

1. GENERAL

Harmony Asset Limited is incorporated in the Cayman Islands as an exempted company with limited liability. Its shares are listed on the Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in Note 15 to the financial statements.

2. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted the following revised Statement of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants ("HKSA"):

SSAP 12 (Revised)	Income taxes
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SSAP 12 (Revised) requires deferred tax assets and liabilities to be provided in full using the balance sheet liability method, on temporary differences arising between the tax base of an asset or a liability and its carrying amount in the financial statements at any point in time. Deferred tax assets or liabilities arising from temporary differences need to be measured at the tax rates enacted or substantially enacted at the balance sheet date.

Details of the accounting policy are set out in Note 3(j) to the financial statements.

The adoption of the revised SSAP as outlined above does not have material impact on results reported in the current or prior year, though the terminology used and certain disclosures have been revised in line with the new requirements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the HKSA, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). They have been prepared under the historical cost convention, except that, as disclosed in the accounting policies below, other investments are stated at fair value. A summary of the significant accounting policies adopted by the Group is set out below:

(a) Basis of consolidation

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(b) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from the activities.

Investments in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses. The results of subsidiaries are accounted for by the Company to the extent of dividends received and receivable.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

(c) Associates

An associate is an enterprise, not being a subsidiary nor a joint venture, in which the Company, directly or indirectly, has a long-term equity interest and over which the Company is in a position to exercise significant influence, including participation in the operating and financial policy decisions.

The consolidated profit and loss account includes the Group's share of the results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates and also goodwill/negative goodwill (net of accumulated amortisation and accumulated impairment losses) arising on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

In the Company's balance sheet, the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(d) Intangible asset – goodwill/negative goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired associates and subsidiaries at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January, 2001 is included in "Interests in associates" and is amortised using the straight-line basis over its estimated useful life of 5 years. Goodwill on acquisitions that occurred prior to 1st January, 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1st January, 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately. For acquisitions prior to 1st January, 2001, negative goodwill was taken directly to reserves on acquisition.

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(e) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Fixed assets and depreciation (continued)

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, 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 the fixed assets.

Depreciation is provided to write off the cost of fixed assets over their estimated useful lives using the straight-line method. The annual rates used is 20%.

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

(f) Impairment of assets

At each balance sheet date, the Group assesses whether there is any indication that fixed assets, goodwill, investments in subsidiaries and associates have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount is the higher of the net selling price and value in use of an asset. The net selling price is the amount that could be obtained 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 the asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, which is restricted to the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(g) Investments in securities***(i) Investment securities*

Investment securities, which are securities held for an identified long-term strategic purpose, are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-down or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Other investments

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

(h) Club debentures

Club debentures included in other assets are stated at cost less any provision for impairment losses.

The carrying amounts of club debentures are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such club debentures will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account.

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(j) Income tax (continued)**

- (iii) The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Income tax (continued)

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(k) Foreign currencies

Foreign currencies transactions during the year are translated into Hong Kong dollars at exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the end of the year are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The balance sheet of subsidiaries and associates expressed in foreign currencies are translated at the exchange rates ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange gains and losses are dealt with as a movement in reserves.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(l) Provisions and contingencies**

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(m) Revenue recognition

Interest income is accrued on a time proportion basis by reference to the principal outstanding and the interest rates applicable.

Dividend income from investment is recognised when the shareholder's right to receive payment have been established.

Gains or losses on sale of investment securities and other investments are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when investments are delivered and title has passed.

(n) Operating leases

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating leases are recognised as an expense on a straight-line basis over the lease term.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits

Salaries, annual leave and other benefits are accrued in the year in which the associated services are rendered by employees of the Group.

The Group has only one defined contribution plan and the assets of which are held in separate trustee – administered funds. The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(p) Related parties

Two 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.

(q) Cash and cash equivalents

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

(r) Comparatives

The comparatives for basic and diluted earning per shares have been adjusted for the events disclosed in Note 22 (a), (b) and (c).

4. REVENUES AND TURNOVER

The Group principally invests in securities listed on the Stock Exchange of Hong Kong Limited and unlisted securities, including equity securities, convertible notes and bonds issued by corporate entities. Total revenues recognised during the year are as follows:

	2003	2002
	HK\$	HK\$
Turnover		
Interest income from		
– bank deposits	18,486	75,345
– loan	4,633,544	–
– investment securities	522,740	242,941
– other sources	5,000	17,824
Arrangement fee income	457,500	–
Dividend income from		
– listed investments	1,009,230	594,525
– unlisted investments	3,275,000	2,125,000
	9,921,500	3,055,635
Other revenues		
Commission income	1,000,000	–
Gain/(loss) on sale of		
– other investments	3,563,632	(2,997,630)
– investment securities	–	(125,561)
Sundry income	432,824	–
	4,996,456	(3,123,191)
Total revenues	14,917,956	(67,556)

No analysis of the Group's turnover and contribution to operating loss for the year set out by principal activities and geographical markets is provided as the Group has only one single business segment, investment holding, and less than 10% of the consolidated turnover and less than 10% of the consolidated results of the Group are attributable to markets outside Hong Kong.

5. UNREALISED GAIN/(LOSS) ON OTHER INVESTMENTS

The amounts represent net unrealised gain/(loss) arising from changes in fair values of other investments during the year.

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6. OPERATING PROFIT/(LOSS)

Operating profit/(loss) has been arrived at after charging the following:

	2003	2002
	HK\$	HK\$
Auditors' remuneration		
– Current year	258,000	260,000
– Underprovision in prior year	40,200	–
Annual listing fee	261,917	232,000
Management fees (<i>Note 28</i>)	2,143,931	2,427,069
Pension costs – contributions to defined contribution plan	54,086	86,036
Travelling and entertainment expenses	592,659	433,624
Press announcements, printing and stationery expenses	80,146	316,457
Loss on disposal of fixed asset	17,500	–
Provision for bad debts	120,000	1,517,270
Operating lease in respect of land and buildings	433,869	234,240
Other operating expenses	1,920,793	1,953,370

There was no forfeited contribution in respect of the defined contribution plan available at the year-end to reduce future contributions (2002: Nil). There was no outstanding contributions to the plan at the year-end (2002: Nil).

