Notes on the Financial Statements

1. ORGANISATION AND PRINCIPAL ACTIVITIES

The Sun's Group Limited ("the company") was incorporated in Bermuda on 20th September, 1993 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Its shares have been listed on The Stock Exchange of Hong Kong Limited since January 1994. By a shareholders' resolution passed on 7th May, 2002, the company changed its name from Pearl Oriental Holdings Limited to The Sun's Group Limited, the present one.

The company is an investment holding company. During the year ended 31st December, 2002, the company's subsidiaries (which together with the company are collectively referred to as "the group") were principally engaged in property investment and development, financial services, telecommunications and internet businesses. The group ceased its telecommunications and internet businesses in January 2002.

2. GOING CONCERN BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared on the going concern basis.

For the year ended 31st December, 2002, the group reported a loss attributable to shareholders of approximately HK$800,295,000. As at 31st December, 2002, the group had a net working capital deficiency of approximately HK$833,697,000, and as at 31st December, 2002, the group's shareholders' deficit stood at approximately HK$567,733,000. In addition, the group has defaulted on repayment of principal and interest on its bank borrowings, totalling approximately HK$1,138,040,000 as at 31st December, 2002, which have been classified as current liabilities in the consolidated financial statements as at that date. Starting from May 2001, the group's creditor banks have taken various actions including, but not limited to, the issuance of demand notices or writs of summons for immediate repayment of substantially all of the group's bank borrowings, and the appointment of receivers in some cases who have obtained possession of a substantial portion of the properties which have been mortgaged to the banks as collateral for the bank borrowings. In certain cases, the creditor banks have applied the rental receipts from the investment properties to offset part of the group's short-term bank borrowings which are in default.

In April 2003, winding up petitions were made against the company and one of its subsidiaries by Mr. Wong Kwan, a former director and an existing shareholder of the company, and his related parties demanding repayment of approximately HK$62 million for unpaid remuneration and shareholders' loans. These sums were claimed to be incurred in the period prior to the date of resignation of Mr. Wong Kwan as a director of the company.

In addition, a winding up order had been granted by the court on 20th October, 2003 against one of the group's subsidiaries for failure to repay a judgement debt of approximately HK$2,665,000.

As at 31st December, 2002, Mr. Wei Wu, a director of the company, had advanced to the group approximately HK$51,829,000 to help finance the group's operations (see note 38(c)). In addition, a substantial shareholder of the company, China Sun's Group Limited (formerly known as China Wanan Group Limited), has advanced to the group approximately HK$22,727,000 to help finance the group's operations (see note 38(a)). In addition, as part of the conditions on sale of Mr. Wong Kwan's interest in the company to China Sun's Group Limited on 29th January, 2002, Mr. Wong Kwan waived certain amounts owing to him by the group amounting to approximately HK$48,000,000 (see note 38(d)).

Notes on the Financial Statements

2. GOING CONCERN BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(Cont'd)*

A substantial portion of the group's trade and other payables were due for repayment as at 31st December, 2002. Due to the lack of liquidity, the group has delayed repayment and is currently negotiating with the creditors to agree to the debt restructuring proposals.

Substantially all of the group's properties (including investment properties, development properties, completed properties for sale and leasehold land and buildings) have been mortgaged to the banks as collateral for the group's bank borrowings totalling approximately HK$1,138,040,000. As at 31st December, 2002, these properties were stated in the consolidated balance sheet with an aggregate amount of approximately HK$790,080,000 , majority of which were stated at open market value as determined by independent qualified valuers. The valuations were prepared on the assumption that, among others, both the buyers and the sellers would be acting without compulsion and there will be a reasonable period for the marketing of the properties, the agreement of price and other terms and the completion of the sale. The valuation has also been made on the assumption that the owners sell the properties on the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the properties. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the properties and no forced sale situation in any manner is assumed in the valuation report prepared by the independent qualified valuers. However, if the group is forced to dispose of any of its properties within a short period of time, the company's directors and management are of the view that the ultimate amounts recoverable from these properties would be substantially less than the carrying amount as at 31st December, 2002.

The aforementioned factors raise substantial doubt about the group's ability to continue as a going concern. The company's directors and management believe that continued financial support will be forthcoming from the group's major shareholders and they are currently concentrating their efforts on the following:

i) the successful completion of a debt restructuring proposal whereby the outstanding indebtedness could be substantially eliminated and capital injection into the group is made by new investors;

ii) the successful conclusion of various initiatives to secure new sources of funding to meet its financial obligations as they fall due;

iii) ways to maintain future profitable operations of the group; and

iv) the group has, in October 2003, made an invitation to the public for tender of sale of its hotel property owned by a subsidiary in the Western District. The tender was closed on 5th December, 2003. The proceeds from the sale will be applied for repayment of part of the bank borrowings.

Accordingly, the financial statements have been prepared on the going concern basis. Should the outcome of the efforts of the directors and management prove to be unsuccessful, the group would be unable to realise the carrying value of the majority of its assets and repay its creditors, including the banks.

3. CHANGES TO THE BOARD OF DIRECTORS AND MANAGEMENT

The company recorded the following changes in directors and management during the year following the acquisition of a substantial stake in the group by China Sun's Group Limited (formerly China Wanan Group Limited):

Name	**Details of changes**
i) Changes in the board of directors	
Executive directors	
Mr. Wei Wu (Chairman and Chief Executive Officer)	Appointed on 29th January, 2002 as Executive Director and Chairman and appointed as Chief Executive Officer on 19th September, 2002
Mr. He Hui Min	Appointed on 29th January, 2002
Mr. Chiang Ho Wai	Appointed on 29th January, 2002 as Non-executive Director and redesignated as Executive Director on 19th September, 2002
Mr. Wong Kwan	Resigned on 29th January, 2002
Mr. Wong Wai Hay	Resigned on 29th January, 2002
Mr. Qian Yong Wei	Appointed on 29th January, 2002 and resigned on 12th August, 2002
Mr. Siu King Nin, Peter	Resigned as Executive Director and redesignated as Non-executive Director on 12th December, 2002 and resigned as Non-executive Director on 28th February, 2003
Non-executive director	
Mr. Wei De Zhong	Appointed on 29th January, 2002
Independent non-executive directors	
Mr. Leung Tze Hang, David	Resigned on 16th October, 2002
Mr. Kwan Man Fai, Kelvin	Appointed on 16th October, 2002 and resigned on 28th February, 2003
Mr. Lai Si Ming	Appointed on 9th May, 2002 and resigned on 4th March, 2003
Mr. Wong Yau Kuen	Resigned on 29th January, 2002

The two existing Independent Non-executive Directors of the company, Dr. Mao Zhi Rong and Dr. Zhu Jing were appointed subsequent to the current financial year on 5th March, 2003.

Notes on the Financial Statements

3. CHANGES TO THE BOARD OF DIRECTORS AND MANAGEMENT *(Cont'd)*

ii) Other changes in management

Other changes in management during the year included the appointment of the group's financial controller in January 2002 and his position was replaced by a new financial controller in December 2002.

The financial statements have been prepared based on the books and records maintained by the company and its subsidiaries. However, due to the above changes to the board of directors and management, no representations as to the completeness of the books and records of the group during the period from 1st January to 29th January, 2002 could be given by the present board of directors although care has been taken in the preparation of the financial statements to mitigate the effects of the incomplete records. Notwithstanding the foregoing, the present board of directors have, in the assessment of the group's assets and liabilities, taken such steps as they considered practicable, to establish these assets and liabilities based on the information of which they are aware and have made provisions and adjustments as they considered appropriate in the preparation of the financial statements.

4. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised below:

a) Basis of measurement:

The financial statements have been prepared on the historical cost basis as modified by stating investment properties at open market value.

b) Adoption of new/revised Statements of Standard Accounting Practice:

In the current year, the group has adopted, for the first time, the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

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

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 adopting these SSAPs are summarised as follows:

SSAP 1 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 page 26 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 reserves note.

4. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of the SSAP on the consolidated financial statements is that the income statements of overseas subsidiaries 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 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 to 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.

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 no material change to the previously adopted accounting treatments for employee benefits. Disclosures are now required in respect of the company's share option scheme, as detailed in note 29 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 included in the notes to the financial statements as a consequence of the SSAP.

The 2001 comparative figures presented herein have incorporated the effect of adjustments, where applicable, resulting from the adoption of the new SSAPs.

c) Basis of consolidation:

The consolidated financial statements include the accounts of the company and its subsidiaries (together "the group") together with the group's share of post-acquisition profits/losses and reserves of its associates under the equity method of accounting. The result of subsidiaries and associates acquired or disposed of during the year are recorded from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

d) Goodwill:

Goodwill represents the difference between the fair value of the consideration given and the group's share of the aggregate fair values of the identifiable net assets acquired. Goodwill is recognised as an asset in the balance sheet and is amortised to the income statement on a straight-line basis over its estimated economic life. The carrying value of goodwill is assessed periodically or when factors indicating an impairment are present. Any impairment of goodwill is recognised as an expense in the period in which the impairment of goodwill is recognised as an expense in the period in which the impairment occurs.

Notes on the Financial Statements

4. **PRINCIPAL ACCOUNTING POLICIES** *(Cont'd)*

e) **Subsidiaries:**

A subsidiary is a company over which the group can exercise control, which is normally evidenced when the group has the power to govern its financial and operating policies so as to benefit from its activities. In the company's financial statements, investment in subsidiaries is stated at cost less any impairment loss, while income from subsidiaries is recorded to the extent of dividends received and receivable.

f) **Associates:**

An associate is a company over which the group has significant influence, but not control or joint control, over its financial and operating policy decisions. In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and is adjusted thereafter to recognise the group's share of the post-acquisition results of associates, distributions received from associates, other necessary alterations in the group's proportionate interest in associates arising from changes in the equity of associates that have not been included in the income statement of associates, amortisation of the difference between the cost of investment and the group's share of the aggregate fair value of the identifiable net assets acquired at the date of acquisition (goodwill), and any impairment loss. The group's share of post-acquisition results of associates is included in the consolidated income statement.

g) **Turnover and revenue recognition:**

Turnover represents (i) the contracted value for sale of properties; (ii) rental income from leasing of investment properties; (iii) revenue from hotel operations; (iv) fees for the provision of telecommunications services and internet services; and (v) interest income from loans receivable.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the group. Revenue is recognised on the following bases:

i) Sale of properties is recognised upon completion of the sales contract. Payments received from purchasers prior to completion are recorded as deposits from customers.

ii) Rental income from investment properties is recognised on a straight-line basis over the terms of the leases.

iii) Revenue from hotel operations is recognised when the related services are rendered.

iv) Revenue from the provision of telecommunications services and internet services is recognised when the related services are rendered. Deposits or advance payments from customers prior to provision of services are recorded as deferred income.

v) Interest income is recognised on a time proportion basis on the principal outstanding and at the rates applicable.

vi) Gain or loss from sale of investment in securities is recognised on the trade date.

4. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

h) Deferred Taxation:

Deferred taxation is provided under the liability method, at the current tax rate, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

i) Employee benefits:

i) Retirement benefits scheme:

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

ii) 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 income statement 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.

j) Borrowing costs:

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset at rates based on the actual cost of the specific borrowings. All other borrowing costs are recognised as an expense in the period in which they are incurred.

Notes on the Financial Statements

4. **PRINCIPAL ACCOUNTING POLICIES** *(Cont'd)*

k) Properties and equipment and depreciation:

Properties and equipment are stated at cost less accumulated depreciation and any impairment loss. Major expenditures on modifications and betterments of properties and equipment which will increase their future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed as incurred. Depreciation is provided on a straight-line basis to write off the cost less estimated residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Leasehold land	2% (lease term)
Buildings	4%
Operating equipment	33% to 50%
Furniture and office equipment	15% to 30%
Motor vehicles and vessels	20% to 30%

The depreciation methods and useful lives are reviewed periodically to ensure that the methods and rates of depreciation are consistent with the expected pattern of economic benefits from properties and equipment.

Gains and losses on disposal of properties and equipment are recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

l) Investment properties:

Investment properties are interests in leasehold land and buildings in respect of which construction and development work have been completed and which are held for their long-term investment potential. These properties are included in the balance sheet at their open market value on the basis of an annual valuation by independent qualified valuers. All changes in value of investment properties are dealt with in the investment properties revaluation reserve unless the total of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the net deficit is recognised as an expense in the income statement. When an investment property is disposed of, previously recognised revaluation surpluses, if any, are reversed and the gain or loss on disposal reported in the income statement is determined based on the net disposal proceeds less the original cost or the then carrying value of the investment property.

No depreciation is provided on investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

m) Development properties:

Development properties include interests in leasehold land and buildings under development, and are stated at cost less any impairment loss. The cost of development properties includes the original costs of leasehold land and buildings, development and construction expenditures incurred, borrowing costs directly attributable to construction of such properties and other direct costs. No depreciation is provided for development properties.

4. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

n) Loans receivable:

Loans to customers together with accrued interest are stated in the balance sheet after deducting specific and general provisions for possible loan losses. Specific provisions are made against the outstanding balance of loans where, in the opinion of management, recovery is doubtful. General provisions relate to exposures not specifically identified but known from experience to exist in the current portfolio. The provisions made are based on estimates made by management and are reviewed periodically. Adjustments are made when considered necessary.

o) Completed properties for sale:

Completed properties for sale are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling prices in the ordinary course of business as determined by management with reference to the prevailing market conditions, less selling and marketing expenses.

p) Inventories:

Inventories, primarily consisting of telecommunications equipment, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method of costing and includes costs incurred in bringing the goods to their present location and condition. Net realisable value is based on estimated selling prices in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period when the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

q) 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 with 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 cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Notes on the Financial Statements

4. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

r) Impairment of assets:

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset, is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of impairment losses recognised in a prior year is recorded when there is an indication that the losses recognised for the asset no longer exist or have decreased. The reversal is recorded in the income statement.

s) Provisions and contingencies:

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes on the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

t) Operating leases:

Operating leases represent those leases under which substantially all the rewards and risks of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

Notes on the Financial Statements

4. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

u) Foreign currency translation:

Transactions in currencies other than Hong Kong dollars are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

On consolidation, assets and liabilities of the group's overseas operations are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates during the year. Exchange differences arising from such translation are dealt with as movements in cumulative translation adjustments.

v) 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.

w) Segment reporting:

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

In accordance with the group's internal financial reporting the group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

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

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

Notes on the Financial Statements

5. DISCONTINUING OPERATIONS

On 29th January, 2002, the group disposed of certain subsidiaries engaged mainly in the telecommunications and internet businesses. Thereafter, the group ceased its telecommunication and internet businesses, the results of which are presented as discontinuing operations in the consolidated income statement for the year ended 31st December, 2002.

