NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

1. CORPORATE INFORMATION

The Company is a public listed company incorporated in Bermuda and its shares are listed on the Stock Exchange. Its ultimate holding company is EVEI.

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

- marketing and distribution of left-hand drive motor vehicles
- property holding for rental income purposes

2. BASIS OF PRESENTATION

During the year, the trading conditions for the Group's principal business of the trading of motor vehicles were adversely affected by certain government regulations regarding the import of motor vehicles into the PRC.

For the year ended 31 December 2003, the Group incurred a consolidated net loss from ordinary activities attributable to shareholders of approximately HK$5,072,000. As at 31 December 2003, the Group had consolidated net current liabilities of approximately HK$24,515,000 and net liabilities of approximately HK$16,650,000.

In September 2002, one of the Group's principal bankers withdrew its banking facilities granted to the Group and demanded the immediate repayment of an aggregate amount of approximately HK$23,562,000. The Group then repaid partially the bank loan in the approximate amount of HK$153,000 for the year ended 31 December 2002. During the year, the Group disposed of all of the Group's investment properties at a consideration of HK$2,800,000 and HK$8,500,000 respectively. The proceeds of disposals were used for partial repayments of bank overdrafts.

Having regard to this situation, in order to improve the Group's financial position, immediate liquidity, cash flows, profitability and operations, the Directors adopted the following measures:

(a) the Directors are in active negotiations with the Group's bankers to secure new facilities to meet the immediate repayments of amounts demanded by its principal banker;

(b) the Directors are considering to increase the capital base of the Group through various fund-raising exercises, including, but not limited to, private placements of the Company's new shares;

(c) the Directors have taken action to reduce costs; and

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

2. BASIS OF PRESENTATION (Continued)

(d) as set out in Note 34 to the financial statements, the Company entered into a placing agreement with Forex Investment Development Limited ("Forex") on 4 February 2004 and proposed a placing of 265,100,000 shares of the Company at a price of HK$0.018 each. The Company intends to apply the net proceeds for partial repayment of debts and general working capital purpose.

On the same date, the Company entered into a loan capitalisation agreement with Winsley (the "Loan Capitalisation"), proposing a subscription of 430,000,000 shares of the Company at a price of HK$0.018 each by Winsley. The consideration of HK$7,740,000 will be satisfied as to HK$7,647,163 by setting off against amount owed by the Company to Winsley and the remaining HK$92,837 by cash upon completion of the Loan Capitalisation.

In the opinion of the Directors, if the above measures accomplish the expected results, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable concern. Therefore, the Directors considered that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial position and tight cash flows as at 31 December 2003.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of all assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

3. ADOPTION OF NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current period's financial statements. This SSAP prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry-forward of unused tax losses (deferred tax). This SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 12 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the period.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment properties in the deferred tax calculated under SSAP 12.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with all applicable SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties and certain fixed assets as further explained below.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

(c) Subsidiaries

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

Interests in subsidiaries are stated at cost less any impairment losses.

(d) Fixed assets and depreciation

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

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

Medium term lease land	Over the remaining term of the lease
Medium term leasehold buildings	Over the unexpired lease term of the land
Leasehold improvements	Over their expected useful lives or the term of the relevant lease whichever shorter
Furniture and fixtures	30%
Office equipment	30%
Motor vehicles	30%

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Impairment of assets

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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 loss is 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, to the extent 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.

(f) Associates

An associate is defined as an entity, other than a subsidiary, in which the Group has a long-term interest and over which it has the ability to exercise significant influence but not control, over its management, including participation in financial and operating policy decisions.

Investments in associates are stated in the consolidated balance sheet at the Group's share of net assets other than goodwill less impairment losses and in the balance sheet of the Company at cost less any impairment losses.

The consolidated profit and loss account reflects the Group's share of the post acquisition results of the associates.

(g) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long-term basis for its investment potential. Such properties with an unexpired lease term of more than 20 years are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets

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

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

(i) Inventories

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

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

(j) Foreign currencies

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

On consolidation, the results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Revenue recognition

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

(i) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) on the rendering of services, when services are rendered;

(iii) rental income, on the straight-line basis over the lease terms; and

(iv) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

(l) Related parties

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

(m) Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

(n) Goodwill

Goodwill arising on consolidation of subsidiary companies and on acquisition of associated companies represents the excess purchase consideration paid for such companies over the fair values ascribed to the net underlying assets at the date of acquisition. For acquisitions before 1 January 2001, positive goodwill is written off on acquisition. For acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life.

On disposal of an investment in a subsidiary or associated company, the attributable amount of goodwill is included in calculating the gain and loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(q) Employee benefits

(i) Contributions to MPF as required under the Hong Kong MPF Ordinance, are recognised as an expense in the profit and loss account as incurred.

