

Notes to the Financial Statements

For the year ended 31 December 2003

1. GENERAL

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

During the year, the Group is principally engaged in property investment, securities trading and investment holding.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) Going concern

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group. The Group incurred a loss of approximately HK\$108 million for the year ended 31 December 2003 and had net current liabilities of approximately HK\$23 million at that date. In January 2004, the Company issued 33,100,000 new ordinary shares for cash for approximately HK\$7,600,000. As a result of the completion of the acquisition of 51% interest in Lucky Green Limited, as described in note 32, the Group has to pay the outstanding consideration of approximately HK\$29 million.

Against this background, the directors are currently in discussion with potential investors so as to obtain an injection of new equity finance into the Group to improve the Group's liquidity position. In the meantime, two directors of the Company have agreed to provide adequate funds to enable the Group to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on the going concern basis.

(b) Change in accounting policy

In the current year, the Group has adopted Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountants. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The retrospective adoption of SSAP 12 (Revised) does not have any effect on the results reported in prior periods. Accordingly, no prior period adjustment is required.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the balance sheet date.

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

Investments in subsidiaries

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

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

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

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

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

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

Property, plant and equipment

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

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

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

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

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

Assets held under finance leases

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

Operating leases

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

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

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

4. TURNOVER AND SEGMENT INFORMATION

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

Business segments

For management purposes, the Group is currently organised into investment holding and property investment divisions, which are the basis on which the Group reports its primary segment information.

In prior year, the Group was also involved in the trading of bags, which was discontinued in 2002.

Segment information about these businesses is presented below.

INCOME STATEMENT

For the year ended 31 December 2003

	Investment holding HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
SEGMENT TURNOVER	<u>17,758</u>	<u>7,529</u>	<u>25,287</u>
RESULTS			
Segment result	<u>(66,422)</u>	<u>(39,949)</u>	(106,371)
Other operating income			89
Reversal of accrued charges in respect of financial restructuring of the Group in prior years			5,102
Unallocated corporate expenses			<u>(6,483)</u>
Loss from operations			(107,663)
Finance costs			<u>(8,712)</u>
Loss before taxation			(116,375)
Income tax			<u>8,584</u>
Net loss for the year			<u>(107,791)</u>

Notes to the Financial Statements

For the year ended 31 December 2003

4. TURNOVER AND SEGMENT INFORMATION (Continued)

INCOME STATEMENT (Continued)

For the year ended 31 December 2002

	Continuing operations		Discontinued	Consolidated
	Investment holding HK\$'000	Property investment HK\$'000	operation Trading of bags HK\$'000	
SEGMENT TURNOVER	10,804	4,036	28,286	43,126
RESULTS				
Segment result	(54,929)	(2)	(5,027)	(59,958)
Other operating income				76
Unallocated corporate expenses				(11,601)
Loss from operations				(71,483)
Finance costs				(3,170)
Loss before taxation				(74,653)
Income tax				(8,696)
Net loss for the year				(83,349)

Notes to the Financial Statements

For the year ended 31 December 2003

4. TURNOVER AND SEGMENT INFORMATION (Continued)

BALANCE SHEET

At 31 December 2003

	Investment holding HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	14,705	256,155	270,860
Unallocated corporate assets			1,078
Consolidated total assets			271,938
LIABILITIES			
Segment liabilities	330	7,884	8,214
Unallocated corporate liabilities			162,076
Consolidated total liabilities			170,290

At 31 December 2002

	Continuing operations		Discontinued operation	Consolidated HK\$'000
	Investment holding HK\$'000	Property investment HK\$'000	Trading of bags HK\$'000	
ASSETS				
Segment assets	113,164	301,527	131	414,822
Unallocated corporate assets				2,053
Consolidated total assets				416,875
LIABILITIES				
Segment liabilities	125	7,404	1,000	8,529
Unallocated corporate liabilities				205,006
Consolidated total liabilities				213,535

Notes to the Financial Statements

For the year ended 31 December 2003

4. TURNOVER AND SEGMENT INFORMATION (Continued)

OTHER INFORMATION

For the year ended 31 December 2003

	Investment holding HK\$'000	Property investment HK\$'000
Realised loss on surrender of other investments to discharge borrowings	46,620	–
Unrealised holding loss of other investments	5,620	–
Revaluation decrease on investment properties	–	45,000
	<u> </u>	<u> </u>