The results of the discontinuing operations were:

	2002	2001
	HK$'000	*HK$'000*
Turnover	**6,666**	175,860
Cost of sales	**(3,579)**	(131,561)
Gross profit	**3,087**	44,299
Other revenues	**3**	28,825
Selling and marketing expenses	**(39)**	(524)
General and administrative expenses	**(9,833)**	(63,264)
Other operating expenses	**–**	(990)
(Loss) Profit from operations	**(6,782)**	8,346
Gain (Loss) on disposal of subsidiaries	**24,755**	(1,731)
Finance costs	**(3,218)**	(7,755)
Share of loss of associates	**–**	(832)
Profit (Loss) before taxation	**14,755**	(1,972)
Taxation	**–**	1,171
Profit (Loss) after taxation but before minority interests	**14,755**	(801)
Minority interests	**206**	(52)
Profit (Loss) attributable to shareholders	**14,961**	(853)

6. TURNOVER AND REVENUES

Analysis of turnover and revenues in the consolidated income statement is as follows:

	2002	2001
	HK$'000	*HK$'000*
Continuing operations:		
Property investment and development	**13,235**	292,085
Financial services, including money lending	**–**	7,461
	13,235	299,546
Discontinuing operations:		
Hotel operations	**–**	940
Telecommunications services	**6,661**	159,938
Internet services	**5**	14,982
	6,666	175,860
Total turnover	**19,901**	475,406
Net gain on disposal of properties and equipment	**466**	3,304
Interest income from bank deposits	**24**	1,874
Others	**404**	3,172
Total other revenues	**894**	8,350
Total revenues	**20,795**	483,756

Notes on the Financial Statements

7. OTHER OPERATING EXPENSES

Other operating expenses in the consolidated income statement consisted of:

	2002	2001
	HK$'000	*HK$'000*
Continuing operations:		
Loss on disposal/Impairment loss of long-tem investments, after consideration of the value of the underlying assets of the investee	–	(12,855)
Provision for advances to associates	–	(2,190)
Loss on investment in securities	–	(39)
	–	(15,084)
Discontinuing operations:		
Provision for advances to associates	–	(990)
	–	(16,074)

8. LOSS BEFORE TAXATION

Loss before taxation in the consolidated income statement was determined after charging and crediting the following items, other than revenues disclosed in note 6 and other operating expenses disclosed in note 7.

	2002 **HK$'000**	2001 HK$'000
Charging:–		
Interest on:		
Bank overdrafts and loans wholly repayable within five years	**135,280**	132,299
Short-term advances from a former director	**3,066**	6,358
Short-term advances from a director	**918**	–
Short-term advances from shareholders	**1,370**	–
Loans payable	**3,428**	824
	144,062	139,481
Less:		
Amounts included in cost of sales	**(22,574)**	(29,168)
Amounts capitalised in relation to development properties*	**(90,552)**	(84,890)
	30,936	25,423
Staff costs (including directors' emoluments)	**11,935**	45,015
Operating lease rentals – land and buildings	**375**	5,431
Provision for bad and doubtful trade receivables	**130**	49
Bad debts written off	**986**	–
Depreciation of properties and equipment		
– Owned assets	**4,802**	9,353
– Leased assets	**455**	97
Net exchange loss	**–**	52
Auditors' remuneration	**1,303**	1,300
Crediting:–		
Rental income from investment properties less outgoings (Gross rental income: HK$10,021,000; 2001: HK$9,360,000)	**8,231**	6,479

* The average interest rate of borrowing costs capitalised for the year ended 31st December, 2002 was approximately 9.5% per annum (2001: 11.7% per annum).

Notes on the Financial Statements

9. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a) Details of directors' emoluments are:

	2002 **HK$'000**	2001 *HK$'000*
Fees for:		
Executive directors	**2,070**	–
Non-executive director	**–**	200
Independent non-executive directors	**50**	150
Other emoluments for executive directors:		
Basic salaries and allowances	**1,415**	6,042
Accommodation allowances	**375**	–
Retirement scheme contributions	**13**	35
Discretionary bonuses and/or performance related bonuses	**–**	–
Compensation for loss of office	**300**	–
Inducement for joining the group	**–**	–
	4,223	6,427

No directors waived or agreed to waive their emoluments during the year.

Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	2002	2001
Executive directors:		
Nil to HK$1,000,000	**3**	2
HK$1,000,001 to HK$1,500,000	**2**	–
HK$1,500,001 to HK$2,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**–**	1
	5	4
Non-executive director/independent non-executive directors		
– Nil to HK$1,000,000	**1**	4
	6	8

9. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Cont'd)*

b) Details of emoluments of the five highest paid individuals (including directors and other employees) are:

	2002 **HK$'000**	2001 HK$'000
Basic salaries and allowances	**4,543**	6,877
Accommodation allowances	**–**	–
Retirement scheme contributions	**36**	59
Discretionary bonuses and/or performance related bonuses	**–**	–
Compensation for loss of office	**300**	–
Inducement for joining the group	**–**	–
	4,879	6,936

Three (2001: Three) of the highest paid individuals were directors of the company, whose emoluments are included in note 9(a).

Analysis of emoluments of the five highest paid individuals (including directors and other employees) by number of individuals and emolument ranges is as follows:

	2002	2001
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$1,500,000	**2**	–
HK$1,500,001 to HK$2,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**–**	1
	5	5

Notes on the Financial Statements

10. TAXATION

Taxation in the consolidated income statement consisted of:

	2002 *HK$'000*	2001 *HK$'000*
Hong Kong profits tax		
Provision for current year	**(119)**	(45)
Write-back of over-provision in prior years	**4,493**	1,077
Deferred tax		
Write-back of over provision in prior years	**1,818**	–
Canadian income tax		
Write-back of over-provision in prior years	**–**	1,171
	6,192	2,203

The company is exempt from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at 16% (2001: 16%) on the assessable profit arising in or deriving from Hong Kong. No overseas taxation was provided as the subsidiaries operating overseas had no taxable income during the year.

The potential tax benefits of the group of approximately HK$248,332,000 (2001: HK$220,673,000) and of the company of approximately HK$3,929,000 (2001: HK$2,174,000) arising from the tax losses carried forward as at the balance sheet date have not been recognised in these financial statements.

Other than the above, there was no other significant amount of unprovided deferred taxation in respect of the group and the company at the balance sheet date.

11. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders included a loss of approximately HK$270,780,000 (2001: HK$674,625,000) dealt with in the financial statements of the company.

12. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31st December, 2002 was based on the consolidated loss attributable to shareholders of approximately HK$800,295,000 (2001: HK$670,017,000) and on the weighted average number of approximately 16,398,893,000 shares (2001: 13,418,040,000 shares) in issue during the year.

No diluted earnings per share is presented as the share options were lapsed during the year (2001: all anti-dilutive).