(ii) Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(r) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated income statement.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Income tax (Continued)

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences 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 utilized, are recognised.

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 is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is revised to the extent that it becomes probable that sufficient taxable profit will be available.

(s) Segment reporting

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

The Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment assets consist primarily of fixed assets, investment properties, inventories, receivables and operating cash, and mainly exclude interest in an associate and tax recoverable. Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions of subsidiaries. Unallocated costs represent mainly corporate and inactive subsidiaries' expenses.

In respect of geographical segment reporting, turnover and results are based on the country in which the customers are located. Segment assets and capital expenditure are based on where the assets are located.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) 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.

(u) Post balance sheet events

Post balance sheet events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Post balance sheet events that are not adjusting events are disclosed in the notes when material.

5. TURNOVER

Turnover represents the invoiced value of inventories sold, net of discounts and returns, and rental income.

The amount of each significant category of revenue recognised in turnover during the year is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Sales of motor vehicles	5,166	33,193
Gross rental income	50	240
	5,216	33,433

6. OTHER REVENUE

	Group	
	2003	2002
	HK$'000	HK$'000
Interest income	8	30
Commission income	94	–
Others	299	397
Written back of accruals for expenses and compensation	–	2,703
Written back of PRC tax provision no longer required	–	223
	401	3,353

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

7. LOSS FROM OPERATING ACTIVITIES

Loss from operating activities is arrived at after charging/(crediting) the following:

	Group	
	2003	2002
	HK$'000	HK$'000
Cost of inventories	5,298	31,646
Auditors' remuneration		
– under/(over) provision in respect of previous year	–	5
– current year	216	272
Depreciation *(Note 14)*	182	234
Loss on disposal of investment properties *(Note 15)*	285	–
Impairment losses on land and buildings *(Note 14)*	–	1,487
Deficit arising on revaluation of investment properties *(Note 15)*	–	2,500
Bad debts provision/bad debts expense	109	–
Foreign exchange losses/(gains), net	4	50
Staff costs (including Directors' remuneration) *(Note 9)*	1,678	2,621
MPF contribution *(Note 33)*	54	42
Bad debts recovered	(288)	(192)
Interest income	(8)	(30)
Net rental income	(50)	(236)

8. FINANCE COSTS

	Group	
	2003	2002
	HK$'000	HK$'000
Interest on:		
Bank loans, overdrafts and trust receipt loans – wholly repayable within 5 years	1,422	2,060
Other loans	–	–
	1,422	2,060

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

9. DIRECTORS' REMUNERATION

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

	Group	
	2003 HK$'000	2002 HK$'000
Fees:		
Executive Directors	–	–
Non-executive Director	100	100
Independent non-executive Directors	200	200
	300	300
Other emoluments – executive Directors:		
Salaries and allowances	163	755
MPF contribution	13	23
	476	1,078

The emoluments of the Directors fell within the following bands:

	Group	
	2003 Number of Directors	2002 Number of Directors
Nil – HK$1,000,000	5	5
HK$1,000,001 – HK$1,500,000	–	–
	5	5

During the year, no emoluments were paid by the Group to the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a Director waived or agreed to waive any remuneration during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

10. SENIOR EXECUTIVES' EMOLUMENTS

The five highest paid employees during the year included one (2002: two) Director, details of whose remuneration are set out in note 9 to the financial statements. Details of the remuneration of the remaining four (2002: three) highest paid, non-director employees during the year are as follows:

	Group	
	2003 HK$'000	2002 HK$'000
Salaries and allowances	1,013	881
MPF contribution	35	30
Long service payment	57	–
	1,105	911

The remuneration of the above non-director, highest paid employees fell within the band of nil to HK$1,000,000 in both years.

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

11. TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	Group	
	2003 HK$'000	2002 HK$'000
Provision for Hong Kong Profits Tax for the year *(note (i))*	27	–
Under/(over) provision in prior years	–	(3,741)
	27	(3,741)
Deferred taxation *(note 25 and note (ii))*		
Origination and reversal of temporary differences		
Effect of increase in tax rate on deferred tax balance at 1 January	–	–
	27	(3,741)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

11. TAXATION (Continued)

Notes:

(i) Hong Kong Profits Tax has been provided for at 17.5 per cent (2002: 16 per cent) on the estimated assessable profit for the year. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

(ii) As explained in note 4(r), under the new SSAP 12, deferred tax assets and liabilities in 2002 are computed using a tax rate of 16 per cent and deferred tax assets and liabilities in 2003 using the higher tax rate of 17.5 per cent announced in the March 2003 Hong Kong Budget.

