

1. Corporate information and corporate update

Corporate Information

The registered office of Kong Sun Holdings Limited is located at Units 9-10, 13/F., Tower One, Lippo Centre, 89 Queensway, Hong Kong.

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

- property investment and development
- trading of computer products and other office equipment
- securities broking and investment
- financial services
- provision of IT training and software development services

In the opinion of the directors, the ultimate holding company is Kong Fa Holding Limited ("Kong Fa"), which is incorporated in the British Virgin Islands.

Corporate Update

As at 31 December 2002, the Group had net current liabilities of HK\$44 million. In preparing the financial statements, the directors of the Company have given careful consideration to the liquidity position and going concern status of the Group.

On 28 February 2003, the Group entered into a conditional sale and purchase agreement with United Merit Sdn. Bhd. ("United Merit"), an independent third party, to dispose of approximately 65% equity interest in Pioneer Heritage Sdn. Bhd. ("Pioneer Heritage"), a 70% subsidiary of the Group, for a consideration of MYR41,000,000 (approximately HK\$85,000,000). The directors expect that the disposal will be duly completed as scheduled for 27 June 2003 and will result in a minimal gain.

On the same date, a conditional subscription agreement was entered into between the Company and United Merit, whereby United Merit agreed to subscribe for 31,000,000 new ordinary shares of the Company at HK\$0.162 per share, which is also scheduled to be completed on 27 June 2003.



NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

1. Corporate information and corporate update (Continued)

Details of the above transactions were contained in the Company's circular dated 28 March 2003. The directors expect that the proceeds generating therefrom will be used for the repayment of borrowings and general working capital and enable the Group to improve its overall financial position.

On this basis and taking into account the receipts from repayment of certain loans receivable aggregating HK\$26 million subsequent to the balance sheet date, and the present available financing facilities, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

2. Impact of new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"
- Interpretation 15: "Business combinations – "Date of exchange" and fair value of equity instruments"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on pages 26 and 27 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserve note.

2. Impact of new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") (Continued)

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and associates are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated into Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 3 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in the recognition of an accrual for paid holiday carried forward by the Group's employees as at the balance sheet date. This change in accounting policy, however, has had no material effect on the financial statements. Accordingly, no prior year adjustment has been made to restate the comparative amounts. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 37 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.



NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

3. Summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

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

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

3. Summary of significant accounting policies (Continued)

Joint venture companies (Continued)

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.



NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

3. Summary of significant accounting policies (Continued)

Goodwill

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

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

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

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

Negative goodwill

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

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

3. Summary of significant accounting policies (Continued)

Negative goodwill (Continued)

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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



NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

3. Summary of significant accounting policies (Continued)

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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

Land held under long term leases	Over the remaining lease terms
Buildings	4%
Leasehold improvements	Over the unexpired terms of the leases or the estimated useful life, whichever is shorter
Office furniture and equipment	15% – 33 ¹ / ₃ %
Motor vehicles	17% – 25%

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

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties with unexpired lease terms of more than 20 years are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

3. Summary of significant accounting policies (Continued)

Investment properties (Continued)

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Properties under development

Properties under development are stated at cost plus, in the case of pre-sold properties or portions thereof, any attributable profits received on the contracted sales, less any impairment losses. Cost includes the cost of land, construction, financing and other related expenses.

Development properties where construction either has not yet commenced, or has been deferred are included as land held for development and are stated at cost less any impairment losses.

Properties under development held for sale in respect of which occupation permits are expected to be granted within one year from the balance sheet date are included as developed properties held for sale in current assets at the lower of cost and net realisable value. Cost includes all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to the prevailing market prices on an individual property basis.

Profit on sale of properties under development

When properties under development have been pre-sold, the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit recognised on the pre-sold portion of the properties is calculated by reference to the stage of completion of the properties, limited to the extent of non-refundable progress payments received. No profit is recognised until the construction work has progressed to the stage where the eventual completion of the project, and the estimated profit thereon, can be determined with a reasonable degree of certainty.



NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

3. Summary of significant accounting policies (Continued)

Leased assets

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Trading rights

Trading rights, representing the eligibility right to trade on the Hong Kong Stock Exchange, are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to write off the cost of the trading rights over its estimated useful life of 10 years.

Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis and are stated at cost less any impairment losses, on an individual investment basis. The carrying amounts of the long term investments are reviewed as at the balance sheet date in order to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to the fair values unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the profit and loss account.

Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

3. Summary of significant accounting policies (Continued)

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs necessary to make the sale.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Deferred tax

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.



NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

3. Summary of significant accounting policies (Continued)

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows or at an approximation thereto. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and associates and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. These changes have had no material effect on the financial statements.

Related parties

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

3. Summary of significant accounting policies (Continued)

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Prior to the adoption of SSAP 34 during the year, as explained in note 2 to the financial statements, the Group did not accrue for paid annual leave carried forward at the balance sheet date. This change in accounting policy, however, has had no material effect on the financial statements.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension schemes

The Group operates defined contribution Mandatory Provident Fund retirement benefits schemes (the "MPF Schemes") under the Mandatory Provident Fund Scheme Ordinance, for those employees who are eligible to participate in the MPF schemes. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of MPF Schemes. The assets of the MPF Schemes are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Schemes.



NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

3. Summary of significant accounting policies (Continued)

Employee benefits (Continued)

Pension schemes (Continued)

The employees of the Group's subsidiaries which operate in Mainland China or Malaysia are required to participate in a central pension scheme operated by the respective local governments. These subsidiaries are required to contribute a specific percentage of its payroll costs to the central pension schemes. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension schemes.

Share options scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3. Summary of significant accounting policies (Continued)

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the pre-sale of properties under development, on the percentage of completion basis as explained under “profit on sale of properties under development”;
- (c) from the sale of listed investments, commission and brokerage for securities dealing and settlement income, on a transaction date basis;
- (d) rental income, on a time proportion basis over the lease terms;
- (e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (f) management fees, consultancy service income, IT training and software development services income, when the related services are rendered; and
- (g) other commission, on an accrual basis when the services are rendered.



NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

4. Segment information

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

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the property investment and development segment invests in land and buildings for its rental income potential and engages in property development in the People's Republic of China (the "PRC") and Malaysia;
- (b) the trading of computer products and office equipment segment engages in the trading of computer products, related accessories and other office equipment in Hong Kong;
- (c) the securities broking and investment segment engages in the provision of securities broking services and the trading in listed equity investments in Hong Kong;
- (d) the financial services segment engages in the provision of loan finance and corporate finance consultancy services;
- (e) the information technology segment engages in the provision of IT training and software development services; and
- (f) the corporate and other segment comprises mainly corporate income and expense items.

