1. CORPORATE INFORMATION

The principal place of business of Polytec Asset Holdings Limited is located at 23/F, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong.

During the year, the Company's principal activity was investment holding. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year, except that the Group's management considers that the securities investment and trading businesses should be recognised as part of the principal activities of the Group in current year. Subsequent to the year, the Group has entered into an agreement with an independent third party for the development of certain villa type houses for its property development business. Since then, the Group's management considers that property development business has become one of the principal activities of the Group.

The Company is a subsidiary of Marble King International Limited ("Marble King"), a company incorporated in the British Virgin Islands, which is considered by the directors to be the Company's ultimate holding company as at the balance sheet date.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following new and revised Hong Kong Statements of Standard Accounting Practice ("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"

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 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 in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

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 jointly-controlled entities 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.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(Cont'd)*

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 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 that have resulted from them are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 3 and in note 24 (a) 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 no material change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option schemes, as detailed in note 22 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 this SSAP.

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 disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of fixed assets and short term 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 30 November 2003. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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:

– 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;

– interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

– consultancy service fee income, when the services are rendered and are billable;

– from the sale of investments, on a trade date basis or on the date on which the relevant sales contracts become or are deemed unconditional, where appropriate; and

– dividends, when the shareholders' right to receive payment has been established.

Subsidiaries

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

The 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 activities of the joint venture company, the capital contributions of the joint venture parties, the duration of the joint venture, the basis on which the assets are to be realised upon its dissolution and details regarding the appointment of the board of directors or equivalent governing body of the joint venture company. 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 *(Cont'd)*

Joint venture companies *(Cont'd)*

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 with other joint venture parties, 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 share/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 share/registered capital and neither has joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control by the Group and other joint venture parties, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities 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.

Impairment of assets

An assessment is made at each balance sheet date to determine whether there is any indication of impairment of assets, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Impairment of assets *(Cont'd)*

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.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation 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.

Changes in the values of fixed assets, are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset 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 or retirement, the attributable revaluation surplus realised is transferred directly to retained profits/ accumulated losses as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over its estimated useful life.

Leasehold land	Over the lease terms
Buildings	20 to 50 years, or over the lease terms, whichever is shorter
Leasehold improvements	3 to 10 years, or over the lease terms, whichever is shorter
Plant and machinery	10 years
Furniture and equipment	5 years
Motor vehicles	4 years

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Short term investments

Trading securities 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 securities are credited or charged to the profit and loss account for the period in which they arise.

Equity-linked notes are debt securities with a maturity of usually less than one year, whose return is linked to the share price performance of a particular listed reference equity. The Group purchases such equity-linked notes at a discount and receives the full nominal amount of the notes (the "Nominal Value") at the maturity date, provided that the closing price of the particular reference equity on the maturity date is above a predetermined strike price (the "Strike Price"). If the closing price of the reference equity on the maturity date is at or below the Strike Price, the Group is obliged to redeem the equity-linked notes in exchange for shares in the underlying reference equity.

The equity-linked notes are stated at the lower of the cost of the notes plus cumulative amortisation of the difference between their purchase price and the Nominal Value at the maturity date, and the fair value of the particular reference equity on the basis of its quoted market price at the balance sheet date. The net gains or losses so arising are credited or charged to the profit and loss account for the period in which they arise.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Leased assets *(Cont'd)*

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

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.

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 cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Employee benefits

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 Hong Kong Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Pension scheme

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

Share option 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 when 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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 jointly-controlled entities are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and jointly-controlled entities 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. 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 jointly-controlled entities, and the cash flows of overseas subsidiaries were translated into Hong Kong dollars 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. The adoption of the revised SSAP 15 has had no material effect on the amounts of the previously-reported cash flows of the prior year.

4. RELATED PARTY TRANSACTIONS

During the years ended 30 November 2002 and 2003, the Group had the following transactions with related parties:

(i) During the year ended 30 November 2002, the Group received written consent from certain existing directors and an ex-director of the Company to waive their remuneration owed by the Group, amounting to HK$2,032,580 in aggregate (note 8).