Notes on the Financial Statements

13. PROPERTIES AND EQUIPMENT

a) Movements of properties and equipment (consolidated) were:

	2002					2001
	Leasehold land and buildings	**Operating equipment**	**Furniture and office equipment**	**Motor vehicles and vessels**	**Total**	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
Cost:						
Beginning of year	**79,687**	**60,107**	**5,058**	**25,581**	**170,433**	289,730
Attributable to disposal of subsidiaries	**–**	**(55,922)**	**–**	**(19,318)**	**(75,240)**	(111,352)
Additions	**–**	**–**	**4,561**	**1,703**	**6,264**	5,422
Disposals	**–**	**–**	**–**	**(5,940)**	**(5,940)**	(12,107)
Translation adjustments	**–**	**–**	**–**	**–**	**–**	(1,260)
End of year	**79,687**	**4,185**	**9,619**	**2,026**	**95,517**	170,433
Accumulated depreciation/ impairment loss						
Beginning of year	**5,741**	**46,319**	**3,133**	**25,403**	**80,596**	90,743
Provision for the year	**971**	**2,059**	**1,757**	**470**	**5,257**	9,450
Attributable to disposal of subsidiaries	**–**	**(44,930)**	**–**	**(19,318)**	**(64,248)**	(9,204)
Disposals	**–**	**–**	**–**	**(5,906)**	**(5,906)**	(10,250)
Impairment loss	**33,175**	**–**	**–**	**–**	**33,175**	(143)
End of year	**39,887**	**3,448**	**4,890**	**649**	**48,874**	80,596
Net book value:						
End of year	**39,800**	**737**	**4,729**	**1,377**	**46,643**	89,837
Beginning of year	**73,946**	**13,788**	**1,925**	**178**	**89,837**	198,987

An impairment loss of approximately HK$33,175,000 has been made by the directors at 31st December, 2002 on leasehold land and buildings by reference to open market value.

The net book value of the Group's properties and equipment held under finance leases included in motor vehicles and vessels at 31st December, 2002 amounted to approximately HK$1,377,000 (2001: HK$129,000).

Notes on the Financial Statements

13. PROPERTIES AND EQUIPMENT *(Cont'd)*

b) Leasehold land and buildings:

The geographical location and tenure of title of land and buildings are analysed as follows:

	2002 **HK$'000**	2001 *HK$'000*
Hong Kong		
– long-term leases	**39,800**	73,946

All the leasehold land and buildings are mortgaged as collateral for the group's banking facilities (see note 36).

14. INVESTMENT PROPERTIES

Movements of investment properties (consolidated) were:

	2002 **HK$'000**	2001 *HK$'000*
Beginning of year	**368,800**	467,150
Disposals	**(4,800)**	(33,553)
Deficit on revaluation	**(143,800)**	(64,797)
End of year	**220,200**	368,800

The geographical location and tenure of title of investment properties are analysed as follows:

	2002 **HK$'000**	2001 *HK$'000*
Hong Kong		
– long-term leases	**170,200**	304,800
– medium-term leases	**50,000**	64,000
	220,200	368,800

Investment properties are stated at open market value at 31st December, 2002 as determined by Chesterton Petty Limited, independent qualified valuers. All the investment properties are mortgaged as collateral for the group's banking facilities (see note 36).

14. INVESTMENT PROPERTIES *(Cont'd)*

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

Location	Group's interest	Existing use
Shop 1 & 2 on Ground Floor, Car Parking Spaces No. 1 & 2 on Ground Floor, 8, 9, 11, 13 & 15 on 1st Floor, 28, 29, 30, 31, 32, 33, 35, 36 & 38 on 2nd Floor, 39, 40, 41, 43, 45, 46, 48 & 49 on 3rd Floor, 60, 61, 62 & 63 on 4th Floor, Flat Roof on 4th Floor, 9th, 10th, 13th, 16th, Unit 1702 on 17th, 22nd, 23rd and 26th Floor, Roof and Upper Roof and External Walls of The Sun's Group Centre, No. 200 Gloucester Road, Wanchai, Hong Kong.	100%	Commercial
2nd, 3rd, 8th, 9th, 10th, 11th, 13th, 14th 17th and 18th Floor, Pearl Oriental Tower, No. 225 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong.	100%	Commercial

15. DEVELOPMENT PROPERTIES

Movements of development properties (consolidated) were:

	2002	2001
	HK$'000	*HK$'000*
Beginning of year	**970,000**	1,600,000
Additions	**173,146**	128,832
Disposals	**–**	(582,216)
Impairment loss, representing deficit on revaluation	**(613,146)**	(176,616)
End of year	**530,000**	970,000
Classified under:		
Non-current assets	**–**	650,000
Current assets	**530,000**	320,000
	530,000	970,000

Development properties are classified as current assets in cases where the group intends and has specific plans to dispose of the properties; otherwise they are classified as non-current assets.

Notes on the Financial Statements

15. DEVELOPMENT PROPERTIES *(Cont'd)*

The geographical location and tenure of development properties are analysed as follows:

	2002 **HK$'000**	2001 *HK$'000*
Hong Kong		
– long-term leases	**330,000**	650,000
– medium-term leases	**200,000**	320,000
	530,000	970,000

Impairment loss on development properties was determined based on the open market value of the properties as at 31st December, 2002, which was determined by Chesterton Petty Limited, independent qualified valuers. All the development properties are mortgaged as collateral for the group's banking facilities (see note 36).

Details of the development properties as at 31st December, 2002 were as follows:

Location	**Group's interest**	**Stage of construction**	**Expected completion date**	**Expected use**	**Gross floor areas (square meters)**
Pearl Grand Parc & Hotel, Nos. 304–314 Des Voeux Road West, Sai Ying Pun, Hong Kong.	100%	In process of conversion into hotel property*	No certain date	Hotel	14,405
Skyhigh, 10 Pollock Path, The Peak, Hong Kong.	100%	Construction work suspended	No certain date	Residential	2,034

* as detailed in note 37(b)(v) on the financial statements, subsequent to the balance sheet date, the group has made an invitation to the public for tender of sale of its hotel property.

16. INVESTMENT IN SUBSIDIARIES

In the company's balance sheet, investment in subsidiaries consisted of:

	2002 **HK$'000**	2001 *HK$'000*
Unlisted shares, at cost	**295,570**	295,570
Due from subsidiaries	**3,074,567**	2,871,925
Due to subsidiaries	**(3,617)**	–
	3,366,520	3,167,495
Less: Impairment loss	**(3,370,137)**	(3,108,471)
	(3,617)	59,024

16. INVESTMENT IN SUBSIDIARIES *(Cont'd)*

All outstanding balances with subsidiaries were unsecured, non-interest bearing and without pre-determined repayment terms.