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

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

4. Segment information (Continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Property investment and development		Trading of computer products and office equipment		Securities broking and investment		Financial services		Information technology		Elimination		Consolidation	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:														
Sales to external customers	39,110	55,530	207,464	99,116	2,196	4,164	8,836	10,592	503	12,552	-	-	258,109	181,954
Intersegment sales	2,328	2,541	5	-	-	500	6,515	3,572	-	27	(8,848)	(6,640)	-	-
Other revenue	1,350	1,460	141	6	155	594	420	9	1	433	-	-	2,067	2,502
Total	42,788	59,531	207,610	99,122	2,351	5,258	15,771	14,173	504	13,012	(8,848)	(6,640)	260,176	184,456
Segment results	(11,013)	7,207	3,433	109	(1,810)	351	6,237	8,272	(1,592)	4,375	(8,848)	(6,640)	(13,593)	13,674
Interest income and unallocated gains													4,341	27,089
Unallocated and corporate													(49,732)	(7,851)
(Loss)/profit from operating activities													(58,984)	32,912
Finance costs													(5,203)	(4,487)
Share of profits and losses of associates, after amortisation and impairment of goodwill													(66,575)	(6,433)
(Loss)/profit before tax													(130,762)	21,992
Tax													(1,619)	(1,018)
(Loss)/profit before minority interests													(132,381)	20,974
Minority interests													(1,475)	(3,819)
Net (loss)/profit from ordinary activities attributable to shareholders													(133,856)	17,155

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

4. Segment information (Continued)

(a) Business segments (Continued)

Group

	Property investment and development		Trading of computer products and office equipment		Securities broking and investment		Financial services		Information technology		Elimination		Consolidation	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment assets	594,838	549,442	37,269	35,410	1,559	41,834	145,580	47,227	2,349	37,089	(662)	-	780,933	711,002
Interests in associates	-	-	-	-	-	-	-	-	-	-	-	-	30,592	104,946
Unallocated assets and corporate	-	-	-	-	-	-	-	-	-	-	-	-	22,999	25,588
Bank overdrafts included in segment assets	-	-	3,820	-	-	-	-	-	-	-	-	-	3,820	-
Total assets													838,344	841,536
Segment liabilities	13,291	24,319	27,645	19,687	-	2,875	1,136	1,137	116	1,491	(662)	-	41,526	49,509
Unallocated liabilities and corporate	-	-	-	-	-	-	-	-	-	-	-	-	176,858	164,086
Bank overdrafts included in segment assets	-	-	3,820	-	-	-	-	-	-	-	-	-	3,820	-
Total liabilities													222,204	213,595
Other segment information:														
Depreciation	2,981	2,887	12	1	97	199	363	390	164	452	-	-	3,617	3,929
Amortisation														
- subsidiaries	140	65	2,829	1,796	222	343	220	216	-	1,948	-	-	3,411	4,368
- unallocated	-	-	-	-	-	-	-	-	-	-	-	-	8,859	5,335
	140	65	2,829	1,796	222	343	220	216	-	1,948	-	-	12,270	9,703
Provision for doubtful debts	232	8	-	-	-	250	560	316	-	-	-	-	792	574
Capital expenditure	733	839	7	26	258	88	522	635	-	18	-	-	1,520	1,606

4. Segment information (Continued)

(b) Geographical segments

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

Group	PRC											
	Hong Kong		Mainland China		Singapore		Malaysia		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	211,457	114,904	10,024	9,879	-	3,107	36,628	54,064	-	-	258,109	181,954
Other segment information:												
Segment assets	345,871	212,048	262,408	233,559	-	-	173,316	265,395	(662)	-	780,933	711,002
Capital expenditure	760	1,573	716	-	-	16	44	17	-	-	1,520	1,606

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

5. Turnover, revenue and gains

Turnover represents the net invoiced value of goods sold and services rendered, proceeds from the pre-sale of properties (adjusted to reflect the stage of completion of construction to the extent that these were not previously recognised), gross rental income, interest income, brokerage commissions, profit on sale of short term investments, and other commissions.

An analysis of turnover, other revenue and gains is as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Sale of goods	207,464	99,116
Gross rental income	16,520	15,035
Interest income from loans receivable	7,670	2,439
Proceeds from pre-sale of properties*	22,590	40,495
Brokerage commissions	2,138	4,147
Consultancy service income	1,166	8,153
IT training and software development service income	503	12,552
Profit on sale of short term investments	58	–
Other commissions	–	17
	258,109	181,954
Other revenue and gains		
Management fees	222	602
Gain on disposal of subsidiaries	–	22,092
Gain on partial disposal of an interest in an associate	3,569	–
Gain on disposal of fixed assets, net	33	–
Negative goodwill recognised as income during the year	749	140
Bank interest income	102	463
Surplus on revaluation of investment properties reversing deficit previously charged to the profit and loss account	–	220
Other income	1,733	6,074
	6,408	29,591
	264,517	211,545

- * In the prior year, profit in respect of pre-sale of properties under development was included in turnover. In the current year, the directors considered it more appropriate to reclassify the gross proceeds from pre-sale of properties under development as the Group's turnover to more fairly reflect the underlying nature of the transactions. The comparative amount of turnover has been restated to conform to the current year's presentation.

6. (Loss)/profit from operating activities

The Group's (loss)/profit from operating activities is arrived at after charging/(crediting):

	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	200,992	97,301
Cost of properties pre-sold	34,403	38,588
Auditors' remuneration	943	433
Depreciation *	3,617	3,929
Goodwill:		
Amortisation for the year *	3,938	3,791
Impairment arising during the year	3,512	–
	7,450	3,791
Negative goodwill recognised as income during the year **	(749)	(140)
Amortisation of trading rights *	222	343
Amortisation of self-developed software *	–	374
Provision for doubtful debts	792	574
Write off of amounts due from associates	3,847	–
Write down in values of properties held for sale	2,000	–
Unrealised losses on revaluation of short term listed investments	–	23
Minimum lease payments under operating leases for land and buildings	1,958	2,834
Staff costs (excluding directors' remuneration – note 8):		
Wages and salaries	13,128	11,929
Pension scheme contributions ***	408	1,123
	13,536	13,052
Foreign exchange losses, net	235	245
Impairment of a long term investment	18,030	–
Loss on deemed disposal of an interest in a subsidiary	1,822	–
(Gain)/loss on disposal of fixed assets, net	(33)	199
Gain on partial disposal of an interest in an associate	(3,569)	–
Surplus on revaluation of investment properties	–	(220)
Gain on disposal of subsidiaries	–	(22,092)
Rental income, net	(16,507)	(11,048)
Interest income from loans receivable	(7,670)	(2,439)
Bank interest income	(102)	(463)

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

6. (Loss)/profit from operating activities (Continued)

- * Depreciation and amortisation of goodwill, trading rights and self-developed software for the year are shown on the face of the consolidated profit and loss account.
- ** Negative goodwill recognised in the consolidated profit and loss account for the year are included in "Other revenue and gains" on the face of the consolidated profit and loss account.
- *** At the balance sheet date, the Group had no forfeited contributions (2001: Nil) available to reduce its future pension scheme contributions.