For the year ended 31 December 2002

	Continuing operations		Discontinued operation
	Investment holding HK\$'000	Property investment HK\$'000	Trading of bags HK\$'000
Additions to investment properties and property, plant and equipment	–	300,000	–
Depreciation and amortisation	–	–	44
Allowance for doubtful loans receivable	30,000	–	–
Allowance for amount receivable in respect of disposal of an investee company	25,000	–	–
Unrealised holding gain of other investments	11,056	–	–
	<u> </u>	<u> </u>	<u> </u>

Notes to the Financial Statements

For the year ended 31 December 2003

4. TURNOVER AND SEGMENT INFORMATION (Continued)

Geographical segments

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

	Sales revenue by geographical market	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong	25,287	41,549
United States of America ("USA")	—	1,577
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	25,287	43,126
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Turnover from the Group's discontinued operation of trading of bags of HK\$26,709,000 and HK\$1,577,000 for the year ended 31 December 2002 were derived from Hong Kong and USA, respectively.

All the segment assets and additions to investment properties and property, plant and equipment are located in Hong Kong.

5. REALISED LOSS ON SURRENDER OF OTHER INVESTMENTS TO DISCHARGE BORROWINGS

	2003	2002
	HK\$'000	HK\$'000
Realised loss on surrender of shares of China Gas Holdings Limited ("China Gas") to certain lenders to discharge borrowings (note 26)	46,620	—
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During the year ended 31 December 2003, the Group surrendered 63 million shares of China Gas to certain lenders to discharge borrowings of HK\$18,900,000. At 1 January 2003, the carrying value of these shares was HK\$65,520,000. At the dates when the Group agreed to surrender the shares, the market value of these shares was HK\$46,380,000. As a result, the Group realised losses of HK\$46,620,000 from surrendering these shares, including losses of HK\$27,480,000 which represent the shortfall between the market values, at the dates when the Group agreed to surrender the shares, and the amount of borrowings discharged.

Notes to the Financial Statements

For the year ended 31 December 2003

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Allowance for proceeds receivable from disposal of an investee company	–	26,250
Less: Reversal of deferred gain on disposal	–	(1,250)
	<u>–</u>	<u>25,000</u>

7. LOSS FROM OPERATIONS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Auditors' remuneration	300	489
Depreciation		
Owned assets	11	55
Asset held under a finance lease	31	52
Minimum lease payments paid under operating lease in respect of rented premises	–	183
Staff costs including directors' emoluments	3,182	3,730
Loss on disposal of property, plant and equipment	42	–
Exchange gain	–	(159)
Rental income less outgoings	(5,585)	(3,064)
Realised loss on sale of other investments	<u>13,669</u>	<u>10,901</u>

Notes to the Financial Statements

For the year ended 31 December 2003

8. FINANCE COSTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	4,024	2,504
Finance lease	6	21
Other loans wholly repayable within five years	4,682	120
Fee for arrangement of a loan	–	525
	8,712	3,170

9. DISCONTINUED OPERATION

In December 2002, the Group discontinued the trading of bags operations, which was carried out by a subsidiary. The results of this subsidiary for the period from 1 January 2002 to the date of discontinuance, which have been included in the consolidated income statement, were as follows:

	HK\$'000
Turnover	28,286
Cost of sale	(29,550)
Other operating income	171
Selling and distribution costs	(381)
Administrative expenses	(3,553)
	(5,027)
Loss before taxation	(5,027)
Taxation	(53)
	(5,080)
Loss after taxation	(5,080)

Notes to the Financial Statements

For the year ended 31 December 2003

10. DIRECTORS' EMOLUMENTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Directors' fees	460	740
Other emoluments – executive directors		
Salaries and other benefits	1,920	1,960
	2,380	2,700

The directors' fees disclosed above include directors' fees of HK\$340,000 (2002: HK\$190,000) payable to independent non-executive directors.

Emoluments of the directors were within the following bands:

	2003	2002
	Number of directors	Number of directors
Nil to HK\$1,000,000	6	8
HK\$1,000,001 to HK\$1,500,000	–	1

Notes to the Financial Statements

For the year ended 31 December 2003

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2002: three) are directors of the Company whose emoluments are included in note 10 above. The emoluments of the remaining two (2002: two) are as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	390	504
Retirement benefit scheme contributions	18	24
	408	528

Their emoluments were within the following bands:

	2003 Number of employees	2002 Number of employees
Nil to HK\$1,000,000	2	2

12. INCOME TAX

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
The credit (charge) for the year comprises:		
Hong Kong Profits Tax	(59)	(53)
Deferred tax (note 24)	8,643	(8,643)
	8,584	(8,696)

No provision for Hong Kong Profits Tax has been made for the year as the Group has no assessable profit. The tax charge for both years represented underprovision in prior years.