Details of the principal subsidiaries as at 31st December, 2002, all held indirectly by the company except The Sun's Corporate (B.V.I.) Limited were:

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Ample Property Limited	British Virgin Islands	US$1	100%	Investment holding
Charter Enterprises (B.V.I.) Limited	British Virgin Islands	US$1	100%	Investment holding
Crown Score Investment Limited	Hong Kong	HK$10,000	100%	Investment holding
Fair Capital Properties Limited	Hong Kong	HK$10,000	100%	Property investment
Goodjoin Limited	British Virgin Islands	US$1	100%	Investment holding
Goldkey Industries Limited	Hong Kong	HK$10,000	100%	Property investment
Halmaro Enterprises Limited	Hong Kong	"A" Share HK$200	100%	Property investment
Honour General International Limited	Hong Kong	HK$10,000	100%	Investment holding
Jade Capital Industrial Limited	Hong Kong	HK$30,000,000	100%	Investment holding
Lucky Ocean International Limited	Hong Kong	HK$2	100%	Property investment
Lucky Rainbow Limited	Hong Kong	HK$2	100%	Property development
Magic Link Services Corporation	British Virgin Islands	US$1	100%	Investment holding

Notes on the Financial Statements

16. INVESTMENT IN SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Margaux Finance Limited	Hong Kong	HK$100,000,000	100%	Money lending and financial advisory services
The Sun's Capital & Marketing (B.V.I.) Limited (Formerly known as Pearl Capital & Marketing (B.V.I.) Limited)	British Virgin Islands	US$1	100%	Investment holding
The Sun's Development (B.V.I.) Limited (Formerly known as Pearl Development (B.V.I.) Limited)	British Virgin Islands	US$1	100%	Investment holding
The Sun's International Development (HK) Limited (Formerly known as Pearl Fame Development Limited)	Hong Kong	HK$2	100%	Property investment and development
The Sun's Group (HK) Limited (Formerly known as Pearl Glorious Investment Limited)	Hong Kong	Ordinary HK$10,000 Deferred HK$20,000,000(i)	100%	Investment holding, property investment, project management and consultancy
Prime Victory Limited	British Virgin Islands	US$1	100%	Investment holding
The Sun's Corporate (B.V.I.) Limited (Formerly known as Pearl Enterprises (B.V.I.) Limited)	British Virgin Islands	US$10,000	100%	Investment holding
The Sun's International Hotels Limited (Formerly known as Pearl International Hotels Limited)	Hong Kong	HK$1,000,000	100%	Hotel management and consultancy services and investment holding

16. INVESTMENT IN SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
The Sun's International Hotels (B.V.I.) Limited (Formerly known as Pearl International Hotels (B.V.I.) Limited)	British Virgin Islands	US$1	100%	Investment holding
The Sun's (B.V.I.) Limited (Formerly known as Pearl Oriental (B.V.I.) Limited)	British Virgin Islands	US$1	100%	Investment holding
The Sun's Property Management Limited (Formerly known as Pearl Property Management Limited)	Hong Kong	HK$2	100%	Property management services
Rossmore Profits Limited	British Virgin Islands	US$1	100%	Investment holding
Simple World Limited	British Virgin Islands	US$1	100%	Investment holding
Silver Industries Limited	Hong Kong	HK$10,000	100%	Property investment
Super Delight Enterprises Limited	British Virgin Islands/ Hong Kong	US$200	100%	Property investment and development
Terrific Hit Holdings Limited	British Virgin Islands/ Hong Kong	US$1	100%	Property investment
Unimax Investments Limited	British Virgin Islands/ Hong Kong	US$2	100%	Property investment
Union Growth Group Limited	British Virgin Islands	US$1	100%	Investment holding

Notes on the Financial Statements

16. INVESTMENT IN SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Win Chance Limited	British Virgin Islands/ Hong Kong	US$2	100%	Property investment
Win Oriental Investment Limited	Hong Kong	HK$2	100%	Property investment

On 29th January, 2002, the group disposed of certain subsidiaries engaged mainly in the telecommunications and internet business and certain fixed assets to Mr. Wong Kwan, a former director and an existing shareholder of the company, for a total cash consideration of HK$30,000,000, resulting in a gain of approximately HK$24,755,000 which has been reflected in the income statement for the current year.

Note:

i) The non-voting deferred shares shall entitle the holders to a fixed non-cumulative dividend at the rate of Hong Kong 1 cent in respect of any one non-voting deferred share per annum for any financial year of the company in respect of which the audited net profits of the company available for dividend exceed HK$1,000,000,000; on a winding-up the holders of the non-voting deferred shares shall be entitled out of the surplus assets of the company to a return of the capital paid up on the non-voting deferred shares held by them respectively after a total sum of HK$100,000,000,000 has been distributed in such winding-up in respect of each of the ordinary shares of the company.

The above summary lists only the principal subsidiaries of the company which, in the opinion of the company's directors and management, principally affected the results or formed a substantial portion of the net assets of the group. To give details of other subsidiaries would in the opinion of the company's directors and management, result in particulars of excessive length.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st December, 2002.

17. INVESTMENT IN ASSOCIATES

Investment in associates (consolidated) consisted of:

	2002 HK$'000	2001 HK$'000
Unlisted shares, at cost	**4**	50,569
Goodwill on acquisition, eliminated against reserves	**–**	(48,103)
Share of net assets at the time of acquisition	**4**	2,466
Share of undistributed post-acquisition profits less losses	**–**	(33,723)
	4	(31,257)
Advances to associates	**169,098**	179,306
Advances from associates	**–**	(51)
	169,102	147,998
Less: Provision against advances	**(169,102)**	(147,043)
	–	955

During the year, certain associates indirectly held by certain subsidiaries were disposed of to Mr. Wong Kwan as detailed in notes 5 and 38(b).

All outstanding balances with associates were unsecured, non-interest bearing and without pre-determined repayment terms.

Details of the associates as at 31st December, 2002, all held indirectly by the company were:

Name	Place of incorporation/ operations	Percentage of equity interest held	Principal activities
Rich Lord International Limited	Hong Kong	25%	Dormant
China Joy Investments Limited	Hong Kong	20%	Dormant

Notes on the Financial Statements

18. LOANS AND OTHER RECEIVABLES

Details of loans and other receivables (consolidated) are:

	2002	2001
	HK$'000	*HK$'000*
Unsecured loans receivable from money lending activities	**348,134**	348,134
Less: Provision for doubtful loans receivable	**(348,134)**	(348,133)
	–	1
Other receivable*	**–**	26,739
	–	26,740

* The balance represents a receivable from a minority shareholder of a subsidiary and is unsecured, non-interest bearing and without pre-determined repayment terms.

19. COMPLETED PROPERTIES FOR SALE

Movements of completed properties for sale (consolidated) were:

	2002	2001
	HK$'000	*HK$'000*
Beginning of year	**480**	13,000
Disposals	**–**	(12,386)
Impairment loss, representing deficit on revaluation	**–**	(134)
End of year	**480**	480

All completed properties for sale are located in Hong Kong held under medium-term leases and mortgaged as collateral for the group's banking facilities (see note 36).

20. TRADE RECEIVABLES

The aging analysis of trade receivables (consolidated) is as follows:

	2002 HK$'000	2001 HK$'000
0 to under 1 month	**681**	3,567
1 to under 2 months	**327**	1,886
2 to under 3 months	**51**	750
Over 3 months	**691**	1,276
	1,750	7,479
Less: Provision for bad and doubtful trade receivables	**(179)**	(1,066)
	1,571	6,413

Consideration in respect of sale of properties is payable by purchasers pursuant to the terms of the sale and purchase agreements. Rental income in respect of leased properties is payable in advance by the tenants on a monthly basis. Interest income from loans receivable is payable by borrowers pursuant to the terms of the loan agreements. The group provides credit terms to customers of its telecommunication and internet business in accordance with the group's credit policies ranging from cash sales to a credit period of one to two months.