7. Finance costs

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest on borrowings wholly repayable within five years		
Bank loans and overdrafts	12,284	4,485
Other loans	360	–
Interest on finance leases	11	2
	<hr/>	<hr/>
Total interest	12,655	4,487
Less: Interest capitalised	(7,452)	–
	<hr/>	<hr/>
	5,203	4,487
	<hr/>	<hr/>

8. Directors' remuneration

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Fees:		
Executive directors	466	300
Independent non-executive directors	120	120
	586	420
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	1,805	1,748
Pension scheme contributions	12	12
	1,817	1,760
	2,403	2,180

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	4	4
HK\$1,000,001 – HK\$1,500,000	1	1
	5	5

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

9. Five highest paid employees

The five highest paid employees during the year included two (2001: two) executive directors, further details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining three (2001: three) non-director, highest paid employees are set out below:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	3,021	2,754
Pension scheme contributions	27	26
	<u>3,048</u>	<u>2,780</u>

The remuneration of the non-director, highest paid employees fell within the following bands:

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

10. Tax

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Group:		
Hong Kong	89	140
Elsewhere	1,534	1,113
Overprovision in prior year	–	(27)
Deferred tax – note 35	(4)	(208)
	<hr/>	<hr/>
Tax charge for the year	1,619	1,018
	<hr/>	<hr/>

No provision for tax is required for the Group's associates as no assessable profits were earned by the associates during the year (2001: Nil).

There was no unprovided deferred tax in respect of the year (2001: Nil).



NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

11. Net (loss)/profit from ordinary activities attributable to shareholders

The net (loss)/profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 includes a loss dealt with in the financial statements of the Company amounting to HK\$98,103,000 (2001: profit of HK\$1,790,000).

12. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the net loss attributable to shareholders for the year of HK\$133,856,000 (2001: net profit of HK\$17,155,000), and the weighted average of 2,292,473,000 (2001: 1,169,261,000) ordinary shares in issue during the year.

Diluted loss per share for the year has not been disclosed, as the share options and warrants outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

The calculation of diluted earnings per share for the year ended 31 December 2001 was based on the net profit attributable to shareholders of HK\$17,155,000. The weighted average number of ordinary shares used in the calculation was the 1,185,097,000 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 15,836,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during that year.

13. Fixed assets

Group

	Land and buildings	Leasehold improvements	Office furniture and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:					
At 1 January 2002	40,964	17,491	3,986	150	62,591
Exchange adjustments	–	1	2	–	3
Additions	–	36	1,104	380	1,520
Disposal of subsidiaries	–	(356)	(502)	–	(858)
Disposals	–	–	(914)	–	(914)
At 31 December 2002	40,964	17,172	3,676	530	62,342
Accumulated depreciation:					
At 1 January 2002	5,512	7,201	2,758	28	15,499
Exchange adjustments	–	1	2	–	3
Provided during the year	751	2,221	544	101	3,617
Disposal of subsidiaries	–	(142)	(155)	–	(297)
Disposals	–	–	(909)	–	(909)
At 31 December 2002	6,263	9,281	2,240	129	17,913
Net book value:					
At 31 December 2002	34,701	7,891	1,436	401	44,429
At 31 December 2001	35,452	10,290	1,228	122	47,092

The net book value of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 December 2002, amounted to HK\$285,000 (2001: Nil).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

13. Fixed assets (Continued)

Company

Office furniture and equipment HK\$'000

Cost:

At 1 January 2002 and 31 December 2002	15
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Accumulated depreciation:

At 1 January 2002	8
Provided during the year	3

At 31 December 2002	11
---------------------	----

Net book value:

At 31 December 2002	4
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At 31 December 2001	7
---------------------	---

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

All of the Group's land and buildings are pledged to a bank to secure banking facilities granted to the Group.

Particulars of the Group's land and buildings are set out on page 102.

14. Investment properties

	Group	
	2002	2001
	HK\$'000	HK\$'000
At 1 January 2002, at valuation	200,010	172,111
Acquisition of a subsidiary	–	6,400
Additions	20,740	230
Exchange adjustments	27	62
(Deficit)/surplus arising from revaluation	(14,179)	21,207
	<u>206,598</u>	<u>200,010</u>
At 31 December, at valuation		

At 31 December 2002, the Group's investment properties were revalued on an open market, existing use basis by Chung, Chan & Associates, independent professionally qualified valuers. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 41 to the financial statements.

All of the Group's investment properties are pledged to secure banking facilities granted to the Group.

The Group's investment properties are situated in Hong Kong, Malaysia and Mainland China, and are held under the following lease terms:

	Hong Kong	Elsewhere	Total
	HK\$'000	HK\$'000	HK\$'000
Freehold	–	149,760	149,760
Long term leases	22,550	–	22,550
Medium term leases	13,825	20,463	34,288
	<u>36,375</u>	<u>170,223</u>	<u>206,598</u>

Particulars of the Group's investment properties are set out on pages 102 and 103 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

15. Properties under development

	Group	
	2002	2001
	HK\$'000	HK\$'000
At 1 January	211,513	–
Additions, at cost	18,399	211,513
Interest capitalised	7,452	–
Exchange adjustments	(3,365)	–
At 31 December	<u>233,999</u>	<u>211,513</u>

Particulars of the Group's properties under development, situated in Mainland China, are set out on page 103 to the financial statements.

The property development project is undertaken by Beijing Kong Sheng Property Development Limited (the "JV"), a sino-foreign equity joint venture company established in Mainland China, which is held by the Group and Beijing Municipal Xicheng District Housing Construction Development Company (the "PRC joint venture partner") as to 90.1% and 9.9%, respectively. The tenure of the JV is 30 years under a joint venture agreement dated 13 September 2001 (the "Agreement").

Pursuant to the Agreement, the PRC joint venture partner is to transfer the land-use right, which is in the name of the PRC joint venture partner, to the JV upon completion of the approval by the relevant PRC government authorities for the change of plot ratio of the development site.

The directors of the Company expect that the land-use right will be transferred to the JV in the third quarter of 2003.

