001	9 January 2001	8 July 2001	9 July 2001	23 August 2002	0.16
C	31 July 2001	31 July 2001	31 January 2002	1 February 2002	23 August 2002	0.13
D	28 August 2001	28 August 2001	27 February 2002	29 February 2002	23 August 2002	0.10

No charge is recognised in the consolidated income statement in respect of the value of options granted in the period from 1 July 2000 to 31 December 2001.

27. SHARE CAPITAL *(Continued)***Share option scheme** *(Continued)*

The weighted average market price of the ordinary shares issued upon the exercise of share options during the period from 1 July 2000 to 31 December 2001 was HK\$0.37.

The Old Scheme was replaced by a new share option scheme, pursuant to an ordinary resolution passed at the special general meeting of shareholders held on 22 April 2002 (the “New Scheme”), which enables the directors of the Company to grant options to the employees (including directors) of the Group in recognition of their contribution to the Group and will expire on 21 April 2012.

The total number of shares in respect of which options may be granted under the New Scheme and any other scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders’ approval of the New Scheme (the “Scheme Mandate Limit”) or if such 10% limit is refreshed, at the date of shareholders’ approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes, must not exceed 30% of the total number of shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company then in issue, without prior approval from the shareholders of the Company. Each grant of options to a connected person must be approved by independent non-executive directors. Options granted to any substantial shareholder or independent non-executive director or their associate in excess of 0.1% of the share capital of the Company or with a value in excess of HK\$5,000,000 in the 12-month period up to the date of grant must be approved in advance by the shareholders of the Company.

Options granted must be taken up within 28 days from the date of grant, upon payment of HK\$1 per option. Any option may be exercised in accordance with the terms of the New Scheme at any time during the effective period of the New Scheme to be notified by the board of directors which shall not be later than 10 years from the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the shares of the Company on the date of grant, and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date grant.

During the year ended 31 December 2002, no options were granted under the New Scheme.

Warrants

As described in (d) in the sub-section “Issued share capital”, 500,000,000 Warrants were issued. At 31 December 2002, the Company had outstanding 500,000,000 Warrants which are exercisable at any time on or before 18 July 2003.

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28. RESERVES

THE GROUP

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2000	284,096	293	(725,347)	(440,958)
Shares issued at premium	88,867	–	–	88,867
Share issue expenses	(24,965)	–	–	(24,965)
Realised on disposal of subsidiaries	–	(293)	–	(293)
Net loss for the period	–	–	(1,262)	(1,262)
At 31 December 2001 and at 1 January 2002	347,998	–	(726,609)	(378,611)
Issue of ordinary shares in exchange of shares in China Gas (<i>note 27(b)</i>)	–	(10,000)	–	(10,000)
Issue of preference shares and ordinary shares for the acquisition of China Faith (<i>note 27(d)</i>)	13,344	(28,000)	–	(14,656)
Transfer	(38,000)	38,000	–	–
Net loss for the year	–	–	(83,349)	(83,349)
At 31 December 2002	<u>323,342</u>	<u>–</u>	<u>(809,958)</u>	<u>(486,616)</u>

THE COMPANY

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2000	284,096	64,379	–	(504,904)	(156,429)
Shares issued at premium	88,867	–	–	–	88,867
Share issue expenses	(24,965)	–	–	–	(24,965)
Net loss for the period	–	–	–	(363,105)	(363,105)
At 31 December 2001 and at 1 January 2002	347,998	64,379	–	(868,009)	(455,632)
Issue of ordinary shares in exchange of shares in China Gas (<i>note 27(b)</i>)	–	–	(10,000)	–	(10,000)
Issue of preference shares and ordinary shares for the acquisition of China Faith (<i>note 27(d)</i>)	13,344	–	(28,000)	–	(14,656)
Transfer	(38,000)	–	38,000	–	–
Net loss for the year	–	–	–	(69,365)	(69,365)
At 31 December 2002	<u>323,342</u>	<u>64,379</u>	<u>–</u>	<u>(937,374)</u>	<u>(549,653)</u>

28. RESERVES *(Continued)*

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1992.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities, its issued share capital and its share premium account.

At 31 December 2002 and 31 December 2001, the Company had no reserve available for distribution to shareholders.

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29. DEFERRED TAXATION

Movements during the year/period were as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
At beginning of year/period	–	–
Charge for the year/period	8,643	–
At end of year/period	<u>8,643</u>	<u>–</u>

Deferred tax liability accounted for in the financial statements is attributable to unrealised holding gain on other investments.