7. FINANCE COSTS

Amount mainly represents interest on convertible bonds issued by a subsidiary of the Group which will be wholly repayable or converted into shares of a subsidiary within five years. Details of the convertible bonds are set out in Note 25 to the financial statements.

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2003	2002
	HK\$	HK\$
Fees	60,000	60,000

Directors' fees disclosed above include HK\$40,000 (2002: HK\$40,000) paid to independent non-executive directors.

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)**(a) Directors' emoluments (continued)**

In addition to the directors' emoluments disclosed above, one director of the Company received emoluments from a related company, namely Harmony Asset Management Limited, which amounted to HK\$1,280,000 (2002: HK\$1,560,000), in respect of his services provided to the Company and its subsidiaries.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2003	2002
HK\$Nil – HK\$1,000,000	3	3
HK\$1,500,001 – HK\$2,000,000	1	1

The Company do not have Share Option Scheme during the year. The Share Option Scheme of the Company was already terminated in December 2002.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year are presented in the analysis below:

	2003	2002
	HK\$	HK\$
Basic salaries, other allowances and benefits in kind	1,065,858	1,077,400
Fees to a director of a subsidiary	455,000	455,000
Contributions to a pension scheme	70,536	70,530
	1,591,394	1,602,930

The individual emoluments payable to the five individuals are within the band "HK\$Nil to HK\$1,000,000". One (2002: One) of these five individuals is a director of a subsidiary within the Group. This individual is not a director of the Company during the year and the emoluments are therefore not reflected in the analysis presented in part (a).

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9. INCOME TAX

No provision for income tax has been made in the Group's financial statements as the Group had no assessable profit for the year. The provision for Hong Kong profits tax in prior year was calculated at 16% of the estimated assessable profit for that year. The amount of taxation (credited)/charged to the consolidated profit and loss account represents:

	2003 HK\$	2002 HK\$
Hong Kong profits tax	–	38,044
(Overprovision)/underprovision in prior years	(449,631)	2,011
	(449,631)	40,055

No taxation charge is attributable to the associates of the Group (2002: Nil).

At the balance sheet date, the Group had unused tax losses of HK\$33,419,552 (2002: HK\$42,565,432) available for offsetting against future profits. However, no deferred tax asset has been recognised due to the unpredictability of future profit streams.

10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a profit of HK\$11,932,272 (2002: loss of HK\$20,474,738) which has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE

The calculation of basic and diluted loss per share are based on the Group's loss attributable to shareholders of HK\$2,086,653 (2002: HK\$58,862,002).

The basic loss per share is based on the adjusted weighted average of 117,303,866 (2002: 47,174,492) ordinary shares in issue during the year which have been adjusted for the rights issue and the 20-for-1 share consolidation which took place on 23rd January, 2003 and 24th January, 2003 respectively in accordance with the requirements of SSAP 5, Earnings per share. The diluted loss per share for the financial year is also based on the adjusted weighted average of 117,303,866 (2002: 47,174,492) ordinary shares in issue as the effect arising from the exercise of outstanding warrants in both years was anti-dilutive.

12. FIXED ASSETS

	Group				Total HK\$
	Leasehold improvements	Office equipment	Furniture		
			and fixtures	Motor vehicle	
	HK\$	HK\$	HK\$	HK\$	HK\$
Cost					
At 1st January, 2003	459,125	363,142	298,029	1,178,200	2,298,496
Additions	418,133	–	–	–	418,133
Disposals	–	–	–	(650,000)	(650,000)
At 31st December, 2003	877,258	363,142	298,029	528,200	2,066,629
Accumulated depreciation					
At 1st January, 2003	420,865	269,558	276,012	696,730	1,663,165
Provided for the year	127,860	52,215	21,201	105,640	306,916
Written back on disposal	–	–	–	(617,500)	(617,500)
At 31st December, 2003	548,725	321,773	297,213	184,870	1,352,581
Net book value					
At 31st December, 2003	328,533	41,369	816	343,330	714,048
At 31st December, 2002	38,260	93,584	22,017	481,470	635,331

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12. FIXED ASSETS (continued)

	Company				Total HK\$
	Leasehold improvements	Office equipment	Furniture and fixtures	Motor vehicle	
	HK\$	HK\$	HK\$	HK\$	
Cost					
At 1st January, 2003	459,125	329,737	298,029	1,178,200	2,265,091
Disposals	–	–	–	(650,000)	(650,000)
At 31st December, 2003	459,125	329,737	298,029	528,200	1,615,091
Accumulated depreciation					
At 1st January, 2003	420,865	250,205	276,012	696,730	1,643,812
Provided for the year	38,260	45,534	21,201	105,640	210,635
Written back on disposal	–	–	–	(617,500)	(617,500)
At 31st December, 2003	459,125	295,739	297,213	184,870	1,236,947
Net book value					
At 31st December, 2003	–	33,998	816	343,330	378,144
At 31st December, 2002	38,260	79,532	22,017	481,470	621,279

13. GOODWILL

	Group HK\$
Cost	
At 1st January, 2003	–
Additions	82,012
At 31st December, 2003	82,012
Accumulated amortisation	
At 1st January, 2003	–
Provided for the year	10,251
At 31st December, 2003	10,251
Net book value	
At 31st December 31, 2003	71,761
At 31st December 31, 2002	–

The amortisation period adopted for goodwill is 5 years.