16. Goodwill and negative goodwill

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group	
	Goodwill	Negative goodwill
	HK\$'000	HK\$'000
Cost:		
At 1 January 2002	20,083	(3,442)
Acquisition of a subsidiary – note 39(b)	5,440	–
Deemed disposal of an interest in a subsidiary	(1,503)	–
	<hr/>	<hr/>
At 31 December 2002	24,020	(3,442)
Accumulated amortisation and impairment/ (recognition as income):		
At 1 January 2002	2,315	(140)
Amortisation provided/(recognised as income) during the year	3,938	(749)
Impairment provided during the year	3,512	–
Deemed disposal of an interest in a subsidiary	(455)	–
	<hr/>	<hr/>
At 31 December 2002	9,310	(889)
Net book value:		
At 31 December 2002	<hr/> 14,710	<hr/> (2,553)
At 31 December 2001	<hr/> 17,768	<hr/> (3,302)

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

17. Interests in subsidiaries

	Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted investments, at cost	5,000	5,000
Due from subsidiaries	569,246	493,317
Loans to subsidiaries	160,833	167,248
Due to subsidiaries	(4,705)	(4,417)
	<hr/>	<hr/>
	730,374	661,148
Less: Provision for impairment	(206,742)	(138,106)
	<hr/>	<hr/>
	523,632	523,042
	<hr/>	<hr/>

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The loans to subsidiaries are unsecured, bear interest at Hong Kong prime rate per annum, and are not repayable within one year from the balance sheet date.

17. Interests in subsidiaries (Continued)

Particulars of the principal subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Bakeland Company Limited	Hong Kong	HK\$1,512,000	–	94.45	Property holding
Beijing Kong Sheng Property Development Limited */#	PRC/ Mainland China	Rmb117,977,028	–	90.10	Housing development
Best Spot Investments Limited	Hong Kong	HK\$2	–	100	Investment holding
Colour Choice Investments Limited	British Virgin Islands/Hong Kong	US\$1	100	–	Investment holding
Count Wealth Investments Limited	British Virgin Islands/Hong Kong	US\$1	100	–	Investment holding
Dual Aim Sdn. Bhd.	Malaysia	MYR250,000	–	100	Housing development
Freedom Call Assets Limited	British Virgin Islands/Hong Kong	US\$1	–	100	Investment holding
Genesis Strategic (Holdings) Limited	British Virgin Islands/Hong Kong	US\$400	–	100	Investment holding

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

17. Interests in subsidiaries (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Genesis Global Strategies Limited *	Hong Kong	HK\$5,000,000	–	100	Dormant
Genesis Management Services Limited *	Hong Kong	HK\$2	–	100	Dormant
Healthy Profit Enterprises Limited	British Virgin Islands/Hong Kong	US\$1	–	100	Investment holding
High Increase International Limited	British Virgin Islands/Hong Kong	US\$1	100	–	Investment holding
Hua Chiao Development Limited	Hong Kong	HK\$650,000	–	100	Investment holding
Jiang Sun Group Pte. Limited *	Singapore	S\$2	–	100	Property holding
Kong Sun (China) Investment Limited	British Virgin Islands/Hong Kong	US\$1	100	–	Investment holding
Kong Sun Industrial Limited (formerly Kong Sun Telecoms Limited)	Hong Kong	HK\$2	–	100	Operation not yet commenced

17. Interests in subsidiaries (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Kong Sun International Trading Limited	Hong Kong	HK\$2	–	100	Investment holding
Kong Sun Resources Limited	Hong Kong	HK\$2	–	100	Investment holding
Kong Sun Technology Limited	Hong Kong	HK\$2	–	100	Investment holding
Letham Limited *	Hong Kong	HK\$500,000	–	100	Provision of consultancy services
Pacpo Hong Kong Company Limited	Hong Kong	HK\$2	100	–	Property holding
Pacpo Investments Limited	Hong Kong	US\$2	100	–	Investment holding and the provision of loan finance services
Peace Hill Securities Company Limited	Hong Kong	HK\$5,000,000	100	–	Investment holding
Profitsun International Limited *	Hong Kong	HK\$2	–	100	Property investment

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

17. Interests in subsidiaries (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Pioneer Heritage Sdn. Bhd.	Malaysia	MYR50,000,000	–	70	Property holding
Simply Success International Limited	British Virgin Islands/Hong Kong	US\$1	–	100	Investment holding
Techseek Limited	British Virgin Islands/Hong Kong	US\$1	100	–	Investment holding
Xswim Creative Digital Tech (Beijing) Limited */**/#	PRC/ Mainland China	Rmb500,000	–	54	Provision of IT services
Xswim Digital Limited **	Hong Kong	HK\$2	–	54	Trading of office equipment
Xswim (Holding) Limited	British Virgin Islands/Hong Kong	US\$1,111	–	54	Investment holding
Xswim Technology Limited	Hong Kong	HK\$2	–	54	Trading of computers

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

** Acquired/incorporated during the year.

Sino-foreign joint venture enterprise.

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

18. Interests in associates

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Share of net assets	6,619	54,247	–	–
Goodwill on acquisition	51,597	57,006	–	–
Reclassified as long term investment	(17,419)	–	–	–
Amortisation provided during the year	(8,537)	(5,409)	–	–
Impairment provided during the year	(1,229)	–	–	–
Unamortised goodwill	24,412	51,597	–	–
Negative goodwill on acquisition	(907)	(981)	–	–
Addition during the year	(439)	–	–	–
Recognised as income during the year	907	74	–	–
Unrecognised negative goodwill	(439)	(907)	–	–
Due from associates	–	9	–	9
	30,592	104,946	–	9

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

18. Interests in associates (Continued)

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

Name	Business structure	Place of incorporation/ operations	Nominal value of issued ordinary share capital	Percentage of ownership interest attributable to the Group	Principal activities
Koffman Securities Company Limited */**	Corporate	Hong Kong	HK\$62,765,066	20	Securities trading, underwriting, and placement of securities services
Super Yield Management Company Limited *	Corporate	British Virgin Islands/Hong Kong	US\$1,000	33	Investment holding
HOL Advisory Services Limited *	Corporate	Hong Kong	HK\$100	30	Corporate and management advisors
Human Online.com Limited *	Corporate	Hong Kong	HK\$257,179	30	Information technology provider

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

** Acquired during the year.

All of the above associates are indirectly held by the Company.

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

19. Intangible assets

Group

	Trading rights HK\$'000
Cost:	
At beginning of year	3,425
Disposal of subsidiaries	<u>(3,425)</u>
At 31 December 2002	<u>–</u>
Amortisation:	
At beginning of year	628
Provided during the year	222
Disposal of subsidiaries	<u>(850)</u>
At 31 December 2002	<u>–</u>
Net book value:	
At 31 December 2002	<u>–</u>
At 31 December 2001	<u>2,797</u>

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

20. Long term investments

	Group	
	2002	2001
	HK\$'000	HK\$'000
Overseas unlisted equity investment, at cost	21,982	21,982
Hong Kong listed equity investment, at cost	19,589	—
Less: Provision for impairment	(18,030)	—
	1,559	—
	23,541	21,982

The Group's listed equity investment was disposed of subsequent to the balance sheet date and the provision for impairment reflected the subsequent selling price, representing the then market value less a discount.