(ii) During the year ended 30 November 2003, the Group paid rental expenses and building management fees amounting to HK$754,000 (2002: HK$568,000) in aggregate to a company beneficially owned by the beneficial owner of the ultimate holding company of the Company, for the leasing of an administrative office in Hong Kong. The rental expenses were charged with reference to the then prevailing market price and conditions.

4. RELATED PARTY TRANSACTIONS *(Cont'd)*

(iii) During the year ended 30 November 2003, the Group received consultancy service fee income of HK$240,000 (2002: HK$220,000) from a jointly-controlled entity. The consultancy service fee income was charged on a monthly basis of HK$20,000.

(iv) During the year ended 30 November 2003 the Group has guaranteed certain proposed banking facilities granted by a bank to a jointly-controlled entity of the Group, of up to HK$4,800,000. As at 30 November 2003, the banking facilities has not been taken up.

5. SEGMENT INFORMATION

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

(a) Geographical segments

Further segment information has not been disclosed in respect of the Group's geographical segments as over 90% of the Group's revenue, results, assets and liabilities were derived from operations in the People's Republic of China including Hong Kong.

(b) Business segments

The Group has two business segments, namely the securities investment and trading, and trading of garments. The securities investment and trading constitutes more than 90% of the consolidated revenue. Moreover, the segment assets for the trading of garments are less than 10% of the total assets of all segments. Therefore, no business segment analysis is presented.

6. TURNOVER AND REVENUE AND GAINS

Turnover represents the invoiced value of goods sold, after allowances for returns and trade discounts, and proceeds from the sale of trading securities.

An analysis of the Group's turnover, other revenue and gains is as follows:

	2003 HK$'000	2002 HK$'000 (Restated)
Turnover		
Sale of goods	**475**	824
Proceeds from sale of trading securities *(note 27)*	**17,197**	24,170
	17,672	24,994
Other revenue and gains		
Unrealised holding gain on trading securities	**5,754**	–
Dividend income from listed securities	**397**	458
Interest income	**69**	310
Consultancy service fee income	**240**	220
Gain on equity-linked notes, net	**2,607**	129
Others	**7**	10
	9,074	1,127
	26,746	26,121

7. LOSS FROM OPERATING ACTIVITIES

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

	Notes	**2003**	2002
		HK$'000	*HK$'000*
Staff costs (excluding directors' remuneration):	*8*		
Wages and salaries		**1,774**	2,060
Provident fund contributions		**57**	62
		1,831	2,122
Depreciation	*13*	**328**	1,200
Minimum lease payments under operating leases in respect of land and buildings		**809**	1,157
Auditors' remuneration:			
Current year provision		**318**	318
Under provision in prior year		**–**	50
		318	368
Fixed assets written off	*13*	**–**	86
Loss on disposal of fixed assets		**–**	370
Impairment of fixed assets	*13*	**–**	1,989
Unrealised holding (gains)/losses on trading securities, net		**(5,754)**	1,984
Provision for other receivables		**1,051**	1,500
Write back of provision for an other receivable		**(1,500)**	–

8. DIRECTORS' REMUNERATION AND EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

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

	Group	
	2003	2002
	HK$'000	*HK$'000*
Fees:		
Executive directors	**–**	–
Non-executive directors	**20**	30
Independent non-executive directors	**40**	60
	60	90
Other emoluments to executive directors:		
Salaries, allowances and benefits in kind	**3,558**	2,559
Provident fund contributions	**162**	85
	3,720	2,644
	3,780	2,734

The number of directors whose remuneration fell within the bands set out below is as follows:

	Group	
	Number of directors 2003	Number of directors 2002
Nil to HK$1,000,000	**5**	8
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**2**	1
	7	9

During the year ended 30 November 2002, the Group received written consent from certain existing directors and an ex-director of the Company to waive remuneration of a total HK$2,032,580 payable to the directors. The remuneration waived for the prior year had not been incorporated in the other emoluments to executive directors as disclosed above. Save as the aforesaid, there was no arrangement under which a director waived or agreed to waive any remuneration during the current and last years.