Notes to the Financial Statements

For the year ended 31 December 2003

12. INCOME TAX (Continued)

The tax credit (charge) for the year can be reconciled to the loss before taxation per the income statement as follows:

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	(116,375)	(74,653)
Tax at the domestic income tax rate of 17.5% (2002: 16%)	20,366	11,944
Tax effect of expenses that are not deductible in determining taxable profit	(9,101)	(16,457)
Tax effect of income that are not taxable in determining taxable profit	757	–
Tax effect of current year's tax loss not recognised	(2,884)	(4,130)
Tax effect of utilisation of deductible temporary difference not previously recognised	315	–
Increase in opening deferred tax liability due to increase in tax rate	(810)	–
Underprovision in prior year	(59)	(53)
Tax credit (expense) for the year	8,584	(8,696)

Notes to the Financial Statements

For the year ended 31 December 2003

13. LOSS PER SHARE

The calculation of basic and diluted loss per share for both years is based on the following data:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Earnings		
Loss for the year	(107,791)	(83,349)
Number of shares	'000	'000
Weighted average number of shares	146,686	110,254

The weighted average number of shares for the prior year has been adjusted for the consolidation of shares of the Company in 2003.

The computation of diluted loss per share for both years does not assume the exercise of the outstanding warrants since their exercises would decrease the loss per share.

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

Notes to the Financial Statements

For the year ended 31 December 2003

14. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicle held under a finance lease <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST			
At 1 January 2003	269	344	613
Disposals	(219)	(344)	(563)
At 31 December 2003	50	–	50
ACCUMULATED DEPRECIATION			
At 1 January 2003	93	52	145
Provided for the year	11	31	42
Eliminated on disposals	(88)	(83)	(171)
At 31 December 2003	16	–	16
NET BOOK VALUES			
At 31 December 2003	34	–	34
At 31 December 2002	176	292	468

Notes to the Financial Statements

For the year ended 31 December 2003

15. INVESTMENT PROPERTIES

	THE GROUP
	<i>HK\$'000</i>
VALUATION	
At 1 January 2003	300,000
Revaluation decrease	(45,000)
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At 31 December 2003	255,000
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Investment properties are located in Hong Kong under long leases (note 28). Investment properties were revalued at open market value at 31 December 2003 by LCH (Asia-Pacific) Surveyors Limited, a firm of chartered surveyors, on an open market existing use basis. The revaluation decrease of HK\$45,000,000 has been charged to consolidated income statement.

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	2	1
Amounts due from subsidiaries	278,697	289,719
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	278,699	289,720
Less: Allowances	(159,119)	(95,567)
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	119,580	194,153
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Notes to the Financial Statements

For the year ended 31 December 2003

16. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries at 31 December 2003, which are operating in Hong Kong, are as follows:

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

Notes to the Financial Statements

For the year ended 31 December 2003

16. INTERESTS IN SUBSIDIARIES (Continued)

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

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

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17. INVESTMENTS IN SECURITIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Other investments		
Unlisted equity investments, at cost	37,010	37,010
Less: unrealised holding loss	(37,010)	(37,010)
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	-	-
Equity investments listed in Hong Kong, at market value (note)	14,695	113,065
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	14,695	113,065
	<hr/>	<hr/>
Carrying amount analysed for reporting purpose as:		
Non-current	-	-
Current	14,695	113,065
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	14,695	113,065
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Note: Included in the listed other investments at 31 December 2003 is an investment, with a carrying value of HK\$14,695,000 (2002: HK\$111,831,000), in 1.33% (2002: 8.9%) interest in China Gas which is incorporated in Bermuda and principally engaged in investing in natural gas/energy projects, property investment and securities investment.

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18. TRADE AND OTHER RECEIVABLES

Rentals receivable from tenants are payable on presentation of invoices. During the year ended 31 December 2002, the Group allowed an average credit period of 90 days to 120 days to its trade customers.