21. Deposits and advances

The balance comprised (i) the deposit paid for the purchase of a subsidiary which is engaged in property development and the advances made to a property developer on behalf of the subsidiary for the working capital of its development project, amounting to HK\$25,271,000 (2001: HK\$25,271,000); and (ii) the deposits of HK\$71,484,000 (2001: HK\$31,080,000) paid for the purchase of an additional interest in the overseas unlisted equity investment, currently classified as the Group's long term investments. As these acquisitions were not completed at the balance sheet date, they have been classified as non-current assets in the financial statements.

Subsequent to the balance sheet date, the acquisition of the overseas unlisted equity investment was completed.

22. Short term investments

	Group	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong listed equity investments, at market value	<u>—</u>	<u>149</u>

23. Inventories/Properties held for sales

	Group	
	2002	2001
	HK\$'000	HK\$'000
Inventories – Finished goods	28	2,186
Properties held for sale	<u>14,900</u>	<u>28,964</u>
	<u>14,928</u>	<u>31,150</u>

The Group's properties held for sale are stated at net realisable value.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

24. Trade receivables

An aged analysis of trade receivables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current	17,204	16,655
1 – 3 months	4,767	7,867
4 – 6 months	142	1,011
7 – 12 months	221	61
Over 1 year	3,807	3,734
	<hr/>	<hr/>
	26,141	29,328
Provision	(3,734)	(3,734)
	<hr/>	<hr/>
Total, net of provision	22,407	25,594
	<hr/>	<hr/>

Invoices are normally payable within 30 days of issuance. The Group seeks to maintain strict control over its outstanding receivables and has credit control procedures in place to minimise credit risk. Overdue balances are regularly reviewed by senior management.

25. Trade receivables in respect of securities transactions

	Group	
	2002	2001
	HK\$'000	HK\$'000
Trade receivables in respect of securities transactions	–	3,305
Provision	–	(250)
	<u>–</u>	<u>3,055</u>

Trade receivables in respect of securities transactions were due for settlement two days after the transaction date. Except for the balances which had been provided for, all the remaining balances were current as at 31 December 2001.

26. Other receivables

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other debtors	30,981	44,658	21,700	122
Prepayments and deposits	1,470	989	1,127	5,082
Tax recoverable	61	257	–	–
	<u>32,512</u>	<u>45,904</u>	<u>22,827</u>	<u>5,204</u>

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

27. Cash and cash equivalents and pledged deposits

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	2,207	15,076	163	80
Time deposits	4,522	24,011	–	20,003
	6,729	39,087	163	20,083
Less: Pledged time deposits:				
Pledged for bank overdraft facilities – note 32	(4,522)	(24,011)	–	(20,003)
Cash and cash equivalents	2,207	15,076	163	80

28. Trade and bills payables

An aged analysis of trade and bills payables as at the balance sheet date, based on payment due date, is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current	21,853	18,496
1 – 3 months	10,879	10,427
4 – 6 months	–	270
Over 6 months	–	594
	32,732	29,787

29. Trade payables in respect of securities transactions

An aged analysis of trade payables as at the balance sheet date, which were due from settlement two days after the transaction date, is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
1 – 3 months	–	2,559

30. Other payables and accruals

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accruals	16,111	22,606	7,296	5,173
Deposits received	481	435	–	–
Due to a director – note 31	1,130	3,661	–	3,870
	17,722	26,702	7,296	9,043

31. Due to a director

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

32. Interest-bearing bank and other borrowings

	Notes	Group		Company	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank overdrafts, secured		11,513	24,922	7,693	24,922
Current portion of finance lease payables	33	95	–	–	–
Current portion of bank loans and other loans	34	120,982	3,596	15,817	3,596
		<u>132,590</u>	<u>28,518</u>	<u>23,510</u>	<u>28,518</u>

The Group's time deposits amounting to HK\$4,522,000 (2001: HK\$24,011,000) were pledged to secure bank overdraft facilities.

33. Finance lease payables

At the balance sheet date, the total future minimum lease payments under finance leases and their present values, were as follows:

Group	Minimum lease payments 2002 HK\$'000	Minimum lease payments 2001 HK\$'000	Present value of minimum lease payments 2002 HK\$'000	Present value of minimum lease payments 2001 HK\$'000
Amounts payable:				
Within one year	106	–	95	–
In the second year	106	–	95	–
In the third to fifth years, inclusive	107	–	95	–
Total minimum finance lease payments	319	–	285	–
Future finance charges	(34)	–		
Total net finance lease payables	285	–		
Portion classified as current liabilities – note 32	(95)	–		
Long term portion	190	–		

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

34. Interest-bearing bank loans and other borrowings

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans, secured	48,997	24,258	40,189	24,258
Other loans, secured	108,500	104,000	4,500	–
	157,497	128,258	44,689	24,258
Bank loans repayable:				
Within one year or				
on demand	12,482	3,596	11,317	3,596
In the second year	11,851	3,958	10,645	3,958
In the third to fifth years,				
inclusive	17,812	7,146	11,375	7,146
After five years	6,852	9,558	6,852	9,558
	48,997	24,258	40,189	24,258
Other loans repayable:				
Within one year or				
on demand	108,500	–	4,500	–
In the second year	–	104,000	–	–
	108,500	104,000	4,500	–
	157,497	128,258	44,689	24,258
Portion classified as current liabilities – note 32	(120,982)	(3,596)	(15,817)	(3,596)
Long term portion *	36,515	124,662	28,872	20,662

34. Interest-bearing bank loans and other borrowings (Continued)

- * Subsequent to the balance sheet date, the fair value of the pledged securities (see (a)(ii) below) did not comply with the minimum requirement specified under the agreement of a loan facility granted to the Group. The shortfall in value amounted to approximately HK\$9.9 million as at the date of approval of these financial statements. As a consequence of the non-compliance, the bank may demand for immediate repayment of the shortfall or request additional securities from Kong Fa. However, as at the date of approval of the financial statements, no further action has been taken by the bank in respect of the non-compliance. At 31 December 2002, the long term portion of the loan amounted to approximately HK\$11,490,000.
- (a) The Group's bank loans are secured by:
- (i) mortgages over the Group's land and buildings and investment properties situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK\$70,136,000 (2001: HK\$53,992,000);
 - (ii) the pledge of 596,052,000 ordinary shares of HK\$0.10 of the Company owned by Kong Fa Holding Limited ("Kong Fa"), a substantial shareholder of the Company; and
 - (iii) a personal guarantee from a director of the Company.
- (b) The Group's other loans are secured by:
- (i) a mortgage over the Group's investment property situated in Malaysia which had a carrying value at the balance sheet date of approximately HK\$149,760,000 (2001: HK\$160,160,000); and
 - (ii) a personal guarantee from a director of the Company.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

35. Deferred tax

	Group	
	2002 HK\$'000	2001 HK\$'000
At beginning of year	501	706
Exchange adjustment	–	3
Credit for the year – note 10	(4)	(208)
At end of year	<u>497</u>	<u>501</u>

The principal components of the Group's provision for deferred tax and the amounts not provided for in these financial statements are as follows:

	Group			
	Provided		Not provided	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Accelerated capital allowances	497	501	545	674
Tax losses available for future relief	–	–	13,247	11,952
	<u>497</u>	<u>501</u>	<u>13,792</u>	<u>12,626</u>

The benefit of any future tax relief, which arises from losses previously incurred by the Company and certain of its subsidiaries, has not been included as an asset in the balance sheet because the directors consider it prudent not to recognise the benefit until it is assured beyond reasonable doubt.