14. OTHER ASSETS

	Group	
	2003 HK\$	2002 HK\$
Deposits for investments	5,651,063	2,300,000
Club debentures, at cost	1,231,360	1,231,360
	6,882,423	3,531,360
	Company	
	2003 HK\$	2002 HK\$
Deposits for investments	2,651,063	1,000,000
Club debentures, at cost	1,231,360	1,231,360
	3,882,423	2,231,360

The deposits were interest free and placed with the agent or investee companies for conversion to unlisted investment securities in the near future.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003 HK\$	2002 HK\$
Unlisted shares, at cost	16,718,590	16,718,590
Provision for impairment losses on investments in subsidiaries	(8,359,294)	(8,359,294)
	8,359,296	8,359,296
Amounts due from subsidiaries	178,848,190	160,125,075
Amounts due to subsidiaries	(32,360,998)	(42,163,799)
	154,846,488	126,320,572

The amounts due from and to subsidiaries are unsecured, interest free and repayable on demand.

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15. INVESTMENTS IN SUBSIDIARIES (continued)

The following is a list of subsidiaries at 31st December, 2003:

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
Plowright Investments Limited ("PIL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%*
Powercell Limited ("PCL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Quickrise Limited ("QRL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Multiple Asset Limited ("MAL")	Hong Kong	Dormant	2 Ordinary shares of HK\$1 each	100%*
Wingo Venture Limited ("WVL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
IT Star Holdings Limited ("ITSH")	Cayman Islands	Investment holding in Hong Kong	1 Ordinary share of HK\$0.1 each	100%*
IT Star Limited ("ITL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Wintech Limited ("WTL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Marrick Investments Limited ("MIL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%

15. INVESTMENTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
Noble Way Development Limited (“NWD”)	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Wayfairer Investments Limited (“WIL”)	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
IT Development Limited (“ITD”)	Hong Kong	Dormant	2 Ordinary shares of HK\$1 each	100%
Profit Success Limited (“PSL”)	British Virgin Islands	Dormant	10 Ordinary shares of US\$1 each	100%
Datacom Venture Limited (“DVL”)	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Batan Cyberbase Inc. (“BCI”)	British Virgin Islands	Investment holding in Hong Kong	1,300 Ordinary shares of HK\$500 each	100%
Gwynneth Gold Limited (“GGL”)	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Goal Vision Limited (“GVL”)	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Incubation Centre at Cyberport Limited (“Incubation”)	Hong Kong	Operation of an incubation centre	2 Ordinary shares of HK\$1 each	100%

* Shares held directly by the Company

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16. INTERESTS IN AND LOAN TO ASSOCIATES

	Group	
	2003	2002
	HK\$	HK\$
Share of net assets other than goodwill	–	2,410,530
Loan to an associate	10,625,634	12,865,220
	10,625,634	15,275,750
Investments in unlisted shares, at cost	7,678,500	7,678,500

The loan to an associate is unsecured, interest free and repayable on demand.

The following is a list of the associates at 31st December, 2003:

Name of associates	Place of incorporation and operation	Principal activities	Particulars of issued shares held	Interest held indirectly
Last minute Limited	British Virgin Islands	Investment holding	2,730,000 ordinary shares of HK\$1 each	35%
Teddy Bear Kingdom Holdings Limited	British Virgin Islands	Investment holding	4.4 ordinary shares of HK\$1,000,000 each	22%
Waltin (HK) Limited	Hong Kong	Investment holding	2,500 ordinary shares of HK\$1 each	25%

16. INTERESTS IN AND LOAN TO ASSOCIATES (continued)

A brief description of the business information of the major associates is as follows:

Teddy Bear Kingdom Holdings Limited

Teddy Bear Kingdom Holdings Limited (“Teddy Bear Kingdom”) operates the first and largest indoor theme park in Hong Kong. The theme park occupies an area of over 60,000 square feet, comprising of various educational and recreational facilities such as a teddy bear museum, an entertainment centre, an educational centre, a picnic place and a merchandise shop. The Group’s total investments in shares of and loan to this associate amounted to HK\$14 million (2002: HK\$12 million).

Waltin (HK) Limited

The Group also invested in another associate, Waltin (HK) Limited (“Waltin”) which holds an investment in a Chinese medicine health care centre (known as “Chinese Medicine Valley”) in Zhuhai of the PRC. The Group has invested HK\$5 million (2002: HK\$5 million) in this project.

Chinese Medicine Valley commenced its operation in November 2002. Chinese Medicine Valley provides Chinese medicine spa, Chinese medicine treatments, personal beauty services, Chinese herbal meal, accommodation and various entertainment facilities. The major customers of Chinese Medicine Valley comprise of visitors and tours.

17. INVESTMENT SECURITIES

	Group	
	2003	2002
	HK\$	HK\$
Investment securities, at cost:		
Convertible notes and bonds, unlisted (<i>Note (a)</i>)	10,000,000	3,700,000
Equity securities, unlisted (<i>Note (b)</i>)	57,026,435	75,582,388
Loans to investee companies (<i>Note (b)</i>)	72,811,773	87,092,608
	139,838,208	166,374,996
Less: Written off of loan to an investee company	(429,625)	–
Less: Provision for impairment losses in investment securities	(34,257,746)	(48,989,182)
	105,150,837	117,385,814

Unlisted equity securities are classified as investment securities which are held for long-term strategic purposes to maintain good relationships with business counterparts and generate regular dividends in future years.

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17. INVESTMENT SECURITIES (continued)

(a) Convertible notes and bonds

Convertible notes and bonds are dated debt securities which permit the holder the right to convert the debt securities into shares of the issuers at the specified dates. The original intention of the directors was to take up the option to convert and, upon conversion of the convertible bonds, they would be stated at the cost of acquiring the underlying shares.

The convertible bonds bear an interest fixed at a rate of 6% (2002: 6% to 13%) per annum.