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

	2003	2002
	HK\$'000	HK\$'000
0 - 60 days	204	176
61 - 90 days	26	67
Over 90 days	90	556
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	320	799
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19. TRADE AND OTHER PAYABLES

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

	2003	2002
	HK\$'000	HK\$'000
0 - 60 days	1,463	1,180
61 - 90 days	575	222
Over 90 days	6,407	13,169
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	8,445	14,571
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20. OBLIGATIONS UNDER A FINANCE LEASE

The GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable under a finance lease within one year	–	147	–	143
Less: Future finance charges	–	(4)	–	–
Present value of lease obligations	–	143	–	143

The effective borrowing rate was 10% and the lease was on a fixed repayment basis.

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21. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Interest bearing borrowings				
Bank loan	138,300	147,400	–	–
Bank overdraft	–	173	–	–
Margin loans (note a)	2,653	7,949	–	–
Other loan (note b)	–	5,000	–	–
	140,953	160,522	–	–
Interest free borrowings				
Loans from directors	–	314	–	–
Other loan (note c)	1,500	12,000	1,500	12,000
	1,500	12,314	1,500	12,000
	142,453	172,836	1,500	12,000
Secured	140,953	160,349	–	–
Unsecured	1,500	12,487	1,500	12,000
	142,453	172,836	1,500	12,000
The maturity of the borrowings is as follows:				
Repayable				
– on demand or within one year	11,953	34,536	1,500	12,000
– between one to two years	130,500	7,800	–	–
– between two to five years	–	130,500	–	–
	142,453	172,836	1,500	12,000
Less: Amount due within one year shown under current liabilities	(11,953)	(34,536)	(1,500)	(12,000)
	130,500	138,300	–	–

Notes:

- The margin loans bear interest at market rates.
- The loan bears interest at 9% per annum.
- During the year and up to 30 July 2003, the lender charged interest at 18% per annum and since then, the loan is interest free.

Notes to the Financial Statements

For the year ended 31 December 2003

22. SHARE CAPITAL

	Number of shares <i>'000</i>	Nominal amount <i>HK\$'000</i>
<i>Authorised:</i>		
Ordinary shares of HK\$0.10 each at 1 January 2002	6,000,000	600,000
Increase in authorised share capital	<u>14,000,000</u>	<u>1,400,000</u>
Ordinary shares of HK\$0.10 each at 31 December 2002	20,000,000	2,000,000
Reduction of the nominal value of share capital of HK\$0.10 each to HK\$0.0001 each	–	(1,998,000)
Consolidation of every 50 shares of HK\$0.0001 each to one share of HK\$0.005 each	(19,600,000)	–
Increase in authorised share capital of HK\$0.005 each	<u>421,578,000</u>	<u>2,107,890</u>
Ordinary shares of HK\$0.005 each at 31 December 2003	<u>421,978,000</u>	<u>2,109,890</u>
Preference shares of HK\$0.10 each at 1 January 2002	–	–
Increase in authorised share capital	<u>1,100,000</u>	<u>110,000</u>
Preference shares of HK\$0.10 each at 31 December 2002	1,100,000	110,000
Reduction of the nominal value of share capital of HK\$0.10 each to HK\$0.0001 each	–	(109,890)
Consolidation of every 50 shares of HK\$0.0001 each to one share of HK\$0.005 each	<u>(1,078,000)</u>	<u>–</u>
Preference shares of HK\$0.005 each at 31 December 2003	<u>22,000</u>	<u>110</u>

Notes to the Financial Statements

For the year ended 31 December 2003

22. SHARE CAPITAL (Continued)

	Number of shares '000	Nominal amount HK\$'000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.10 each at 1 January 2002	4,449,557	444,956
Issued in consideration for the acquisition of other investments (note a)	600,000	60,000
Issued for the partial settlement of an unsecured short term loan (note b)	250,000	25,000
Issued in consideration for the acquisition of a subsidiary (note c)	500,000	50,000
Conversion from preference shares (note d)	1,100,000	110,000
Ordinary shares of HK\$0.10 each at 31 December 2002	6,899,557	689,956
Reduction of the nominal value of share capital of HK\$0.10 each to HK\$0.0001 each (note e)	–	(689,266)
Consolidation of every 50 shares of HK\$0.0001 each to one share of HK\$0.005 each	(6,761,566)	–
Issue of shares (note f)	27,598	138
Ordinary shares of HK\$0.005 each at 31 December 2003	165,589	828
Preference shares of HK\$0.10 each at 1 January 2002	–	–
Issued in consideration for the acquisition of a subsidiary (note c)	1,100,000	110,000
Conversion into ordinary shares (note d)	(1,100,000)	(110,000)
Preference shares of HK\$0.10 each at 31 December 2002 and 2003	–	–