8. DIRECTORS' REMUNERATION AND EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS *(Cont'd)*

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

The five highest paid individuals during the year included two (2002: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2002: three) non-director, highest paid individuals are as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**959**	943
Provident fund contributions	**33**	33
	992	976

The remuneration of each of the remaining three non-director, highest paid individuals fell within the nil – HK$1,000,000 band for the year.

During the year, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

9. FINANCE COSTS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Interest expense on:		
Bank loans and overdrafts wholly repayable within five years	**1,780**	1,786
Other loans wholly repayable within five years	**581**	307
Finance leases	**1**	38
	2,362	2,131

10. TAX

No provision for Hong Kong profits tax has been made as the Group either had no assessable profits arising in Hong Kong, or had losses brought forward from the prior year to offset the assessable profit during the year.

The principal components of the Company's and the Group's deferred tax liabilities/(assets) provided/(not provided) for in the financial statements at the balance sheet date were as follows:

	Group				Company			
	Provided		Not provided		Provided		Not provided	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Accelerated depreciation allowances	**–**	–	**–**	(9)	**–**	–	**–**	–
Tax losses carried forward	**–**	–	**(312)**	(14,750)	**–**	–	**(7)**	(552)
Other timing differences	**–**	1,160	**–**	(477)	**–**	–	**–**	–
At 30 November	**–**	1,160	**(312)**	(15,236)	**–**	–	**(7)**	(552)

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 30 November 2003 dealt with in the financial statements of the Company was HK$125,000 (2002: net loss of HK$10,378,000) (note 23(b)).

12. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 30 November 2003 is based on the net profit from ordinary activities attributable to shareholders for the year of HK$15,590,000 (2002: HK$19,625,000) and the weighted average of 5,950,372,434 (2002: 5,950,372,434) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 30 November 2003 is based on the net profit attributable to shareholders for the year of HK$15,590,000 (2002: HK$19,625,000). The weighted average number of ordinary shares used in the calculation is 9,950,372,434 (2002: 9,950,372,434), being the weighted average of 5,950,372,434 (2002: 5,950,372,434) ordinary shares in issue during the year as used in the basic earnings per share calculation and assuming that 4,000,000,000 convertible preference shares had been converted into ordinary shares, at the rate of one ordinary share for every one convertible preference share.

13. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation:						
At beginning of year	9,685	1,338	8,820	261	2,240	22,344
Additions	–	–	–	6	–	6
Disposal of subsidiaries *(note 24(b))*	(9,685)	(1,338)	(8,820)	–	(2,240)	(22,083)
At 30 November 2003	**–**	**–**	**–**	**267***	**–**	**267**
Accumulated depreciation and impairment:						
At beginning of year	432	778	8,820	206	2,240	12,476
Depreciation provided during the year	197	110	–	21	–	328
Disposal of subsidiaries *(note 24(b))*	(629)	(888)	(8,820)	–	(2,240)	(12,577)
At 30 November 2003	**–**	**–**	**–**	**227**	**–**	**227**
Net book value:						
At 30 November 2003	**–**	**–**	**–**	**40**	**–**	**40**
At 30 November 2002	9,253	560	–	55	–	9,868

* *The furniture and equipment were stated at cost as at 30 November 2003.*

14. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	*HK$'000*
Unlisted investments, at cost	**101,039**	101,039
Due from subsidiaries	**114,999**	178,376
Provision for impairment	**(186,692)**	(270,594)
	29,346	8,821

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

14. INTERESTS IN SUBSIDIARIES *(Cont'd)*

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
Directly held:					
Newcott Limited	British Virgin Islands	US$1	**100**	100	Investment holding
City Power Services Limited	British Virgin Islands	US$1	**100**	100	Investment holding
Noble Prime International Limited	British Virgin Islands	US$1	**100**	100	Investment holding
Indirectly held:					
Sheen Concord Enterprises Limited	Hong Kong	HK$2	**100**	100	Securities investment and trading
Glentech International Company Limited	Hong Kong	HK$2	**100**	100	Investment holding, provision of consultancy services and trading of garment
Imperial Profit Investment Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Securities investment and trading
Profit Sphere International Limited	British Virgin Islands	US$1	**100**	100	Dormant

15. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Share of net assets	**–**	–
Loans to jointly-controlled entities	**27,750**	27,750
Due from a jointly-controlled entity	**2,450**	540
	30,200	28,290
Provision against a loan to a jointly-controlled entity	**(25,750)**	(25,750)
	4,450	2,540

The loan advanced to a jointly-controlled entity of HK$25,750,000 is unsecured, interest-free and will not be repaid until approval from all of the shareholders of the jointly-controlled entity is obtained. The other loan to a jointly-controlled entity of HK$2,000,000 is unsecured, interest-free and has no fixed terms of repayment.