21. CASH AND CASH EQUIVALENTS

	Consolidated		Company	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Cash and bank balances	**1,957**	9,962	**998**	25

Notes on the Financial Statements

22. SHORT-TERM BANK BORROWINGS

Details of short-term bank borrowings (consolidated) are:

	2002 HK$'000	2001 HK$'000
Overdrafts	**14,134**	15,851
Short-term loans	**109,904**	124,701
Long-term loans, current portion *(note 25)*	**836,817**	900,808
Accrued interest payable	**177,185**	128,051
	1,138,040	1,169,411

Short-term bank borrowings (excluding the current portion of long-term loans) bear interest at rates ranging from 10.50% to 15.125% per annum (2001: 6% to 15% per annum). Refer to note 36 for details of the group's banking facilities. Refer to note 2 for details of the group's default on repayment of its bank borrowings.

23. LOANS PAYABLE

The loans payable of approximately HK$18,261,000 (2001: HK$12,424,000) are unsecured, bear interest at rates ranging from prime rate minus 1% per annum to 1% per month and is repayable within the next twelve months.

24. TRADE PAYABLES

The aging analysis of trade payables (consolidated) based on invoiced date is as follows:

	2002 HK$'000	2001 HK$'000
0 to under 1 month	**6,217**	4,252
1 to under 2 months	**142**	6,799
2 to under 3 months	**1,025**	3,988
3 to under 12 months	**5,132**	13,294
Over 12 months	**22,097**	41,257
	34,613	69,590

25. LONG-TERM BANK LOANS

Details of long-term loans (consolidated) are:

	2002	2001
	HK$'000	*HK$'000*
Amounts repayable within a period		
– not exceeding one year	**393,503**	783,145
– more than one year but not exceeding two years	**48,697**	17,252
– more than two years but not exceeding five years	**151,281**	48,231
– more than five years	**243,336**	52,180
	836,817	900,808
Less: Amounts repayable within one year included under short-term bank borrowings *(note 22)*	**(393,503)**	(783,145)
Amounts included under short-term bank borrowings as a result of default in repayment *(notes 2 and 22)*	**(443,314)**	(117,663)
	–	–

Long-term bank loans bear interest at rates ranging from 4% to 15.125% per annum (2001: 6% to 15% per annum). Refer to note 36 for details of the group's banking facilities. Refer to note 2 for details of the group's default on repayment of its bank borrowings.

Notes on the Financial Statements

26. OBLIGATION UNDER FINANCE LEASE

Commitments under finance lease (consolidated) are:

	Minimum lease payments		Present value of minimum lease payments	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable within one year	**512**	88	**440**	72
Amounts payable in the second to fifth years inclusive	**1,018**	102	**879**	84
Total minimum lease payments	**1,530**	190	**1,319**	156
Future finance charges	**(211)**	(34)	**–**	–
Present value of minimum lease payments	**1,319**	156	**1,319**	156
Current portion of obligation under finance lease			**(440)**	(72)
Non-current portion of obligation under finance lease			**879**	84

It is the group's policy to lease its motor vehicles under finance lease. The average lease term is three to five years. The average effective borrowing rate ranges from approximately 2.9% to 5.5%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

27. MINORITY INTERESTS

Minority interests consisted of:

	2002	2001
	HK$'000	*HK$'000*
Share of subsidiaries' net assets	–	9,779
Advances from a minority shareholder of a subsidiary	–	126
	–	9,905

28. SHARE CAPITAL

Movement in share capital was:

	2002		2001	
	Number of shares	**Nominal value**	Number of Shares	Nominal value
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised (ordinary shares of HK$0.001 (2001: HK$0.1) each):				
Beginning of year	**20,000,000**	**2,000,000**	20,000,000	2,000,000
Cancellation of unissued share capital	**(6,581,960)**	**(658,196)**	–	–
Increase in authorised share capital	**1,986,581,960**	**1,986,582**	–	–
Capital reduction	**–**	**(1,328,386)**	–	–
End of year	**2,000,000,000**	**2,000,000**	20,000,000	2,000,000
Issued and fully paid (ordinary shares of HK$0.001 (2001: HK$0.1) each):				
Beginning of year	**13,418,040**	**1,341,804**	13,418,040	1,341,804
Capital reduction	**–**	**(1,328,386)**	–	–
Issue of shares	**8,989,652**	**8,990**	–	–
End of year	**22,407,692**	**22,408**	13,418,040	1,341,804

During the year, the movements in the authorised and issued share capital of the company were as follows:

i) Pursuant to a special resolution passed at the Special General Meeting of the company held on 7th May, 2002, the company implemented a capital reduction plan pursuant to which the par value of each of its 13,418,039,801 ordinary shares in issue was reduced from HK$0.1 to HK$0.001, its share premium was reduced by approximately HK$409,937,000, and its accumulated deficit was reduced by approximately HK$1,738,323,000. Moreover, the company's 6,581,960,199 authorised but unissued ordinary shares with a par value of HK$0.1 each were cancelled and replaced by 1,986,581,960,199 authorised but unissued ordinary shares with a par value of HK$0.001 each.

ii) Pursuant to the subscription agreement entered into with a creditor on 11th June, 2002, 1,342,857,143 new ordinary shares of par value of HK$0.001 each were issued at an agreed price of HK$0.035 each for the satisfaction of part of the debt of HK$47 million.

iii) Pursuant to the deed of settlement entered into with a creditor on 12th June, 2002, 371,428,571 new ordinary shares of par value of HK$0.001 each were issued at an agreed price of HK$0.035 each for the satisfaction of part of the debt of HK$13 million.

Notes on the Financial Statements

28. SHARE CAPITAL *(Cont'd)*

iv) Pursuant to the subscription agreements entered into with four independent investors on 11th June, 2002, 857,142,857 new ordinary shares of par value of HK$0.001 each were issued at an agreed price of HK$0.035 each. Net proceeds from the issue of new shares of approximately HK$30 million were used for general working capital purpose.

v) Pursuant to the placing agreement entered into with an independent placing agent on 7th August, 2002, 2,683,607,960 new ordinary shares of par value of HK$0.001 each were issued to independent investors at an agreed price of HK$0.016 per share. The net proceeds of approximately HK$41.5 million were used for repayment of debts.

vi) Pursuant to the subscription agreement entered into with the same creditor as mentioned in (ii) above on 18th November, 2002, 2,068,615,266 new ordinary shares of par value of HK$0.001 each were issued at an agreed price of HK$0.012 each for the satisfaction of part of the debt of approximately HK$24,823,000.

vii) Pursuant to the placing agreement entered into with an independent placing agent on 15th November, 2002, 1,666,000,000 new ordinary shares of par value of HK$0.001 each were issued to independent investors at an agreed price of HK$0.012 per share. The net proceeds of approximately HK$16 million were used for general working capital purpose.

29. SHARE OPTION

Pursuant to an ordinary resolution passed on 14th November, 2002, the shareholders of the company approved the termination of the share option scheme adopted by the company on 30th December, 1993 (the "1993 Share Option Scheme") and the adoption of a new share option scheme (the "2002 Share Option Scheme").

1993 Share Option Scheme

Under the 1993 Share Option Scheme, the directors of the company may, at their discretion, grant options to employees of the group (including executive directors of the company) to subscribe for shares in the company subject to terms and conditions stipulated therein. The exercise price for any particular option was determined by the board of directors of the company in its absolute discretion subject to the compliance with the requirements for share option scheme under the then listing rules.