Authorised share capital

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

Notes to the Financial Statements

For the year ended 31 December 2003

22. SHARE CAPITAL (Continued)

Authorised share capital (Continued)

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

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

Pursuant to a special resolution at a special general meeting of the shareholders of the Company passed on 19 March 2003,

- (i) The nominal value of the authorised share capital is reduced from HK\$0.10 to HK\$0.0001 such that the authorised share capital is reduced from HK\$2,110,000,000 to HK\$2,110,000 (the "Capital Reduction").
- (ii) Every 50 ordinary shares are consolidated into one ordinary share of HK\$0.005 each (the "Share Consolidation").
- (iii) The authorised share capital of the Company, after the Capital Reduction and Share Consolidation, is restored back to HK\$2,110,000,000 by the creation of an additional 421,578,000,000 new ordinary shares of HK\$0.005 each.

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

Issued share capital

- (a) Pursuant to an agreement with China Gas, in January 2002, the Company subscribed for 100,000,000 new shares of China Gas in return for the issue of 600,000,000 new ordinary shares of the Company to China Gas. On the completion date, the fair value of the new shares of China Gas was HK\$50,000,000. As a result, the difference between the nominal amount and the fair value of the 600,000,000 new ordinary shares issued by the Company, amounting to HK\$10,000,000, is debited to the capital reserve.

Notes to the Financial Statements

For the year ended 31 December 2003

22. SHARE CAPITAL (Continued)

Issued share capital (Continued)

- (b) In January 2002, the Group made a settlement of an unsecured short term loan from Sino Century Enterprises Limited of HK\$25,000,000 by the issue of 250,000,000 new ordinary shares of the Company at par.
- (c) Pursuant to an agreement for the acquisition of the 100% interest in China Faith, in July 2002, the Company issued 500,000,000 new ordinary shares, 1,100,000,000 new preference shares and 500,000,000 warrants ("Warrants") to subscribe for 500,000,000 new ordinary shares at a subscription price of HK\$0.10 per share as consideration. On the completion date, the market price of an ordinary share was HK\$0.044. As a result, the difference between the nominal amount and the market price of the 500,000,000 new ordinary shares issued by the Company, amounting to HK\$28,000,000, is debited to the capital reserve.
- (d) In December 2002, the holder of the 1,100,000,000 preference shares exercised its right to convert all the preference shares into 1,100,000,000 new ordinary shares of the Company.
- (e) Pursuant to the Capital Reduction, the nominal value of each issued ordinary share of the Company is reduced by cancelling paid-up capital of HK\$0.0999 per share. The credit of HK\$689,266,000 arising from the Capital Reduction is transferred to the contributed surplus of the Company to eliminate the accumulated losses of the Company at 31 December 2002.
- (f) During the year ended 31 December 2003, pursuant to a subscription agreement, 27,598,000 ordinary shares of HK\$0.005 each were issued at HK\$0.221 per share for cash.

Share option scheme

Pursuant to the share option scheme adopted by the Company on 24 August 1992 (the "Old Scheme"), the board of directors of the Company might grant options to any directors or full time employees of the Group to subscribe for shares in the Company at a price not less than 80 per cent. of the average of the closing prices of the Company's shares on the five trading days immediately preceding the offer of the options or the nominal value of the shares, whichever is the higher. The maximum number of shares in respect of which options might be granted under the Old Scheme might not exceed 10 per cent. of the issued share capital of the Company from time to time. No employee might be granted options which would enable him or her to subscribe for an aggregate of more than one per cent. of the aggregate number of shares under the Old Scheme. No consideration is payable upon the acceptance of an option and the exercise and vesting periods of an option are determined by the board of directors at the date of grant. All the 18,500,000 share options held by employees and outstanding at 1 January 2002 lapsed during the year ended 31 December 2002.

Notes to the Financial Statements

For the year ended 31 December 2003

22. SHARE CAPITAL (Continued)

Share option scheme (Continued)

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

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

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

During the year ended 31 December 2002 and 2003, no options were granted under the New Scheme.