(b) Reconciliation between taxation charge and the Group's accounting loss at applicable tax rates is set out below:

	2003 HK$'000	2002 HK$'000
Loss before taxation	**(5,045)**	(6,256)
Calculated at a taxation rate of 17.5 per cent (2002: 16 per cent)	**(883)**	(1,001)
Tax effect of:		
– income not subject to taxation	**–**	(2)
– expenses not deductible for taxation purposes	**266**	855
– prior year's unrecognized deferred tax asset from impairment of land and building utilized in this year	**(72)**	(56)
– unrecognized deferred tax assets in respect of tax losses	**716**	204
Adjustment of deferred tax	**–**	–
Under/(over) provision in respect of prior years	**–**	(3,741)
Taxation charge	**27**	(3,741)

Note: The domestic tax rate in Hong Kong is used as it is where the operation of the Group is substantially based.

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to Shareholders dealt with in the financial statements of the Company was HK$2,039,000 (2002: HK$10,440,000).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK$5,072,000 (2002: HK$2,515,000) and the weighted average of 285,535,000 (2002: 239,481,000) ordinary shares in issue during the year.

No diluted loss per share for the years ended 31 December 2003 and 2002 have been presented as the exercise of the potential ordinary shares would result in a reduction in loss per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

14. FIXED ASSETS

Group

	Medium term leasehold land and buildings in Hong Kong HK$'000	Leasehold improvement HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation:						
At 1 January 2003	8,100	69	567	1,104	4,654	14,494
Addition	–	–	–	3	–	3
At 31 December 2003	8,100	69	567	1,107	4,654	14,497
Accumulated depreciation:						
At 1 January 2003	–	69	567	1,103	4,654	6,393
Provided during the year	180	–	–	2	–	182
At 31 December 2003	180	69	567	1,105	4,654	6,575
Net book value:						
At 31 December 2003	7,920	–	–	2	–	7,922
At 31 December 2002	8,100	–	–	1	–	8,101

The Group's medium term leasehold land and buildings carried at a net book value of HK$7,920,000 (2002: HK$8,100,000) have been pledged to secure banking facilities as set out in note 24.

A property valuation had been carried out by Vigers in respect of the Group's leasehold land and buildings. The Group's land and buildings were valued at HK$7.9 million (2002: HK$8,100,000). Since the open market value is closed to the net book value of the land and buildings, no impairment is recognised during the year.

Other fixed assets are stated at cost.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

15. INVESTMENT PROPERTIES

	Group	
	2003	2002
	HK$'000	HK$'000
Balance at 1 January	**11,500**	14,000
Revaluation deficit, net – *note 7*	**–**	(2,500)
Disposal	**(11,500)**	–
Balance at 31 December	**–**	11,500

On 18 February 2003, the Group has entered into a sale and purchase agreement with a third party to dispose of one of the Group's investment properties with carrying value of HK$2,800,000 at a consideration of HK$2,800,000.

On 10 June 2003, the Group entered into another sales and purchase agreement with a third party to dispose of the other investment property with carrying value of HK$8,700,000 at a consideration of HK$8,500,000.

In addition, HK$85,000 was paid to a real estate agency as commission. The loss on disposal of HK$2,851,000 is accounted in the profit and loss account.

Prior to the disposal, the investment properties were pledged to secure the banking facilities as set out in note 24.

Details of the investment properties which are situated in Hong Kong are as follows:

Location	Lease term	Use	Saleable floor area (sq. ft.)	Group's interest
Flat A on 13th Floor Champion Building, Nos. 301-309 Nathan Road, Yau Ma Tei, Kowloon	Long lease	Commercial	1,350	100%
Room 1607, New East Ocean Centre, No. 9 Science Museum Road, Tsimshatsui East, Kowloon	Medium lease	Commercial	2,235	100%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

16. INTERESTS IN SUBSIDIARIES

	Company 2003 HK$'000	2002 HK$'000
Unlisted shares, at cost	**76,309**	76,309
Amounts due from subsidiaries	**62,398**	61,380
	138,707	137,689
Impairment loss	**(138,707)**	(137,689)
	–	–

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

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operation	Nominal value of issued/ registered share capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
Victory Group (BVI) Limited#	British Virgin Islands	Ordinary HK$100,000	100%	–	Investment holding
Victory Motors Centre Limited	Hong Kong	Ordinary HK$1,000 Non-voting deferred HK$3,000,000	–	100%	Trading of motor vehicles
Victory Realty Limited	Hong Kong	Ordinary HK$10,000	–	100%	Property holding
Hong Kong Waho Development Limited	Hong Kong	Ordinary HK$1,000,000	–	100%	Property holding
Waret Investment Limited	Hong Kong	Ordinary HK$2	–	100%	Property holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

16. INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ registration and operation	Nominal value of issued/ registered share capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
華多利（天津）國際貿易有限公司 (Victory (Tianjian) International Trading Limited)*#	The PRC	US$1,000,000	–	100%	Dormant
Victory H-Tech Company Limited	Hong Kong	Ordinary HK$100,000	–	100%	Investment holding

* Wholly foreign-owned enterprise

\# Not audited by Fan, Mitchell & Co.