Details of the unprovided deferred tax assets (liabilities) are as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	(1,072)	–
Unutilised tax losses	4,032	–
Other timing difference	6,490	–
Net deferred tax asset	<u>9,450</u>	<u>–</u>

The amount of the unprovided deferred tax credit (charge) for the year/period is as follows:

	THE GROUP	
	1.1.2002 to 12.31.2002 HK\$'000	7.1.2000 to 12.31.2001 HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	(546)	–
Tax losses arising	3,083	–
Other timing difference	6,490	–
Acquisition of a subsidiary	423	–
Disposal and liquidation of subsidiaries	–	(3,185)
	<u>9,450</u>	<u>(3,185)</u>

29. DEFERRED TAXATION *(Continued)*

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

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

30. ACQUISITION OF SUBSIDIARIES

During the year ended 31 December 2002, the Group acquired the 100% interest in China Faith, which is engaged in property investment, for a consideration which was satisfied by the issue of 500,000,000 new ordinary shares, 1,100,000,000 new preference shares and 500,000,000 Warrants.

During the period from 1 July 2000 to 31 December 2001, the Group acquired a 83% interest in Leckford and 100% interest in Southern Pearl Investment Ltd..

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net assets acquired		
Investment properties	300,000	–
Other investments	–	47,010
Trade receivables	1,354	–
Prepayments and deposits	857	–
Bank balances and cash	511	–
Rental deposits	(3,483)	–
Other payables	(3,895)	–
Bank loan	(150,000)	–
	<u>145,344</u>	<u>47,010</u>
Net assets acquired		
Satisfied by:		
Ordinary shares	22,000	–
Preference shares	123,344	–
Warrants	–	–
Cash	–	47,010
	<u>145,344</u>	<u>47,010</u>
Inflow (outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>511</u>	<u>(47,010)</u>

For the year ended 31 December 2002

30. ACQUISITION OF SUBSIDIARIES *(Continued)*

The subsidiary acquired during the current year contributed HK\$4,036,000 to the Group's turnover and incurred a loss from operation of HK\$2,000.

The subsidiaries acquired during the period from 1 July 2000 to 31 December 2001 did not have material contributions to the Group's turnover and profit from operations for that period.

31. DISPOSAL AND LIQUIDATION OF SUBSIDIARIES AND ASSOCIATES

During the period from 1 July 2000 to 31 December 2001, the Group disposed of and liquidated certain subsidiaries and the effect is summarised as follows:

	<i>HK\$'000</i>
Net liabilities disposed and liquidated	
Property, plant and equipment	107,810
Interests in associates	902
Investment securities	16,676
Other investments	15,000
Inventories	5,365
Trading securities	61,760
Trade and other receivables	12,003
Prepayments and deposits	3,800
Amount due from a shareholder	29,199
Exchangeable loans receivable	34,000
Bank balances and cash	873
Trade and other payables	(222,215)
Amount due to a shareholder	(12,251)
Amount due to an associate	(6,830)
Amounts due to related companies	(3,885)
Obligations under a finance lease	(397)
Taxation	(31,480)
Bank loans, secured	(4,522)
Short term loans, unsecured	(9,878)
Minority interests	(27,557)
	<hr/>
Net liabilities disposed of and liquidated	(31,627)
Capital reserve released on disposal	(293)
	<hr/>
	(31,920)
Gain on disposal and liquidation of subsidiaries and associates	129,921
	<hr/>
Total consideration	<u>98,001</u>
Satisfied by:	
Offset against short term loans	33,501
Outstanding consideration to be satisfied by TechCap Shares	64,500
	<hr/>
	98,001
	<hr/>
Net cash inflow arising on disposal and liquidation:	
Bank balances and cash disposed of	(873)
Bank loans disposed of	4,522
	<hr/>
	<u>3,649</u>

For the year ended 31 December 2002

31. DISPOSAL AND LIQUIDATION OF SUBSIDIARIES AND ASSOCIATES *(Continued)*

The subsidiaries liquidated and disposed of during the prior period contributed HK\$127,683,000 to the Group's turnover and suffered loss from operations of HK\$39,780,000 for the period from 1 July 2000 to the date of disposal.

32. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2002,

- (a) The Group acquired certain interest in China Gas, as described in note 27(b).
- (b) The Group made a partial settlement of an unsecured loan, as described in note 27(c).
- (c) The Group acquired the 100% interest in China Faith, as described in notes 27(d) and 30.
- (d) The preference shares of the Company are converted into new ordinary shares, as described in note 27(e).
- (e) The Group received the TechCap Shares in lieu of cash settlement of amount receivable in respect of disposal of subsidiaries, as described in note 23.
- (f) The Group entered into a finance lease in respect of property, plant and equipment with a capital value at the inception of the lease of HK\$344,000.