Notes to the Financial Statements

For the year ended 31 December 2003

22. SHARE CAPITAL (Continued)

Warrants

As described in (c) in the sub-section "Issued share capital", 500,000,000 Warrants were issued. At 31 December 2002, the Company had outstanding 500,000,000 Warrants which are exercisable at any time on or before 18 July 2003. As a result of the Share Consolidation, the warrant holder is entitled to convert the Warrants into 10,000,000 new ordinary shares at a subscription price of HK\$5.00 per share. All the Warrants lapsed during the year ended 31 December 2003.

23. RESERVES

THE GROUP

	Share premium HK\$'000	Capital reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At 1 January 2002	347,998	–	(726,609)	(378,611)
Issue of ordinary shares in exchange of shares in China Gas (note 22(a))	–	(10,000)	–	(10,000)
Issue of preference shares and ordinary shares for the acquisition of China Faith (note 22(c))	13,344	(28,000)	–	(14,656)
Transfer	(38,000)	38,000	–	–
Net loss for the year	–	–	(83,349)	(83,349)
At 31 December 2002	323,342	–	(809,958)	(486,616)
Issue of ordinary shares (note 22(f))	5,961	–	–	5,961
Arising from the Capital Reduction	–	–	689,266	689,266
Net loss for the year	–	–	(107,791)	(107,791)
At 31 December 2003	329,303	–	(228,483)	100,820

Notes to the Financial Statements

For the year ended 31 December 2003

23. RESERVES (Continued)

THE COMPANY

	Share premium	Contributed surplus	Capital reserve	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	347,998	64,379	–	(868,009)	(455,632)
Issue of ordinary shares in exchange of shares in China Gas (note 22(a))	–	–	(10,000)	–	(10,000)
Issue of preference shares and ordinary shares for the acquisition of China Faith (note 22(c))	13,344	–	(28,000)	–	(14,656)
Transfer	(38,000)	–	38,000	–	–
Net loss for the year	–	–	–	(69,365)	(69,365)
At 31 December 2002	323,342	64,379	–	(937,374)	(549,653)
Issue of ordinary shares (note 22(f))	5,961	–	–	–	5,961
Arising from the Capital Reduction	–	–	–	689,266	689,266
Net loss for the year	–	–	–	(67,970)	(67,970)
At 31 December 2003	329,303	64,379	–	(316,078)	77,604

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

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

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

At 31 December 2003 and 31 December 2002, the Company had no reserve available for distribution to shareholders.

Notes to the Financial Statements

For the year ended 31 December 2003

24. DEFERRED TAXATION

At the balance sheet date and during the year, deferred tax liabilities (assets) have been recognised in respect of the temporary differences attributable to the following:

THE GROUP

	Property, plant and equipment	Investment properties	Unrealised holding gain on other investments	Tax losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2002	–	–	–	–	–
Acquisition of a subsidiary	–	789	–	(789)	–
Charge (credit) to income statement	46	263	8,643	(309)	8,643
At 31 December 2002 and at 1 January 2003	46	1,052	8,643	(1,098)	8,643
Charge (credit) to income statement					
Effect of change in tax rate	4	99	810	(103)	810
(Credit) charge to income statement	(44)	211	(8,881)	(739)	(9,453)
At 31 December 2003	6	1,362	572	(1,940)	–

At the balance sheet date, the Group has unused tax losses of HK\$95,569,000 (2002: HK\$35,976,000), a substantial amount of which has not been agreed by the Inland Revenue Department, available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$11,089,000 (2002: HK\$6,861,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$84,480,000 (2002: HK\$29,115,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

Notes to the Financial Statements

For the year ended 31 December 2003

24. DEFERRED TAXATION (Continued)

THE GROUP (Continued)

At the balance sheet date, the Group has other deductible temporary difference of nil (2002: HK\$40,564,000) in respect of unrealised holding loss on other investments. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

THE COMPANY

At the balance sheet date, the Company has unused tax losses of HK\$8,048,000 (2002: HK\$8,048,000) available for offset against future profit. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

25. ACQUISITION OF SUBSIDIARIES

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

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

The subsidiary acquired during the prior year contributed HK\$4,036,000 to the Group's turnover and incurred a loss from operation of HK\$2,000 for the year ended 31 December 2002.

Notes to the Financial Statements

For the year ended 31 December 2003

26. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2003, the Group surrendered certain shares of China Gas with an aggregate market value of HK\$46,380,000 for the settlement of loans of HK\$18,900,000 as disclosed in note 5.