Except for the unprovided benefit of any future tax relief, the Company had no other significant unprovided deferred tax as at the balance sheet date (2001: Nil).

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

36. Share capital

Shares	2002 HK\$'000	2001 HK\$'000
Authorised:		
4,000,000,000 (2001: 4,000,000,000) ordinary shares of HK\$0.10 each	400,000	400,000
Issued and fully paid:		
2,561,166,921 (2001: 2,055,184,836) ordinary shares of HK\$0.10 each	256,116	205,518

During the year, the movements in share capital were as follows:

- (a) Pursuant to the subscription agreements dated 4 February 2002 and 22 October 2002, 300,000,000 and 81,900,000 fully paid ordinary shares of HK\$0.10 each of the Company were issued at subscription prices of HK\$0.32 and HK\$0.21 per ordinary share, respectively, for an aggregate cash consideration of approximately HK\$113,199,000.
- (b) Pursuant to a sale and purchase agreement dated 29 April 2002, the Company allotted and issued 56,000,000 ordinary shares of HK\$0.10 each of the Company at HK\$0.355 per ordinary share, amounting to HK\$19,880,000, as the consideration for the acquisition of an investment property in Hong Kong.
- (c) The subscription rights attaching to 68,282,085 share options were exercised at the subscription price of HK\$0.17984 per share (note 37), resulting in the issue of 68,282,085 ordinary shares of HK\$0.10 each for a total cash consideration, before expenses, of approximately HK\$12,280,000.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

36. Share capital (Continued)

- (d) On 4 December 2002, the Company repurchased 200,000 of its ordinary shares of HK\$0.10 each on the Hong Kong Stock Exchange, the summary details of which are as follows:

Month	Number of shares repurchased	Price per share		Total price paid HK\$'000
		Highest HK\$	Lowest HK\$	
December 2002	200,000	0.1690	0.1670	34

The repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares, of HK\$14,000, has been charged to the share premium account. An amount equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve.

The repurchase of the Company's shares during the year was effected by the directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefitting shareholders as a whole by enhancing the net asset value per share of the Group.

36. Share capital (Continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue '000	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2001	588,004	58,800	57,536	116,336
Issue of consideration shares	591,572	59,157	60,396	119,553
Issue of subscription shares	875,609	87,561	118,638	206,199
	<u>1,467,181</u>	<u>146,718</u>	<u>179,034</u>	<u>325,752</u>
Share issue expenses	<u>–</u>	<u>–</u>	<u>(1,252)</u>	<u>(1,252)</u>
At 31 December 2001 and 1 January 2002	2,055,185	205,518	235,318	440,836
Issue of subscription shares (a)	381,900	38,190	75,009	113,199
Issue of consideration shares (b)	56,000	5,600	14,280	19,880
Exercise of share options (c)	68,282	6,828	5,452	12,280
Repurchase of shares (d)	<u>(200)</u>	<u>(20)</u>	<u>(14)</u>	<u>(34)</u>
	<u>505,982</u>	<u>50,598</u>	<u>94,727</u>	<u>145,325</u>
Share issue expenses	<u>–</u>	<u>–</u>	<u>(996)</u>	<u>(996)</u>
At 31 December 2002	<u>2,561,167</u>	<u>256,116</u>	<u>329,049</u>	<u>585,165</u>



NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

36. Share capital (Continued)

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 37 to the financial statements.

Warrants

A bonus issue of warrants was made in the proportion of one warrant for every five shares held by members on the register of members on 18 April 2000. A total of 117,600,714 warrants were issued pursuant to this bonus issue. Each warrant entitled the holder thereof to subscribe for one ordinary share of HK\$0.10 each at an initial subscription price of HK\$0.60 per share, payable in cash and subject to adjustment, from 26 April 2000 to 25 April 2002. No warrant was exercised and all the outstanding warrants lapsed on 25 April 2002.

37. Share option scheme

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates an employee share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors and the permanent employees of the Group. The Scheme became effective on 31 May 2001 and was terminated by the revised Chapter 17 of The Listing Rules on 1 September 2001. As a result, the Company could no longer grant any further share option under the Scheme. However, all share options granted prior to the termination of the Scheme, unless otherwise cancelled or amended, would remain in full force for 10 years from that date.

The maximum number of shares issuable under share options to each eligible participant in the Scheme shall not exceed 25% of the maximum aggregate number of shares in respect of the options granted under the Scheme. At 31 December 2002, all share options granted under the Scheme were exercised, as further detailed below.

37. Share option scheme (Continued)

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercisable period of the granted share options commences after a 6-month vesting period and ends on a date which is not later than five years from the commencement of the exercisable period or the expiry date of the Scheme, if earlier.

The exercise price of the share options was 80% of the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer of the options.

Since there were no share options granted under the Scheme during the year, no theoretical valuation calculations of share options granted have been made.

Share options did not confer rights on the holders to receive dividends or to vote at shareholders' meetings.

During the year, the movements in the share options under the Scheme were as follows:

Name or category of participant	At 1 January 2002	Exercised during the year	At 31 December 2002	Date of grant of share options	Exercisable period of share options	Exercise price of share options HK\$	Price of the Company's shares at grant date of options HK\$
Directors							
Kong Look Sen	22,760,695	22,760,695	-	7 July 2001	9-1-2002 to 31-5-2006	0.17984	0.23
Kong Li Jer	22,760,695	22,760,695	-	7 July 2001	9-1-2002 to 31-5-2006	0.17984	0.23
Kong Li Szu	22,760,695	22,760,695	-	7 July 2001	9-1-2002 to 31-5-2006	0.17984	0.23
	<u>68,282,085</u>	<u>68,282,085</u>	<u>-</u>				

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

37. Share option scheme (Continued)

The 68,282,085 share options exercised during the year resulted in the issue of 68,282,085 ordinary shares of the Company and new share capital of approximately HK\$6,828,000 and share premium of HK\$5,452,000 before the related share issue expenses, as detailed in note 36 to the financial statements.