Details of the convertible notes and bonds are as follows:

Name of issuer	Security	Nature of business	Principal amount		Maturity date	% of total asset of the Group 2003	% of total asset of the Group 2002
			2003 HK\$'000	2002 HK\$'000			
Dynamic Fortune Limited	Secured	Furniture trading	10,000	–	17th February, 2005	5.30%	N/A
Mangreat Asia Limited	Secured	Engineering consultant & contracting services	–	1,700	15th March, 2003	N/A	1.01%
C&A Interior Architects & Consultants	Secured	Interior architects & consultation	–	2,000	16th March, 2003	N/A	1.19%
			10,000	3,700			
		Less: Provision for impairment losses	–	(500)			
			10,000	3,200			

17. INVESTMENT SECURITIES (continued)

(b) Unlisted equity securities

At 31st December, 2003, the carrying amounts of equity interest in Capital Venture Limited, Chief Finance Limited and Goodwill Forever Limited exceeded 10% of total assets of the Company and the Group.

Details of the unlisted equity securities are as follows:

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest in shares held	Cost		% of total assets of the Group	Net assets attributable to the Group
					Cost HK\$'000 2003	Cost HK\$'000 2002		
Capital Venture Limited	Hong Kong	Provision of property investment & financing services	520,000 (2002: 520,000) of ordinary shares of HK\$1 each	26% (2002: 26%)	27,860	36,745	14.74% (2002: 21.82%)	6,250 (2002: 9,824)
Chief Finance Limited	Hong Kong	Provision of commercial financing services	2,600,000 (2002: 2,600,000) of ordinary shares of HK\$1 each	26% (2002: 26%)	35,464	38,279	18.77% (2002: 22.73%)	33,155 (2002: 52,049)
Goodwill Forever Limited	British Virgin Islands	Investment holdings	13,870 (2002: 13,870) of ordinary shares of US\$1 each	34.68% (2002: 34.68%)	23,620	23,620	12.50% (2002: 14.03%)	6,899 (2002: 9,525)
Yeelong Enterprises Limited	Hong Kong	Investment holdings	42,235,362 (2002: 42,235,362) of ordinary shares of HK\$1 each	35% (2002: 35%)	14,246	14,246	7.54% (2002: 8.46%)	2,895 (2002: 15,920)
Fullpower Holdings Limited	British Virgin Islands	Investment holdings	1,750,000 (2002: 1,750,000) of ordinary shares of HK\$1 each	35% (2002: 35%)	11,149	10,000	5.90% (2002: 5.94%)	5,463 (2002: 4,930)
Creative Energy (Asia) Ltd	Hong Kong	Development of energy saving technology	75,000 (2002: N/A) of ordinary shares of HK\$1 each	15% (2002: N/A)	75	–	0.04% (2002: N/A)	75 (2002: N/A)

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17. INVESTMENT SECURITIES (continued)

(b) Unlisted equity securities (continued)

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest in shares held	Cost		% of total assets of the Group	Net assets attributable to the Group
					HK\$'000 2003	HK\$'000 2002		
One.Tel Holdings Limited	British Virgin Islands	IDD and ISP services	4,000,000 (2002: 4,000,000) of ordinary shares of HK\$1 each	20% (2002: 20%)	4,000	4,000	2.12% (2002: 2.38%)	7,617 (2002: 3,387)
TIM EDPlatform Limited	Hong Kong	Development of educational platform	928 (2002: N/A) of ordinary shares of HK\$1 each	9.28% (2002: N/A)	400	-	0.21% (2002: N/A)	206 (2002: N/A)
Talent Information Management Limited	Hong Kong	Internet and intranet service provider	Nil (2002: 3,500) of ordinary shares of HK\$1 each	Nil (2002: 35%)	-	3,680	Nil (2002: 2.19%)	Nil (2002: 864)
Multimedians Limited	Hong Kong	Software development for the education market	1,133,333 (2002: 1,133,333) of ordinary shares of HK\$0.10 each	32% (2002: 32%)	3,056	3,056	1.62% (2002: 1.81%)	Nil (2002: Nil)
Hong Kong Beer Company Limited	Hong Kong	Production and trading of beer products	3,000 (2002: N/A) of ordinary shares of HK\$1 each	30% (2002: N/A)	345	-	0.18% (2002: N/A)	(159) (2002: N/A)
Taste of Hong Kong Limited	Hong Kong	Trading of gift and souvenir	300,000 (2002: N/A) of ordinary shares of HK\$1 each	30% (2002: N/A)	313	-	0.17% (2002: N/A)	176 (2002: N/A)
Innocom Technology Limited	Hong Kong	Product development & manufacturing	2,500 (2002: 2,500) of ordinary shares of HK\$1 each	25% (2002: 25%)	575	575	0.30% (2002: 0.34%)	Nil (2002: N/A)
Modern Market Management Limited	Hong Kong	Management services	300,000 (2002: 300,000) of ordinary shares of HK\$1 each	30% (2002: 30%)	750	750	0.40% (2002: 0.45%)	2,156 (2002: 1,792)

17. INVESTMENT SECURITIES (continued)

(b) Unlisted equity securities (continued)