During the period from 1 July 2000 to 31 December 2001.

- (a) The Group disposed of certain subsidiaries for the settlement of its secured loans and with consideration partially satisfied by TechCap Shares, details of which are shown in note 31.
- (b) Short term loans of HK\$10,373,000 due from the Group were waived.
- (c) Amount due to a shareholder of HK\$69,711,000 was assigned to independent parties as short term loans.

33. CONTINGENT LIABILITIES

THE COMPANY

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Guarantee given to a bank in respect of a loan facility granted to a wholly-owned subsidiary	<u>147,400</u>	<u>–</u>

34. OPERATING LEASE ARRANGEMENTS**The Group as lessor**

At the balance sheet date, investment properties with an aggregate carrying value of HK\$181,200,000 (2001: nil) were rented out under operating leases. Investment properties were leased out for periods ranging from 1 to 3 years and some of the leases have renewal options given to the leases. The future minimum leases payments receivable by the Group under non-cancellable operating leases is as follows:

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Not later than one year	6,435	–
Later than one year but not later than five years	<u>4,373</u>	<u>–</u>
Total	<u>10,808</u>	<u>–</u>

Notes to the Financial Statements

For the year ended 31 December 2002

35. CAPITAL COMMITMENTS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Capital commitment in respect of subscription for new shares of China Gas	—	60,000

36. PLEDGED ASSETS

At 31 December 2002,

- (a) All the Group's investment properties and the issued shares of China Faith are pledged and the rental income in respect of the investment properties under operating leases are assigned to a bank against a bank loan granted to the Group (2001: nil).
- (b) Other investments of HK\$101,431,000 (2001: nil) are pledged against margin and other loan facilities granted to the Group.

37. RELATED PARTY TRANSACTIONS AND BALANCES

During the year/period, the following related party transactions and balances are included in the consolidated income statement and the consolidated balance sheet:

	1.1.2002 to 31.12.2002 <i>HK\$'000</i>	1.7.2000 to 31.12.2001 <i>HK\$'000</i>
(a) A former associate of an investee company (<i>note 19</i>)		
Sales of goods	8,662	63,809
Purchase of goods	951	–
Payment of office rent and rates and building management fees	64	393
Payment of staff costs	544	2,895
Trade receivable at balance sheet date	–	9,942
(b) Interest expense to a holder of convertible bond of which a former director of the Company is a director and beneficial owner	–	5,924
(c) Interest expenses to a company in which a former director of the Company has equity interest	–	7,396
(d) Loans from certain directors at balance sheet date	<u>314</u>	<u>–</u>

In addition to the above, the Group received the TechCap Shares for the settlement of outstanding consideration arising from the disposal of certain subsidiaries, as described in notes 23 and 31, from Pacific Annex Capital Limited. Dr. Li Zhong Yuan and Mr. Wong Chong Kwong, Derek, the ex-directors of the Company, are directors of and have beneficial interests in Pacific Annex Capital Limited.

In the opinion of the directors, the above transactions were carried out at terms agreed by the relevant parties. The transactions with the former associate of an investee company disclosed above were disclosed up to the date when the former shareholder served a notice to repurchase the Group's interest in the investee company, as described in note 19.

For the year ended 31 December 2002

38. RETIREMENT BENEFITS SCHEME

The Group is required to participate in the MPF Scheme in respect of its employees. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. Both the Group and its employees contribute 5% of the relevant payroll costs to the MPF Scheme.

Contributions to the MPF Scheme for the year amounted to HK\$47,000 (1.7.2000 to 31.12.2001: HK\$38,000).

39. POST BALANCE SHEET EVENTS

- (a) Pursuant to a special resolution at a special general meeting of the shareholders of the Company passed on 19 March 2003,
- (i) The nominal value of each issued ordinary share of the Company is reduced by cancelling paid-up capital of HK\$0.0999 per share and the nominal value of the authorised share capital is reduced from HK\$0.10 to HK\$0.0001 such that the authorised share capital is reduced from HK\$2,110,000,000 to HK\$2,110,000 (the "Capital Reduction").
 - (ii) Every 50 ordinary shares are consolidated into one ordinary share of HK\$0.005 each (the "Share Consolidation").
 - (iii) The authorised share capital of the Company, after the Capital Reduction and Share Consolidation, is increased to HK\$2,110,000,000.
 - (iv) The credit of HK\$689,266,000 arising from the Capital Reduction is transferred to the contributed surplus of the Company to eliminate the accumulated losses of the Company at 31 December 2001.
- (b) Subsequent to the balance sheet date and up to the date of a approval of the financial statements, the Group incurred an unrealised holding loss on the China Gas shares of approximately HK\$27 million.