During the year ended 31 December 2002,

- (a) The Group subscribed for certain new shares of China Gas, as described in note 22(a).
- (b) The Group made a partial settlement of an unsecured loan, as described in note 22(b).
- (c) The Group acquired the 100% interest in China Faith, as described in notes 22(c) and 25.
- (d) The preference shares of the Company were converted into new ordinary shares, as described in note 22(d).
- (e) The Group received 500 million shares of TechCap Holdings Limited (the "TechCap Shares") in lieu of cash settlement of amount receivable in respect of disposal of certain subsidiaries.
- (f) The Group entered into a finance lease in respect of property, plant and equipment with a capital value at the inception of the lease of HK\$344,000.

27. CONTINGENT LIABILITIES

THE COMPANY

	2003	2002
	HK\$'000	HK\$'000
Guarantee given to a bank in respect of a loan facility granted to a wholly-owned subsidiary	138,300	147,400

Notes to the Financial Statements

For the year ended 31 December 2003

28. OPERATING LEASE ARRANGEMENTS

The Group as lessor

At the balance sheet date, investment properties with an aggregate carrying value of HK\$178,500,000 (2002: HK\$181,200,000) were rented out under operating leases. Investment properties were leased out for periods ranging from 1 to 5 years and some of the leases have renewal options given to the lessees. The future minimum lease payments receivable by the Group under non-cancellable operating leases is as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Not later than one year	6,474	6,435
Later than one year but not later than five years	5,559	4,373
	<hr/>	<hr/>
Total	12,033	10,808
	<hr/>	<hr/>

29. PLEDGED ASSETS

- (a) At 31 December 2003 and 2002, all the Group's investment properties and investment in shares of China Faith are pledged and the rental income in respect of the investment properties under operating leases are assigned to a bank against a bank loan granted to the Group.
- (b) Other investments of HK\$14,695,000 (2002: HK\$101,431,000) are pledged against margin and other loan facilities granted to the Group.

Notes to the Financial Statements

For the year ended 31 December 2003

30. RELATED PARTY TRANSACTIONS AND BALANCES

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

	2003	2002
	HK\$'000	HK\$'000
(a) A former associate of an investee company		
Sales of goods	–	8,662
Purchase of goods	–	951
Payment of office rent and rates and building management fees	–	64
Payment of staff costs	–	544
(b) Amounts due to/loans from certain directors at balance sheet date	<u>1,868</u>	<u>314</u>

The transactions with the former associate of an investee company disclosed above were disclosed up to the date when the former shareholder of the investee company served a notice to repurchase the Group's interest in the investee company during the year ended 31 December 2002.

In addition to the above, during the year ended 31 December 2002, the Group received the TechCap Shares for the settlement of outstanding consideration arising from the disposal of certain subsidiaries, as described in note 26(e), from Pacific Annex Capital Limited. Dr. Li Zhong Yuan and Mr. Wong Chong Kwong, Derek, the ex-directors of the Company, were directors of and had beneficial interests in Pacific Annex Capital Limited.

The amounts due to directors/loans from certain directors are interest free, unsecured and repayable on demand.

In the opinion of the directors, the above transactions were carried out at terms agreed by the relevant parties.

Notes to the Financial Statements

For the year ended 31 December 2003

31. RETIREMENT BENEFITS SCHEME

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

Contributions to the MPF Scheme for the year amounted to HK\$35,000 (2002: HK\$47,000).

32. POST BALANCE SHEET EVENTS

- (a) In December 2003, the Company entered into a subscription agreement with an independent third party for the issue of 33,100,000 ordinary shares of the Company at a subscription price of HK\$0.231 per share for cash for approximately HK\$7,600,000. The subscription was completed in January 2004.

- (b) In February 2004, the Group entered into a conditional sale and purchase agreement for the acquisition of a 51% interest in Lucky Green Limited for a consideration of HK\$30,000,000. A refundable deposit of HK\$1,000,000 has been paid after signing the agreement and the outstanding consideration, which bears interest at 1% per annum, will be paid within one year after the completion of the acquisition in March 2004. Lucky Green Limited holds the 100% interest in the registered capital of Zhuhai S.E.Z. Rui Nong Plant Protection Technology Co. Ltd., which is established in the People's Republic of China and is principally engaged in the production and sale of agricultural products and provision of agricultural consultancy services.