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest in shares held	Cost	Cost	% of total assets of the Group	Net assets attributable to the Group
					HKS'000 2003	HKS'000 2002		
Jade Dynasty Holdings Limited	British Virgin Islands	Investment holdings	5,714 (2002: 5,714) of ordinary shares of US\$0.01 each	0.57% (2002: 0.57%)	1,000	1,000	0.53% (2002: 0.59%)	129 (2002: 84)
TJ Restaurant Management Co., Limited	Hong Kong	Japanese seafood restaurant	624,000 (2002: 624,000) of ordinary shares of HK\$1 each	8% (2002: 8%)	1,544	624	0.82% (2002: 0.37%)	153 (2002: 381)
ChineseWorldNet.com Inc.	Cayman Islands	Provision of financial information service	400,000 (2002: 250,000) of ordinary shares of US\$0.001 each	5% (2002: 4.17%)	1,872	780	0.99% (2002: 0.46%)	35 (2002: 152)
Goodwill China Business Information Limited	Hong Kong	Sale of information products	134,554 (2002: 134,554) of ordinary shares of HK\$1 each	2% (2002: 2%)	1,000	1,000	0.53% (2002: 0.59%)	Nil (2002: Nil)
Always Internet Limited	Hong Kong	Provision of travel agency services and information on internet	1,050,000 (2002: 1,050,000) of ordinary shares of HK\$1 each	35% (2002: 35%)	1,500	1,500	0.79% (2002: 0.89%)	728 (2002: 847)
Fujita Glass Limited	Hong Kong	Trading of glass	3,750 (2002: 3,750) of ordinary shares of HK\$1 each	15% (2002: 15%)	250	250	0.13% (2002: 0.15%)	(102) (2002: Nil)
Enviro Technology International Limited	Hong Kong	Development of battery regenerators	500 (2002: 500) of ordinary shares HK\$1 each	16.67% (2002: 16.67%)	390	390	0.21% (2002: 0.23%)	160 (2002: 131)
					129,409	140,495		
Unlisted equity securities written off in 2003 (Note (c))					-	22,180		
Less: Provision for impairment losses					(34,258)	(48,489)		
					95,151	114,186		

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17. INVESTMENT SECURITIES (continued)

(b) Unlisted equity securities (continued)

A brief description of the business information of the major unlisted investee companies is as follows:

Capital Venture Limited (“CVL”)

The company has obtained the money lender licence since 1997. It principally engages in property investment and financing business in Hong Kong. Its customers are mainly established companies and individuals of high net worth in Hong Kong. The loan tenor offered to selected customers by CVL is from short to medium term. The Group has made a provision for impairment loss of HK\$3,800,000 (2002: Nil) for this investment as at 31st December, 2003.

Chief Finance Limited (“CFL”)

CFL is also a money lender and principally engages in financing business in Hong Kong. Its customers are mainly established companies and individuals of high net worth in Hong Kong. The business objective of CFL is to earn high interest income from short term loans advanced to selected clients. The Group has made a provision for impairment loss of HK\$3,200,000 (2002: Nil) for this investment as at 31st December, 2003.

Goodwill Forever Limited (“GFL”)

GFL is an investment holding company and the core business of its subsidiary is the provision of internet and networking solutions to Hong Kong and PRC enterprises. The Group has made a provision for impairment loss of HK\$5,905,000 (2002: HK\$5,905,000) for this investment as at 31st December, 2003.

Fullpower Holdings Limited (“FHL”)

FHL is an investment holding company which invests in Challengers Services Limited and Challengers Auto Services Limited (“Challengers”). Challengers are principally engaged in the provision of car washing, beauty services and auto garage services. The Group has made a provision for impairment loss of HK\$5,000,000 (2002: HK\$2,000,000) for this investment as at 31st December, 2003.

Yeelong Enterprises Limited (“Yeelong”)

Yeelong is engaged in the business of operating bowling centres in the PRC and the major bowling centre is located in Dalian of the PRC. The Group has made a provision for impairment loss of HK\$9,971,941 (2002: HK\$9,971,941) for this investment as at 31st December, 2003.

17. INVESTMENT SECURITIES (continued)

(b) Unlisted equity securities (continued)

One.Tel Holdings Limited (“One.Tel”)

One.Tel is an investment holding company and the group engages in the provision of telecommunication service. One.Tel provides a wide range of telecommunication services at competitive values, including flat rate international call, post-paid calling cards, IDD roaming service and One.Tel Net internet services. The Group received a dividend income of HK\$2,625,000 (2002: HK\$1,375,000) from One.Tel during the year ended 31st December, 2003.

The equity investments in the above companies with interests held exceeding 20% are recorded as investment securities at cost. These investments are not classified as investments in associates as the Group does not participate in their operations and has no significant influence over their management.

(c) The following is a list of unlisted equity securities written off at 31st December, 2003:

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest in shares held	Cost		% of total assets of the Group	Net assets attributable to the Group
					HK\$'000 2003	HK\$'000 2002		
Webtrade Management Limited	Hong Kong	Sale of information products	3,000 (2002: 3,000) of ordinary shares of US\$1 each	35% (2002: 35%)	-	429	Nil (2002: 0.25%)	Nil (2002: Nil)
King Henderson Holdings Limited	Hong Kong	Investment holdings	35,000 (2002: 35,000) of ordinary shares of HK\$1 each	35% (2002: 35%)	-	1,000	Nil (2002: 0.59%)	Nil (2002: 234)
Cyber Infotech Holdings Limited	British Virgin Islands	Investment holdings	1,000,000 (2002: 1,000,000) of ordinary shares of US\$0.10 each	2.5% (2002: 2.5%)	-	2,330	Nil (2002: 1.38%)	Nil (2002: Nil)

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17. INVESTMENT SECURITIES (continued)

(c) (continued)

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest in shares held	Cost		% of total assets of the Group	Net assets attributable to the Group
					HKS'000 2003	HKS'000 2002		
Overseaschinesenet	Nevada	Computing service	250,000 (2002: 250,000) of ordinary shares of US\$0.001 each	0.63% (2002: 0.63%)	-	195	Nil (2002: 0.12%)	Nil (2002: N/A)
Technology City Holdings Limited	British Virgin Islands	Provision of multi-media financial information	350 (2002: 350) of ordinary shares of US\$1 each	35% (2002: 35%)	-	1,000	Nil (2002: 0.59%)	Nil (2002: 272)
Mypet.com Limited	Hong Kong	Provision of pet care products and related services on internet	350 (2002: 350) of ordinary shares of HK\$1 each	35% (2002: 35%)	-	215	Nil (2002: 0.13%)	Nil (2002: 41)
iD Innovation Limited	Hong Kong	Production of multi-media, CD-ROM products	6,711 (2002: 6,711) of ordinary shares of HK\$1 each	33.29% (2002: 33.29%)	-	9,744	Nil (2002: 5.79%)	Nil (2002: Nil)
Expertise Holdings Limited	British Virgin Islands	Investment holdings	35 (2002: 35) of ordinary shares of US\$1 each	35% (2002: 35%)	-	3,730	Nil (2002: 2.22%)	Nil (2002: Nil)
Superweb Express Inc.	British Virgin Islands	Website designs and production	3,500 (2002: 3,500) of ordinary shares of US\$1 each	35% (2002: 35%)	-	3,537	Nil (2002: 2.10%)	Nil (2002: 70)
Unlisted equity securities written off in 2003					-	22,180		

18. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	Group		Company	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
Accounts receivable	1,747,086	2,321,238	1,020,000	12,110
Loan receivable				
– Secured	12,500,000	–	–	–
– Unsecured	2,971,461	–	–	–
Interest receivable	2,436,690	351,049	–	–
Deposits	240,873	68,000	65,000	68,000
Prepayments	262,500	345,299	208,750	313,319
Other receivables	158,030	216,871	33,030	–
	20,316,640	3,302,457	1,326,780	393,429

Both secured and unsecured loan receivables are interest-bearing.

The aging analysis of the accounts receivable and prepayments were as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
Current	725,476	1,148,180	175,000	303,229
30 – 60 days	490,628	201,240	6,240	8,120
61 – 90 days	421,935	1,601,988	10,000	82,080
Over 90 days	18,678,601	351,049	1,135,540	–
	20,316,640	3,302,457	1,326,780	393,429

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19. OTHER INVESTMENTS

	Group		Company	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
Equity securities, at fair value				
– Listed in Hong Kong	22,964,580	21,878,736	13,774,060	14,238,176
– Listed outside Hong Kong	7,940,400	1,696,500	–	–
	<u>30,904,980</u>	<u>23,575,236</u>	<u>13,774,060</u>	<u>14,238,176</u>
Market value of listed securities	<u>30,904,980</u>	<u>23,575,236</u>	<u>13,774,060</u>	<u>14,238,176</u>

Under an agreement entered into between the Group and a bank, the Group can pledge its listed securities with total market value of HK\$11,305,000 (2002: HK\$7,831,086) to the bank for a loan equal to 20% (2002: 20%) of the total market value of these shares.

19. OTHER INVESTMENTS (continued)

Details of the other investments are as follows:

Name of investee company	Place of incorporation	Number of shares/warrants held as at 31st December, 2003	Carrying value as at 1st January, 2003	Additions in 2003	Market value as at 31st December, 2003	Unrealised gain/(loss) arising on revaluation	% of total assets of the Group	Net assets attributable to the Group
			HK\$'000	HK\$'000	HK\$'000	HK\$'000		HK\$'000
At 31st December, 2003								
<i>Listed in Hong Kong</i>								
EganaGoldpfeil (Holdings) Limited	Cayman Islands	5,200,000	7,332	-	9,256	1,924	4.9%	6,094
Millennium Group Limited	Hong Kong	2,374,000	209	243	404	(48)	0.21%	327
Prime Success International Group Limited	Cayman Islands	30,500,000	3,264	-	9,455	6,191	5.00%	7,154
Tysan Holdings Limited	Bermuda	10,000,000	1,550	-	1,850	300	0.98%	8,867
Upbest Group limited	Cayman Islands	4,000,000	1,880	-	2,000	120	1.06%	530
			14,235	243	22,965	8,487		
As at 31st December, 2003								
<i>Listed outside Hong Kong</i>								
Celsion Corporation	Delaware	550,000	-	3,631	5,620	1,989	2.97%	352
Dragon Pharmaceuticals Inc.	Florida	250,000	1,190	-	1,813	623	0.96%	997
Transcom Security Networks Inc.	British Columbia	500,000	507	-	507	-	0.27%	149
			1,697	3,631	7,940	2,612		
			15,932	3,874	30,905	11,099		

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19. OTHER INVESTMENTS (continued)

A brief description of the business and financial information of the major listed investee companies, based on their latest published annual or interim reports, is as follows:

EganaGoldpfeil (Holding) Limited (“EganaGoldpfeil”)

EganaGoldpfeil is principally engaged in design, assembly, manufacturing and distribution of timepieces, jewellery and leather products; licensing or assignment of brand names to third parties; and trading of timepiece components, jewellery and consumer electronic product.

The profit attributable to shareholders of EganaGoldpfeil for the year ended 31st May, 2003 was approximately HK\$88,049,000. As at 31st May, 2003, the net asset value of EganaGoldpfeil was approximately HK\$1,276,707,000. During the year, the Group received cash dividend of HK\$206,666 from EganaGoldpfeil.

Prime Success International Group Limited (“Prime Success”)

Prime Success is principally engaged in the manufacturing, marketing and sales of footwear products, shoe components and materials.

The profit attributable to shareholders of Prime Success for the six months ended 30th June, 2003 was approximately HK\$20,695,000. As at 30th June, 2003, the net asset value of Prime Success was approximately HK\$380,310,000. During the year, the Group received cash dividend of HK\$667,645 from Prime Success.

Upbest Group Limited (“Upbest”)

Upbest is principally engaged in the provision of a wide range of financial services including securities broking, futures broking, margin financing, money lending, corporate finance advisory and assets management.

The profit attributable to shareholders of Upbest for the six months ended 30th September, 2003 was approximately HK\$12,541,000. As at 30th September, 2003, the net asset value of Upbest was approximately HK\$148,507,000. During the year, the Group received dividend of HK\$19,081 from Upbest.