At the balance sheet date, the Company did not have any share options outstanding under the Scheme.

38. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 26 and 27 of the financial statements.

(b) Company

		Share premium account HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
	Note				
At 1 January 2001		57,536	–	47,496	105,032
Issue of shares	36	179,034	–	–	179,034
Share issue expenses	36	(1,252)	–	–	(1,252)
Net profit for the year		–	–	1,790	1,790
At 31 December 2001 and 1 January 2002		235,318	–	49,286	284,604
Issue of shares	36	89,289	–	–	89,289
Exercise of share options	36	5,452	–	–	5,452
Share issue expenses	36	(996)	–	–	(996)
Repurchase of shares	36	(14)	20	(20)	(14)
Net loss for the year		–	–	(98,103)	(98,103)
At 31 December 2002		329,049	20	(48,837)	280,232

39. Notes to the consolidated cash flow statement

- (a) SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that interest income from loans receivable and taxes paid are now included in cash flows from operating activities, other bank interest received is now included in cash flow from investing activities, and interest paid is now included in cash flows from financing activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout.

The method of calculation of certain items in the consolidated cash flow statement has changed under the revised SSAP 15, as explained under the heading "Foreign currencies" in note 3 to the financial statements. Cash flows of overseas subsidiaries are now translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year. Previously, the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. This change had no significant impact on the 2001 comparative cash flows statement.

In prior years, cash equivalents in the consolidated cash flow statement did not include time deposits with an original maturity of less than three months when acquired and pledged as security for bank overdraft facilities. The amount of cash equivalents in the consolidated cash flow statement at 31 December 2001 has been adjusted to include the pledged time deposits amounting to HK\$24,011,000, previously excluded at that date.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

39. Notes to the consolidated cash flow statement (Continued)

(b) Acquisition of a subsidiary

	Notes	2002 HK\$'000	2001 HK\$'000
Net assets acquired:			
Fixed assets		–	988
Investment properties		–	6,400
Inventories		–	395
Properties held for sale		–	30,038
Trade receivables		–	2,113
Other receivables		458	2,233
Cash and bank balances		25	8,670
Trade payables		(23)	(7,647)
Other payables and accruals		–	(19,188)
Minority interests		(212)	(353)
		248	23,649
Goodwill arising on acquisition	16	5,440	19,802
		5,688	43,451
Satisfied by:			
An interest in a subsidiary	39(c)	5,688	–
Cash paid		–	10,911
Issue of share capital		–	32,540
		5,688	43,451

39. Notes to the consolidated cash flow statement (Continued)

(b) Acquisition of a subsidiary (Continued)

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

	2002 HK\$'000	2001 HK\$'000
Cash consideration	–	(10,911)
Cash and bank balances acquired	25	8,670
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	25	(2,241)

The subsidiary acquired during the year had no significant impact on the Group's consolidated turnover or profit after tax for the year ended 31 December 2002.

The subsidiaries acquired in the prior year contributed HK\$110,993,000 to the Group's turnover and HK\$8,883,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2001.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

39. Notes to the consolidated cash flow statement (Continued)

(c) Disposal of subsidiaries

	Notes	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:			
Fixed assets		561	479
Intangible assets		2,575	1,090
Short term investments		11	–
Inventories		988	–
Trade receivables		10,757	521
Other receivables		7,249	881
Tax recoverable		257	–
Cash held on behalf of securities clients		58	–
Cash and bank balances		4,544	–
Bank overdrafts		–	(338)
Trade and bills payables		(1,661)	(29)
Other payables and accruals		(1,546)	(4,227)
Finance lease payables		–	(103)
Minority interests		(7,498)	501
		16,295	(1,225)
Negative goodwill on acquisition of an associate		439	–
Unamortised goodwill disposed of		–	4,133
		16,734	2,908
Gain on disposal of subsidiaries	6	–	22,092
		16,734	25,000
Satisfied by:			
An interest in a subsidiary	39(b)	5,688	–
Share of net assets of an associate acquired *		11,046	–
Cash receivable		–	25,000
		16,734	25,000

* The Group acquired a 20% interest in an associate as the consideration for the disposal of a subsidiary.

39. Notes to the consolidated cash flow statement (Continued)

(c) Disposal of subsidiaries (Continued)

An analysis of the net (outflow)/inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2002 HK\$'000	2001 HK\$'000
Cash and bank balances disposed of	(4,544)	–
Bank overdrafts disposed of	–	338
Net (outflow)/inflow of cash and cash equivalents in respect of the disposal of subsidiaries	(4,544)	338

The subsidiaries disposed of contributed HK\$11,774,000 to the Group's turnover and HK\$2,138,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2002.

The results of the subsidiaries disposed of in the prior year had no significant impact on the Group's consolidated turnover or profit after tax for the year.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

39. Notes to the consolidated cash flow statement (Continued)

- (d) Purchase of an additional interest in a subsidiary in the prior year

	2001 HK\$'000
Reclassification of an interest in the subsidiary, previously accounted for as minority interest	21,597
Negative goodwill arising on acquisition	(3,442)
	<u>18,155</u>
Satisfied by:	
Cash consideration	142
Issue of share capital	18,013
	<u>18,155</u>
	2001 HK\$'000
New outflow of cash and cash equivalents in respect of the purchase of additional interest in a subsidiary	(142)

- (e) Major non-cash transactions

- (i) As further detailed in note 21 to the financial statements, during the year, the Group made a further deposit of HK\$40,404,000 for a contemplated acquisition of an additional interest in an overseas unlisted equity investment from a debtor, which was satisfied by the settlement of a loan receivable from that debtor together with the interest accrued thereon.

39. Notes to the consolidated cash flow statement (Continued)

(e) Major non-cash transactions (Continued)

- (ii) As described in note 36 to the financial statements, during the year, the Company allotted and issued 56,000,000 ordinary shares of HK\$0.10 each of the Company at HK\$0.355 per ordinary share, amounting to HK\$19,880,000, as the consideration for the acquisition of an investment property in Hong Kong.
- (iii) As further detailed in notes 39(b) and (c) to the financial statements, during the year, the Group acquired the entire interest in a subsidiary and a 20% interest in an associate, which were satisfied by the disposal of certain subsidiaries.

(f) Restricted cash and cash equivalent balances

All of the Group's time deposits are pledged to secure the bank overdraft facilities granted to the Group, as further explained in notes 27 and 32 to the financial statements.