The amount due from a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

15. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(Cont'd)*

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of equity attributable to the Group	Principal activities
Li Yang Broadcasting & Advertising (HK) Limited*	Corporate	Hong Kong	48	Television advertisement design and production, and the provision of advertising agency and advertisement publication services, including the export and import of advertising and related products
Eastford Development Limited*	Corporate	Hong Kong	48	Property development

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

All of the above investments in jointly-controlled entities are indirectly held by the Company.

None of the financial statements of the above jointly-controlled entities are coterminous with those of the Group and both have financial year ending 31 December. The consolidated financial statements are adjusted for material transactions between the above jointly-controlled entities and group companies between 1 December and 31 December.

16. SHORT TERM INVESTMENTS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Trading securities listed in Hong Kong, at market value *(note 19)*	**24,865**	2,460
Equity-linked notes, at amortised cost	**–**	3,978
	24,865	6,438

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances *(note 19)*	**22,602**	12,515	**22,173**	12,177
Time deposits	**–**	30,171	**–**	30,171
Cash and cash equivalents	**22,602**	42,686	**22,173**	42,348

18. ACCOUNTS PAYABLE

As at 30 November 2002, all of the Group's accounts payable were aged over 365 days.

19. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Bank loans, secured	**–**	9,439
Other loans, secured	**–**	1,682
	–	11,121

The interest-bearing bank and other borrowings as at 30 November 2002 were repayable within one year or on demand.

As at 30 November 2003, the Group's borrowing facilities, which had not been utilised by the Group as at the balance sheet date, were supported by the following:

(a) the pledge of certain trading securities of the Group with net book value of HK$3,856,000; and

(b) the pledge of certain cash in bank of the Group of HK$5,000.

19. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Cont'd)*

As at 30 November 2002, the Group's borrowing facilities were supported by the following:

(a) legal charges over all of the Group's medium term leasehold land and buildings with an aggregate net book value of approximately HK$9,253,000;

(b) the pledge of certain plant and machinery of the Group with nil net book value;

(c) guarantees executed by a minority equity holder of a subsidiary of the Company to the extent of HK$2,187,000; and

(d) legal charges over certain land owned by a company owned by an ex-director of the Company.

20. FINANCE LEASE PAYABLES

The Group leased its motor vehicles for business purposes. These leases were classified as finance leases and were fully settled during the year.

As at 30 November 2003, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 2003 HK$'000	Minimum lease payments 2002 HK$'000	**Present value of minimum lease payments 2003 HK$'000**	Present value of minimum lease payments 2002 HK$'000
Amounts payable within one year	**–**	69	**–**	68
Future finance charges	**–**	(1)	**–**	–
Total net finance lease payables	**–**	68	**–**	68
Portion classified as current liabilities	**–**	(68)		
Non-current portion	**–**	–		

21. SHARE CAPITAL

	2003	2002
	HK$'000	*HK$'000*
Authorised:		
100,000,000,000 ordinary shares of HK$0.01 each	**1,000,000**	1,000,000
5,000,000,000 convertible preference shares of HK$0.01 each	**50,000**	50,000
	1,050,000	1,050,000
Issued:		
5,950,372,434 fully paid ordinary shares of HK$0.01 each	**59,504**	59,504
4,000,000,000 partly paid convertible preference shares of HK$0.01 each – *Note*	**4,000**	4,000
	63,504	63,504

Note:

In previous year, 4,000,000,000 convertible preference shares were issued partly paid as to 10% of the subscription price of HK$0.02 per share pursuant to the subscription agreement entered into with Marble King and were subscribed by Marble King. There is no time restriction for the unpaid amount of HK$72,000,000 of the convertible preference shares to be fully paid up. The Company has no right to make calls with respect to amounts unpaid on any partly paid convertible preference shares.