19. OTHER INVESTMENTS (continued)

Name of investee company	Place of incorporation	Number of shares/warrants held as at 31st December, 2002	Carrying value as at 1st January, 2002	Market value as at 31st December, 2002	Unrealised gain/(loss) arising on revaluation	% of total assets of the Group	Net assets attributable to the Group
			HK\$'000	HK\$'000	HK\$'000		HK\$'000
At 31st December, 2002							
<i>Listed in Hong Kong</i>							
Allied Properties (H.K.) Limited	Hong Kong	2,666,864	621	643	22	0.38%	3,119
Allied Group Limited	Hong Kong	7,814,000	3,360	2,813	(547)	1.67%	10,097
Chun Wo Holdings Limited	Bermuda	4,625,000	1,318	1,138	(180)	0.68%	4,063
EganaGoldpfeil (Holdings) Limited	Cayman Islands	5,200,000	9,894	7,332	(2,562)	4.35%	6,007
Millennium Group Limited	Hong Kong	1,454,000	174	209	35	0.12%	223
Prime Success International Group Limited	Cayman Islands	30,500,000	5,033	3,264	(1,769)	1.94%	6,650
Tonic Industries Holdings Limited	Cayman Islands	8,173,200	2,615	1,880	(735)	1.12%	5,238
Tysan Holdings Limited	Bermuda	10,000,000	1,850	1,550	(300)	0.92%	8,835
Upbest Group limited	Cayman Islands	4,000,000	1,450	1,880	430	1.12%	505
Zhu Kuan Development Company Limited	Bermuda	4,502,000	1,801	1,170	(631)	0.69%	5,377
			28,116	21,879	(6,237)		
<i>Listed outside Hong Kong</i>							
Dragon Pharmaceuticals Inc.	Florida	250,000	3,386	1,190	(2,196)	0.71%	1,508
Transcom Security Networks Inc.	British Columbia	500,000	1,950	507	(1,443)	0.30%	556
			5,336	1,697	(3,639)		
			33,452	23,576	(9,876)		

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20. CREDITORS AND ACCRUALS

	Group		Company	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
Creditors	–	109,900	–	–
Accruals	956,571	679,918	573,071	679,918
	956,571	789,818	573,071	679,918

The aging analysis of the creditors and accruals were as follow:

	Group		Company	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
Current	272,900	789,818	224,900	679,918
30 – 60 days	14,900	–	14,900	–
61 – 90 days	–	–	–	–
Over 90 days	668,771	–	333,271	–
	956,571	789,818	573,071	679,918

21. BANK OVERDRAFT

At 31st December, 2003, other investments of HK\$11,305,000 (2002: HK\$7,831,086) were pledged to a bank for its overdraft facilities.

22. SHARE CAPITAL

	Authorised ordinary shares of HK\$0.01 each	
	No. of shares	HK\$
At 1st January, 2002 and 2003 before share consolidation (<i>Note (c)</i>)	10,000,000,000	100,000,000

	Authorised ordinary shares of HK\$0.2 each	
	No. of shares	HK\$
At 31st December, 2003, after share consolidation (<i>Note (c)</i>)	500,000,000	100,000,000

	Issued and fully paid ordinary shares of HK\$0.01 each	
	No. of shares	HK\$
At 31st January, 2002	973,226,010	9,732,259
Exercise of warrants (<i>Note (a)</i>)	1,162,215	11,623
At 31st December, 2002 and 1st January, 2003	974,388,225	9,743,882
Issue of shares due to rights issue (<i>Note (b)</i>)	1,461,582,337	14,615,824
At 24th January, 2003 before share consolidation (<i>Note (c)</i>)	2,435,970,562	24,359,706

	Issued and fully paid ordinary shares of HK\$0.2 each	
	No. of shares	HK\$
At 24th January 2003 and 31st December 2003, after share consolidation (<i>Note (c)</i>)	121,798,528	24,359,706

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22. SHARE CAPITAL (continued)

Notes:

(a) Warrants

During the year ended 31st December, 2002, 1,568 warrants were exercised and 1,568 ordinary shares of HK\$0.01 each were issued at a cash consideration of HK\$0.39 per ordinary share. In addition, 1,160,647 warrants were exercised and 1,160,647 ordinary shares of HK\$0.01 each were issued at a cash consideration of HK\$0.08 per ordinary share. These new shares ranked pari passu with the existing shares of the Company.

As at 31st December, 2003, subsequent to the rights issue and share consolidation took place during the year, the Company had 15,478,789 warrants outstanding, which entitle the holders to subscribe for shares in the Company at a subscription price of HK\$1 per share during the period from 21st June, 2002 to 30th June, 2004. If the warrants are fully exercised, the Company will be required to issue a further 15,478,789 shares.

(b) Rights issue

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 19th December, 2002, a rights issue scheme which offered three rights shares for every two existing shares to the existing shareholders was approved and adopted. New shares of 1,461,582,337 of HK\$0.01 each were issued at HK\$0.02 per share for cash on 23rd January, 2003 under the rights issue scheme. These shares rank pari passu to the existing shares. The funds raised by the Company net of share issuance expenses amounted to HK\$27,945,994 which was used as the Group's working capital and for investment purposes.

(c) Share consolidation

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 23rd January, 2003, 20 shares of the Company of HK\$0.01 each were consolidated into 1 new share of the Company of HK\$0.2 each with effect on 24th January, 2003.

23. RESERVES

Group

	Share premium HK\$	Retained earnings/ (accumulated losses) HK\$	Total HK\$
At 1st January, 2002	138,407,561	25,458,795	163,866,356
Premium on issue of shares	81,840	–	81,840
Loss for the year	–	(58,862,002)	(58,862,002)
At 31st December, 2002 and 1st January, 2003	138,489,401	(33,403,207)	105,086,194
Premium on issue of shares	13,330,170	–	13,330,170
Loss for the year	–	(2,086,653)	(2,086,653)
At 31st December, 2003	151,819,571	(35,489,860)	116,329,711
Attributable to:			
Company and subsidiaries	151,819,571	(26,265,773)	125,553,798
Associates	–	(9,224,087)	(9,224,087)
At 31st December, 2003	151,819,571	(35,489,860)	116,329,711

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23. RESERVES (continued)

Company

	Share premium HK\$	Retained earnings/ (accumulated losses) HK\$	Total HK\$
At 1st January, 2002	138,407,561	19,201,028	157,608,589
Premium on issue of shares	81,840	–	81,840
Loss for the year	–	(20,474,738)	(20,474,738)
At 31st December, 2002 and 1st January, 2003	138,489,401	(1,273,710)	137,215,691
Premium on issue of shares	13,330,170	–	13,330,170
Profit for the year	–	11,932,272	11,932,272
At 31st December, 2003	151,819,571	10,658,562	162,478,133

Note: Distributable reserves of the Company at 31st December, 2003 according to the Company's Articles of Association amounted to HK\$162,478,133 (2002: HK\$137,215,691).

24. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on the net asset of HK\$140,689,417 (2002: HK\$114,830,076) and the 121,798,528 (2002: 48,719,411) ordinary shares in issue as at on 31st December, 2003. The number of shares in 2002 have been adjusted for the 20-for-1 share consolidation which took place on 24th January, 2003.

25. CONVERTIBLE BONDS

	2003 HK\$	2002 HK\$
Convertible bonds		
– Due for repayment	5,000,000	–
– Repayable within one year	39,900,000	30,000,000
– Repayable between two to five years	–	19,900,000
	44,900,000	49,900,000

25. CONVERTIBLE BONDS (continued)

The convertible bonds were issued by a subsidiary of the Group and carried fixed interest of 5% to 6% per annum. Each bondholder was entitled to convert the full principal amount of the bond into a pre-determined number of ordinary shares of ITSH on occurrence of certain conversion events at any time prior to the maturity date. Upon conversion of all outstanding convertible bonds, the shares allotted to each of the bondholders will represent 2.75% to 11% of the enlarged issued share capital of ITSH. As at 31st December, 2003, the Group had an outstanding convertible bonds of HK\$44.9 million. HK\$5 million convertible bond was due for repayment before year end while the remaining HK\$39.9 million will be due within one year. The Group had negotiated with these bondholders and the bondholders of HK\$19.9 million have agreed with ITSH to further extend the maturity date for another year. The conversion periods of the convertible bonds were also extended to the new maturity dates accordingly. They also agreed to accept quoted shares as principal repayment at the maturity date or on occurrence of the specified conversion events.

Out of the HK\$44.9 million convertible bonds, HK\$5 million was held by Chun Wo Holdings Limited (“Chun Wo”) which is secured by a guarantee of HK\$10 million provided by the Company together with a floating charge on ITSH’s assets.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of loss before taxation to net cash (used in)/generated from operations

	2003 HK\$	2002 HK\$
Operating activities		
Loss from ordinary activities before taxation	(2,536,284)	(58,821,947)
Realised loss on disposal of investment securities	–	125,561
Provision for impairment losses on investment securities	10,477,600	33,270,932
Provision for impairment loss on loans to associates	4,199,586	–
Written off of loan to an investee company	429,625	–
Provision for bad debt	120,000	1,517,270
Share of losses of associates	2,410,530	2,765,420
Interest income	(5,179,770)	(336,110)
Dividend income from investment securities	(3,275,000)	(2,125,000)
Finance costs	2,607,892	2,694,000
Loss on disposal of owned assets	17,500	–
Depreciation of owned fixed assets	306,916	433,289
Amortisation of goodwill	10,251	885,586
Operating profit/(loss) before changes in working capital	9,588,846	(19,590,999)
(Increase)/decrease in other assets	(3,351,063)	22,700,000
(Increase)/decrease in other investments	(7,329,744)	29,865,075
(Increase)/decrease in accounts receivable and prepayments	(12,348,683)	3,049,972
Decrease in creditors and accruals	(123,247)	(1,489,980)
Increase in other payables	540,000	–
Cash (used in)/generated from operations	(13,023,891)	34,534,068

60 Notes to the Financial Statements

27. ACQUISITION OF SUBSIDIARY

On 15th May, 2003, the Group acquired 100% of the share capital of Incubation which engages in operating an incubation centre and is incorporated in Hong Kong. The consideration of HK\$2 was settled in cash. The fair value of the net identifiable liabilities of the company assumed at the date of acquisition was HK\$82,010. This acquisition has been accounted for by the acquisition method of accounting. The resulting goodwill of HK\$82,012 will be amortised on a straight-line basis over 5 years.

The assets and liabilities arising from the acquisition are as follows:

	2003 HK\$
Borrowings	(875,148)
Fixed assets	418,133
Deposits	175,873
Receivables	199,132
Fair value of net liabilities assumed	(82,010)
Goodwill	82,012
Total purchase consideration	2

28. MANAGEMENT CONTRACTS

	2003 HK\$	2002 HK\$
Management fees		
– Harmony Asset Management Limited (<i>Note</i>)	2,143,931	2,427,069

Note: The Company has entered into an investment management agreement with Harmony Asset Management Limited (“HAML”), a company which is wholly owned by Dr. Chow Pok Yu Augustine. Under the agreement, HAML agreed to assist the board of directors with the day-to-day management of the Group for a period commencing 1st June, 1998 to 1st June, 2001. Pursuant to a supplemental agreement which was approved at the annual general meeting on 22nd May, 2000, the investment management agreement was extended to 5th April, 2006. In accordance with the investment management agreement, HAML is entitled to a monthly fee calculated at 1.5% per annum on the net asset value of the Company of the preceding month and an incentive fee at 10% of the surplus in the net asset value over a financial year. Dr. Chow Pok Yu Augustine, being a beneficial shareholder, was interested in these contracts in 2003 and 2002.

29. COMMITMENTS

Commitments under operating leases

At 31st December, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2003 HK\$	2002 HK\$
Within one year	456,461	235,200
In the second to fifth years inclusive	169,430	117,600
	625,891	352,800

30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16th April, 2004.