40. Contingent liabilities

At the balance sheet date, the Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$270,000 as at 31 December 2002, as further explained under the heading "Employee benefits" in note 3 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

At the balance sheet date, the Company had contingent liabilities in respect of guarantees amounting to HK\$36,800,000 (2001: HK\$18,000,000) given to a bank for the general banking facilities granted to a subsidiary of the Company.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

41. Operating lease arrangements

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	5,968	8,956
In the second to fifth years, inclusive	3,409	6,881
	<u>9,377</u>	<u>15,837</u>

41. Operating lease arrangements (Continued)

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At 31 December 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within one year	1,232	1,188
In the second to fifth years, inclusive	110	392
	1,342	1,580

42. Commitments

In addition to the operating lease commitments detailed in note 41(b) above, the Group and the Company had the following commitments at the balance sheet date:

(a) Capital commitments

At 31 December 2002, the Group had contracted capital commitments amounting to HK\$3,910,000 (2001: HK\$53,188,000).

At the balance sheet date, the Company had no material contracted capital commitments (2001: Nil).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

42. Commitments (Continued)

(b) Other commitments

	Company	
	2002	2001
	HK\$'000	HK\$'000
Commitments under a non-cancellable consultancy agreement	-	460

43. Connected and related party transactions

In addition to those related party transactions disclosed elsewhere in these financial statements, listed below are connected transactions disclosed in accordance with Chapter 14 of the Listing Rules and related party transactions disclosed in accordance with SSAP 20 "Related party disclosures".

43. Connected and related party transactions (Continued)

The transactions referred to in items (i), (x) and (xi) below constitute connected transactions disclosed under the Listing Rules and all of the items below constitute related party transactions.

		Group	
	<i>Notes</i>	2002 HK\$'000	2001 HK\$'000
Proceeds received from Kong Fa, the ultimate holding company of the Company, for subscription of shares	(i)	113,199	206,199
Administrative fee received from Equal Gain Sdn. Bhd. ("Equal Gain") in which Kong Sun Enterprises Sdn. Bhd. ("KSE"), a substantial shareholder of the Company, has a controlling equity interest	(ii)	507	354
Management service fee payable to KSE	(iii)	249	–
Rental receivable from an associate, Koffman Securities Limited ("KSL")	(iv)	334	–
Consultancy fee paid to an associate, HOL Advisory Services Limited ("HOL")	(v)	4,250	–
Acquisition of a 15% interest in Pioneer Heritage from KSE	(vi)	–	18,013
Acquisition of all the issued shares in Dual Aim Sdn. Bhd. ("Dual Aim") from KSE	(vii)	–	16,200
Management services fee payable to Equal Gain	(viii)	–	499
Rental subsidy receivable from Mr. and Mrs. Kong	(ix)	–	231
		<hr/>	<hr/>



NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

43. Connected and related party transactions (Continued)

Notes:

- (i) On 4 February 2002, the Company entered into a placing and subscription agreement with Kong Fa and KSE ("vendors"), pursuant to which the vendors placed 100,000,000 existing ordinary shares of the Company to an investor company at a price of HK\$0.32 per share. On 29 May 2002, the Company issued and allotted 300,000,000 new ordinary shares to Kong Fa at the same placing price. The transaction was completed on 29 May 2002. Details of the transaction were also set out in the Company's circular dated 27 February 2002.

On 22 October 2002, the Company entered into a placing and subscription agreement with Kong Fa, pursuant to which Kong Fa placed 81,900,000 existing ordinary shares of the Company to independent professional and institutional investors at a price of HK\$0.21 per share. On 28 October 2002, the Company issued and allotted 81,900,000 new ordinary shares to Kong Fa at the same placing price. The transaction was completed on 28 October 2002.

- (ii) This related to management services provided by the Group to Equal Gain. The management fee was charged based on the costs incurred by the Group plus a mark-up.
- (iii) A monthly management service fee of MYR10,000 (approximately equivalent to HK\$20,800) was paid to KSE for the marketing and management services provided to a subsidiary of the Group in Malaysia.
- (iv) The rental income related to the lease of an investment property to KSL. The rental was charged at a monthly rent of HK\$83,400.
- (v) This related to investment consultancy services provided by HOL to the Group. A service fee was charged at HK\$208,333 per month.
- (vi) In the prior year, the Group entered into a conditional sale and purchase agreement with KSE, to acquire an additional 15% interest in Pioneer Heritage at a consideration of HK\$18,013,000, which was satisfied by the issue and allotment of 100,072,223 new ordinary shares of HK\$0.10 each by the Company at a price of HK\$0.18 per share.

43. Connected and related party transactions (Continued)

Notes:

- (vii) In the prior year, the Group entered into a conditional sales and purchase agreement with KSE to acquire the entire equity interest in Dual Aim at a consideration of HK\$16,200,000, which was satisfied by the issue and allotment of 90,000,000 new ordinary shares of HK\$0.10 each by the Company at a price of HK\$0.18 per share.
- (viii) In the prior year, monthly management service fee of MYR20,000 (approximately equivalent to HK\$41,600) was paid to Equal Gain for the marketing and management services provided to a subsidiary of the Group in Malaysia.
- (ix) In 1999, the Group acquired all the issued shares in a subsidiary from Mr. Kong and his immediate family who guaranteed the Group that the annual rental yield deriving from the property held by the subsidiary would not be less than 8% per annum for two years commencing from the date of the completion of the acquisition. Accordingly, a rental subsidy of HK\$231,000 was receivable from Mr. and Mrs. Kong for the shortfall, as accrued as at 31 December 2001.
- (x) As further detailed in note 34 to the financial statements, the directors of the Company have provided personal guarantees for certain bank and other borrowings granted to the Group, which amounted to HK\$23,650,000 (2001: Nil) as at 31 December 2002.
- (xi) Kong Fa has pledged certain shares of the Company to secure a bank loan of HK\$19,150,000 (2001: Nil), as further detailed in note 34 to the financial statements.



NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

44. Post balance sheet events

In additions to the subsequent events disclosed in notes 1 and 34 to the financial statements, the following significant event took place.

- (a) On 20 February 2003, the Group entered into a conditional acquisition agreement with Madam Huang Wentong to acquire the entire interest in Pioneer Gains International Limited at a consideration of HK\$34 million, which is to be satisfied by the allotment and issue of 209,876,543 new ordinary shares of HK\$0.10 each by the Company at a price of HK\$0.162 per share. The expected completion date of the acquisition is 18 June 2003. The acquisition is expected to generate a goodwill of approximately HK\$12 million, which will be capitalised and will be amortised over a period of five years on the straight-line basis.
- (b) On 13 May 2003, the Group entered into a sale and purchase agreement with an independent third party to dispose of its entire interest in Grandy Applied Environmental Technology Corporation, a long term investment as at 31 December 2002, for a total consideration of HK\$3,629,000. The disposal resulted in a loss of approximately HK\$18,030,000 and a provision for impairment was made against the long term investment in the current year financial statements (note 20).

45. Comparative amounts

In addition to the reclassification of certain comparative amounts as detailed in note 5 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements as further explained in note 2. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

46. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 12 June 2003.