2002 Share Option Scheme

The 2002 Share Option Scheme was adopted by the company on 14th November, 2002. Under the 2002 Share Option Scheme, the directors of the company may, at their discretion, grant options to executives and employees in the service of any member of the group and other persons who may make a contribution to the group subject to terms and conditions stipulated therein. The exercise price for any particular option shall be determined by the board of directors of the company and shall be at least the highest of:

a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the grant date;

29. SHARE OPTION *(Cont'd)*

b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the grant date; and

c) the nominal value of a share on the grant date.

and subject to the compliance with the requirements for share option schemes under the listing rules.

No options have been granted under the 2002 Share Option Scheme. The 2002 Share Option Scheme will expire on 13th November, 2012.

Details of the movement of the share options under the 1993 Share Option Scheme during the year were as follows:

	2002 **Number**	2001 Number
At 1st January	**68,240,000**	100,000,000
Lapsed during the year	**(68,240,000)**	(31,760,000)
At 31st December *(note a)*	**–**	68,240,000

a) Terms of share options at the balance sheet date were as follows:

	2002		2001	
Exercise period	**Exercise price** *HK$*	**Number**	**Exercise price** *HK$*	**Number**
1st July, 2000 to 30th June, 2002	–	–	0.234	68,240,000

Notes on the Financial Statements

30. RESERVES

Movements of reserves were:

	2002					2001
	Share premium	**Contributed surplus**	**Capital reserve**	**Cumulative translation adjustments**	**Total**	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
Consolidated						
Beginning of year	**965,874**	**–**	**1,026**	**(1,244)**	**965,656**	971,885
Disposal of subsidiaries	**–**	**–**	**–**	**1,244**	**1,244**	(4,814)
Translation adjustments	**–**	**–**	**–**	**–**	**–**	(1,415)
Capital reduction	**(409,937)**	**–**	**–**	**–**	**(409,937)**	–
Premium arising from issuance of shares, net of expenses	**166,917**	**–**	**–**	**–**	**166,917**	–
End of year	**722,854**	**–**	**1,026**	**–**	**723,880**	965,656
Company						
Beginning of year	**965,874**	**160,670**	**–**	**–**	**1,126,544**	1,126,544
Capital reduction	**(409,937)**	**–**	**–**	**–**	**(409,937)**	–
Premium arising from issuance of shares, net of expenses	**166,917**	**–**	**–**	**–**	**166,917**	–
End of year	**722,854**	**160,670**	**–**	**–**	**883,524**	1,126,544

Under the Companies Act 1981 of Bermuda (as amended) contributed surplus is distributable to shareholders, subject to the condition that the company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

Apart from the above, the company had no distributable reserves as at 31st December, 2002.

31. ACCUMULATED DEFICIT

Accumulated deficit consisted of:

	2002	2001
	HK$'000	*HK$'000*
Company	**(945,405)**	(2,412,948)
Subsidiaries	**(368,616)**	194,622
Associates	**–**	(33,723)
	(1,314,021)	(2,252,049)

32. NOTE ON THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

During the year, the group entered into a finance lease arrangement in respect of motor vehicles with a total capital value at the inception of the lease of HK$1,703,000 (2001: HK$Nil).

33. SEGMENT INFORMATION

a) Primary segment

	2002						
	Property investment and development *HK$'000*	**Financial services** *HK$'000*	**Telecom-munications services** *HK$'000*	**Internet services** *HK$'000*	**Hotel operations** *HK$'000*	**Eliminations** *HK$'000*	**Total** *HK$'000*
Turnover							
External	13,235	–	6,661	5	–	–	19,901
Inter-segment	5,125	–	–	–	–	(5,125)	–
Total turnover	18,360	–	6,661	5	–	(5,125)	19,901
Operating results							
Segment result	(759,510)	(22,373)	10,839	7,288	(3,372)		(767,128)
Unallocated corporate expenses							(8,629)
Finance costs							(30,936)
Share of loss of associates							–
Taxation							6,192
Loss after taxation but before minority interests							(800,501)
Other information							
Assets:							
Segment assets	801,606	149	–	–	–		801,755
Unallocated assets							1,624
							803,379
Liabilities:							
Segment liabilities	(1,033,276)	(222,994)	–	–	–		(1,256,270)
Unallocated liabilities							(114,842)
							(1,371,112)
Capital expenditures	88,857	–	–	–	–		88,857
Depreciation	3,157	41	2,059	–	–		5,257
Non-cash expenditures other than depreciation	790,121	–	–	–	–		790,121

Notes on the Financial Statements

33. SEGMENT INFORMATION *(Cont'd)*

a) Primary segment *(Cont'd)*

	2001						
	Property investment and development *HK$'000*	Financial services *HK$'000*	Telecom-munications services *HK$'000*	Internet services *HK$'000*	Hotel operations *HK$'000*	Eliminations *HK$'000*	Total *HK$'000*
Turnover							
External	292,085	7,461	159,938	14,982	940	–	475,406
Inter-segment	6,314	–	–	–	–	(6,314)	–
Total turnover	298,399	7,461	159,938	14,982	940	(6,314)	475,406
Operating results							
Segment result	(617,553)	(29,092)	(7,884)	18,202	(3,703)		(640,030)
Unallocated corporate expenses							(5,883)
Finance costs							(25,423)
Share of loss of associates							(832)
Taxation							2,203
Loss after taxation but before minority interests							(669,965)
Other information							
Assets:							
Segment assets	1,420,913	309	56,769	1,512	36		1,479,539
Unallocated assets							25
							1,479,564
Liabilities:							
Segment liabilities	(956,022)	(211,942)	(44,303)	(4,830)	(564)		(1,217,661)
Unallocated liabilities							(196,587)
							(1,414,248)
Capital expenditures	44,149	–	5,131	84	–		49,364
Depreciation	2,276	41	7,049	84	–		9,450
Non-cash expenditures other than depreciation	241,547	2,190	124	866	–		244,727

33. SEGMENT INFORMATION *(Cont'd)*

b) Secondary segment

2002

	Hong Kong *HK$'000*	**North America** *HK$'000*	**Mainland China** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Turnover	**13,235**	**6,661**	**5**	**–**	**19,901**
Segment result	**(785,423)**	**10,995**	**7,300**	**–**	**(767,128)**
Assets	**801,755**	**–**	**–**	**1,624**	**803,379**
Capital expenditures	**88,857**	**–**	**–**	**–**	**88,857**

2001

	Hong Kong *HK$'000*	North America *HK$'000*	Mainland China *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Turnover	316,859	154,070	4,477	–	475,406
Segment result	(634,373)	(4,631)	(1,026)	–	(640,030)
Assets	1,420,160	58,242	1,137	25	1,479,564
Capital expenditures	44,149	5,184	31	–	49,364

34. COMMITMENTS AND CONTINGENT LIABILITIES

a) Capital commitments

Capital commitments not provided for in the financial statements, which were authorised and contracted for, are analysed as follows:

	Consolidated		**Company**	
	2002 **HK$'000**	2001 *HK$'000*	**2002** **HK$'000**	2001 *HK$'000*
Construction of development properties	**35,607**	27,479	**–**	–

Notes on the Financial Statements

34. COMMITMENTS AND CONTINGENT LIABILITIES *(Cont'd)*

b) Operating lease commitments

The group had operating lease commitments in respect of rented premises under various non-cancellable operating lease agreements extending to March 2004 amounting to approximately HK$169,000 (2001: HK$2,223,000). The total commitments are analysed as follows:

	Consolidated		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable				
– within one year	**148**	1,442	**–**	–
– in the second to fifth years, inclusive	**21**	781	**–**	–
	169	2,223	**–**	–

The commitments payable within the next twelve months are analysed as follows:

	Consolidated		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Leases expiring				
– within one year	**63**	412	**–**	–
– in the second to fifth years, inclusive	**85**	1,030	**–**	–
	148	1,442	**–**	–

(c) Contingent liabilities

Contingent liabilities not provided for in the financial statements are:

	Consolidated		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Corporate guarantees given by the company in respect of banking facilities of its subsidiaries	**–**	–	**927,230**	1,169,411

35. OPERATING LEASE ARRANGEMENT

The group let out its investment properties for terms of one to three years.