The holder may convert fully paid convertible preference shares into new ordinary shares of the Company during the period commencing on 14 September 2001 and ending on the date five years thereafter, inclusive, at any time at the rate of one ordinary share for every one fully paid convertible preference share (subject to adjustment).

During the period commencing on 14 September 2001 and ending on the date five years thereafter, inclusive, at any time, the holders of the convertible preference shares, whether partly paid or fully paid, may require the Company to redeem, to the extent that conversion has not been elected by the holders of the convertible preference shares, the outstanding convertible preference shares for the amount paid up. The Company does not have the right to redeem the convertible preference shares.

If the convertible preference shares are still in issue after five years commencing on 14 September 2001, the holders of the convertible preference shares will automatically forfeit all of their redemption/conversion rights under the convertible preference shares and the convertible preference shares will become preference shares without carrying any conversion or redemption features thereafter. Any paid-up capital of the convertible preference shares will continue to be retained in the accounts of the Company.

Any convertible preference shares which have been fully paid up will rank pari passu for dividends with the ordinary shares from time to time in issue. Partly paid convertible preference shares are not entitled to any dividends.

The holders of the convertible preference shares are entitled to receive notices of general meetings, but not to attend or vote.

22. SHARE OPTIONS

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Pursuant to the share option scheme adopted by the Company on 19 August 1998 (the "Old Scheme"), the directors of the Company were authorised, at their discretion to invite any employees, including the directors of the Company and any of its subsidiaries to take up options to subscribe for shares of the Company. The maximum number of unexercised share options permitted to be granted under the Old Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time.

No option may be granted under the Old Scheme to any eligible participant which, if exercised in full, would result in such eligible participant being entitled to subscribe for such number of the shares of the Company as, when aggregated with the total number of the Company's shares already issued and issuable to him/her under the Old Scheme, would exceed 25% of the aggregate number of the Company's shares in issue and issuable under the Old Scheme.

No consideration is payable by the grantee of an option upon acceptance of the grant of the option under the Old Scheme. The exercise period of the share options granted under the Old Scheme is determinable by the directors, and in any event is not later than 10 years commencing on the date on which the share options are granted.

The exercise price of the share options granted under the Old Scheme is determinable by the directors, but may not be less than the higher of (i) 80% of the average of the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of the offer of the option; and (ii) the nominal value of the shares.

There was no share option granted under the Old Scheme which remained outstanding as at 30 November 2003.

In order to comply with the new requirements of Chapter 17 of the Listing Rules on granting options under share option schemes, which took effect on 1 September 2001, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted pursuant to the ordinary resolutions passed by the shareholders at the extraordinary general meeting of the Company held on 9 January 2004.

22. SHARE OPTIONS *(Cont'd)*

Under the New Scheme, eligible participants include any employees (including full-time and part-time employee), directors (including executive, non-executive and independent non-executive director), suppliers of goods and services, customers, business partners or business associates of the Group, consultant or adviser providing consultancy or advisory services in relation to the businesses, trading agents or holders of any securities issued by any member of the Group or any entity in which the Group holds an equity interest. The New Scheme became effective on 9 January 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Under the New Scheme, share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options under the New Scheme may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences from the date the grantee accepts the share options and ends on the expiry date of the New Scheme.

The exercise price of the share options granted under the New Scheme is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of a share of the Company.

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

23. 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.

In accordance with the relevant regulations of Mainland China, two subsidiaries of the Group established in Mainland China which were disposed of during the year, are required to transfer a certain percentage of their respective profit after tax, if any, to the statutory reserve. Subject to certain restrictions as set out in the relevant Mainland China regulations, the statutory reserve may be used to offset against the respective accumulated losses, if any, of these two subsidiaries.

(b) Company

	Share premium account	Capital reserve#	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 December 2001	122,818	59,789	(185,410)	(2,803)
Net loss for the year	–	–	(10,378)	(10,378)
At 30 November 2002 and 1 December 2002	122,818	59,789	(195,788)	(13,181)
Net profit for the year	–	–	125	125
At 30 November 2003	**122,818**	**59,789**	**(195,663)**	**(13,056)**

The capital reserve of the Company represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group reorganisation completed in 1998, over the nominal value of the Company's shares issued in exchange therefor.