At 31st December, 2002, the group had total future minimum lease receivable under non-cancellable operating lease which fall due as follows:

	2002	2001
	HK$'000	*HK$'000*
Within one year	**7,468**	5,347
In the second to fifth years, inclusive	**2,242**	4,852
	9,710	10,199

36. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st December, 2002, the group had aggregate banking facilities of approximately HK$1,138,040,000 (2001: HK$1,169,411,000) from several banks for overdrafts and loans, which were fully utilised.

These facilities were secured by:

i) Mortgages of the group's leasehold land and buildings, investment properties, development properties and completed properties for sale with an aggregate net book value of approximately HK$790,080,000 (2001: HK$1,412,426,000);

ii) Assignment of rental income generated by certain of the group's investment properties;

iii) Assignment of sales proceeds received from sales of completed properties for sale; and

iv) Corporate guarantees provided by the company.

Due to the liquidity situation described in Note 2, the group has defaulted on repayment of principal and interest on its bank borrowings, totalling approximately HK$1,138,040,000 as at 31st December, 2002. The group's bankers have demanded immediate repayment of substantially all of the group's bank borrowings and in some cases appointed receivers to obtain possession of certain properties which have been mortgaged to the banks as collateral for the bank borrowings. In certain cases, the creditor banks have applied the rental receipts from the investment properties to offset part of the group's short-term bank borrowings which are in default.

37. OUTSTANDING LITIGATIONS/SUBSEQUENT EVENTS

Subsequent to 31st December, 2002, the group recorded the following major outstanding litigations and post balance sheet events:

a) Outstanding litigations:

i) In April 2003, winding up petitions were made against the company and one of its subsidiaries by Mr. Wong Kwan, a former director and an existing shareholder of the company, and his related parties demanding repayment of approximately HK$62 million for unpaid remuneration and shareholders' loans. These sums were claimed to be incurred in the period prior to the date of resignation of Mr. Wong Kwan as a director of the company.

Notes on the Financial Statements

37. OUTSTANDING LITIGATIONS/SUBSEQUENT EVENTS *(Cont'd)*

ii) On 31st July and 26th September, 2003, two subsidiaries had filed writs against their former directors, Mr. Wong Kwan, Mr. Siu King Nin, Peter, and Mr. Yuen Hon Ming, Edwin seeking compensation from them in connection with their alleged breach of fiduciary duties during the period they acted as directors of these subsidiaries. The total compensation claimed amounted to HK$568 million.

b) Other subsequent events:

i) On 24th April, 2003, the company had reported to the public the litigations brought against the group as referred to in (a)(i) above and requested the suspension of the trading of its shares in the Hong Kong Stock Exchange.

ii) The construction work of the group's major development property at the Peak ("the Skyhigh") held by one of the subsidiaries had been suspended.

iii) The creditor banks have taken possession of a substantial portion of the group's properties and have applied the rental receipts from the investment properties to offset part of the group's short-term bank borrowings which are in default.

iv) Despite the efforts of the management to defend the winding up petition against one of the group's subsidiaries for failure to repay a judgement debt of approximately HK$2,665,000, a winding up order has been granted by the court against the subsidiary in October 2003.

v) In October 2003, the group made an invitation to the public for tender of sale of its hotel property in the Western District. The tender was closed on 5th December, 2003 and was still in the handling process. The proceeds from the sale will be applied for repayment of part of the short-term bank borrowings. The construction work on the hotel property had been suspended due to the litigations as referred to in (a)(i) above.

vi) The management is currently investigating the lending and property transactions undertaken by the former directors in prior years. On obtaining sufficient evidence and appropriate legal advice, the existing board of directors will consider taking legal actions against the former directors to recover any damages, other than as disclosed in (a)(ii) above.

vii) Writs were issued by the group's creditors demanding repayment of the following amounts:

	HK$'000	*HK$'000*
Provided in the consolidated balance sheet at 31st December, 2002		45,577
Not provided for in the consolidated balance sheet at 31st December, 2002		
i) debt incurred before 31st December, 2002	16,114	
ii) debt incurred subsequent to 31st December, 2002	3,150	19,264
		64,841

viii) It is noted that a major creditor bank had entered into a sale and purchase agreement in respect of the sale of a mortgaged investment property located at 16th Floor, The Sun's Group Centre, No. 200 Gloucester Road, Wanchai, Hong Kong for a sale consideration of HK$16,900,000.

38. RELATED PARTY TRANSACTIONS

Significant transactions and balances with related parties are summarised as follows:

a) On 29th January, 2002, China Sun's Group Limited became a substantial shareholder by acquiring a substantial stake from Mr. Wong Kwan and subsequently advanced to the group a total of approximately HK$22,727,000, which is unsecured and bears interest at Hong Kong prime lending rate.

b) On 29th January, 2002, the group disposed of certain subsidiaries engaged mainly in the telecommunications and internet business and certain fixed assets to Mr. Wong Kwan for a total cash consideration of HK$30,000,000.

c) As at 31st December, 2002, the amount due to a director of the company of approximately HK$51,806,000 (2001: HK$Nil) represented short-term advances from Mr. Wei Wu, a director of the company, together with accrued interest. Such amount was unsecured, bore interest at Hong Kong prime lending rate and had no predetermined repayment terms. During the year ended 31st December, 2002, interest on these advances amounted to approximately HK$23,973 (2001: HK$Nil).

d) As at 31st December, 2002, the amount due to a former director of the company of approximately HK$51,985,000 (2001: HK$96,924,000) represented short-term advances from Mr. Wong Kwan (a director of the company up to 29th January, 2002 and an existing shareholder of the company), together with accrued interest. Such amount was unsecured, bore interest at Hong Kong prime lending rate and had no predetermined repayment terms. During the year ended 31st December, 2002, interest on these advances amounted to approximately HK$3,066,000 (2001: HK$6,358,000).

   As part of the conditions for sale of Mr. Wong Kwan's interest in the company to China Sun's Group Limited, Mr. Wong Kwan waived certain amounts owing to him by the group of approximately HK$48,000,000. Charcon Assets Limited, a shareholder of the company and a company owned by Mr. Wong Kwan, advanced to the group of HK$10,000,000 in January 2002 which is unsecured and bears interest at Hong Kong prime lending rate.

e) The outstanding balances with related companies were unsecured, non-interest bearing and had no predetermined repayment terms.

39. COMPARATIVE FIGURES

In addition to the changes in the 2001 comparative figures resulting from the adoption of new Statements of Standard Accounting Practice as referred to in note 4(b) on the financial statements, comparative figures for the obligation under finance lease in the consolidated balance sheet and certain figures in the consolidated income statement have been reclassified to conform with the current year's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 9th December, 2003.