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Change of presentation

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 cash flow statement. The 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 reclassification resulting from the change in presentation is that interest and dividends received and interest paid are now included in cash flows from operating activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout.

(b) Disposal of subsidiaries

	2003	2002
	HK$'000	*HK$'000*
Net liabilities disposed of:		
Fixed assets *(note 13)*	**9,506**	68
Inventories	**–**	2,922
Prepayments, deposits and other receivables	**118**	56
Cash and bank balances	**63**	–
Accounts payable	**(1,392)**	(510)
Accrued liabilities and other payables	**(15,399)**	(474)
Interest-bearing bank and other borrowings	**(11,121)**	–
Deposits received	**–**	(2,244)
Tax payable	**–**	(33,376)
Deferred tax	**(1,160)**	–
	(19,385)	(33,558)
Release of reserves on disposal	**1,008**	–
Gain on disposal of subsidiaries	**18,397**	33,658
	20	100
Satisfied by:		
Cash	**20**	100

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

(b) Disposal of subsidiaries *(Cont'd)*

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

	2003	2002
	HK$'000	*HK$'000*
Cash consideration	**20**	100
Cash and bank balances disposed of	**(63)**	–
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	**(43)**	100

The subsidiaries disposed of during the year made no contribution to the Group's turnover (2002: Nil) and contributed a loss of HK$3,454,000 (2002: HK$8,518,000) to the net profit from ordinary activities attributable to shareholders for the year.

25. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for a term of two years.

At 30 November 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Within one year	**152**	607
In the second year	**–**	152
	152	759

26. POST BALANCE SHEET EVENTS

(i) Subsequent to the balance sheet date, on 4 December 2003, the Company terminated its proposal in relation to the possible redomicile of the Company from the Cayman Islands to Bermuda and the listing of a new holding company of the Company as further set out in the Company's announcement dated 20 October 2003.

(ii) Pursuant to resolutions passed by the shareholders of the Company in an extraordinary general meeting on 9 January 2004:

(a) change of name

the name of the Company was changed to "Polytec Asset Holdings Limited 保利達資產控股有限公司" with effect from 21 January 2004, the date on which the new name was registered with the Registrar of Companies in the Cayman Islands;

(b) capital reorganisation

a conditional capital reorganisation scheme (the "Capital Reorganisation") of the Company was proposed to be implemented, which involves:

- a reduction (the "Capital Reduction") in the par value of each existing ordinary share of HK$0.01 (the "Share") in issue to HK$0.005 each (the "Reduced Share") and the application of the credit arising to eliminate the accumulated losses of the Company;

- a consolidation of (a) every 20 Reduced Shares into one consolidated share of which par value is HK$0.1 each and (b) every 10 unissued Shares into one unissued consolidated share of which par value is HK$0.1 each;

- the cancellation of the share premium of approximately HK$118,818,000 and the application of the credit arising to eliminate the accumulated losses of the Company; and

- the cancellation of the capital reserve amounting to approximately HK$59,789,000 and the application of the credit arising to eliminate the accumulated losses of the Company

and up to the date of approval of these financial statements, certain conditions, including the sanction of Cayman Islands court to effect the Capital Reduction, in respect of the Capital Reorganisation have not yet been fulfilled; and

26. POST BALANCE SHEET EVENTS *(Cont'd)*

(c) share option scheme

the existing share option scheme was terminated and a new share option scheme was adopted.

Further details of the above resolutions are set out in the Company's announcement dated 9 January 2004.

27. COMPARATIVE AMOUNTS

Certain comparative amounts have been restated to conform with the current year's presentation. These include principally the inclusion of proceeds from sale of trading securities and the respective costs as part of the Group's turnover and cost of sales, respectively, since the management of the Group anticipates that the securities investment and trading business will be continued in the future as part of the principal activities of the Group. Previously, gains or losses from trading securities were classified as other revenue or other operating expenses on a net basis. In addition, as further explained in notes 2 and 24(a) to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2004.