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

17. INTEREST IN A FORMER ASSOCIATE

	Group 2003 HK$'000	Group 2002 HK$'000
Unlisted shares, at cost	–	21,000
Goodwill written off to the profit and loss account	–	(21,000)
Carrying amount	–	–

The former associate, eSolutions is being wound up by court order dated 9 January 2002. On this date eSolutions ceased to be an associate as the Group ceased to have significant influence over it.

Subsequent to the balance sheet date, eSolutions was dissolved with effect from 2 January 2004 pursuant to the Order of the Court of First Instance of the High Court dated 2 January 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

17. INTEREST IN A FORMER ASSOCIATE (Continued)

The Group's share of loss up to the date of the court order to dissolve the associate exceeds the carrying amount of the investment, which is reported at nil value, and therefore, the Group has not included its share of loss of the associate, which is in accordance with paragraph 20 of SSAP No. 10. The Group has no commitment to provide financial support to eSolutions.

Details of the Group's interest in the former associate are as follows:

			Proportion of ownership interest		
Name of the former associate	Place of incorporation & operation	Particulars of issued & paid up capital	Group's effective interest	Held by the company	Held by subsidiary
eSolutions (Dissolved)	Hong Kong	100 ordinary shares of HK$1 each	48%	–	48%

18. INVENTORIES

	Group 2003 HK$'000	Group 2002 HK$'000
Finished goods, at cost	**738**	824
Less: Write-down of inventories	**(369)**	–
Finished goods, at net realisable value	**369**	824

The carrying amount of inventories that are carried at net realisable value was HK$369,000 (2002: HK$ nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

19. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables, prepayments, deposits and other receivables	**275**	360	**119**	59

All of the trade receivables, prepayments, deposits and other receivables are expected to be recovered within one year.

Included in trade and other receivables are trade receivables (net of specific provisions for bad and doubtful debts) with the following aging analysis:

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current	**–**	163	**–**	–
More than 1 year	**87**	27	**–**	–
	87	190	**–**	–
Prepayments, deposits and other receivables	**188**	170	**119**	59
	275	360	**119**	59

Normally, debts are due within 28 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

20. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables, other payables and accruals	3,237	2,744	548	447

All of the trade payables, other payables and accruals are expected to be settled within one year.

	Group		Company	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
More than 1 year	–	–	–	–
Other payables and accruals	3,237	2,744	548	447
	3,237	2,744	548	447

21. AMOUNTS DUE TO DIRECTORS

The amounts due to Directors are unsecured, interest free and have no fixed terms of repayment.

22. AMOUNT DUE TO A RELATED PARTY

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

23. AMOUNT DUE TO A SUBSIDIARY

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

24. INTEREST-BEARING BANK BORROWINGS, SECURED

	Group	
	2003 HK$'000	2002 HK$'000
Bank overdrafts, secured	4,943	15,092
Bank loans, secured	8,317	8,317
	13,260	23,409
Bank overdrafts repayable within one year, or on demand	4,943	15,092
Bank loans repayable:		
Within one year	8,317	8,317
In the second year	–	–
In the second to fifth years inclusive	–	–
Beyond five years	–	–
	8,317	8,317
	13,260	23,409
Portion classified as current liabilities	(13,260)	(23,409)
Non-current portion	–	–

The Group's banking facilities are secured by the leasehold land and buildings of the Group with an aggregate carrying value of HK$7,920,000 (2002: leasehold land and building of HK$8,100,000 and investment properties of HK$11,500,000) at 31 December 2003.

Since the financial year ended 31 December 2002, the banker of the Group has frozen the banking facilities granted to the Company and certain subsidiaries due to their failure to keep up with the repayment schedules. As a result, all the outstanding balances of the interest-bearing bank borrowing are therefore classified as current liabilities, which are repayable within one year, or on demand.

During the year, the Group has disposed of all of the Group's investment properties as set out in note 15 in considerations of HK$2,800,000 and HK$8,500,000 respectively. The proceeds of the disposals were used for partial repayments of the bank overdrafts. In this regard, the banker did not demand for immediate repayment of the bank loan up to the date of approval of the financial statements. Under this circumstance, the bank loans were not classified as short-term bank loan with maturity within three months in the consolidated cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

25. DEFERRED TAXATION

(a) The Group

The components of deferred tax liabilities recognised in the Consolidated Balance Sheet and the movements during the year are as follows:

Deferred tax arising from:	Accelerated tax depreciation HK$'000	Impairment of fixed assets HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2002				
– as previously reported	–	–	–	–
– prior period adjustment	548	(159)	(389)	–
– as restated	548	(159)	(389)	–
Exchange adjustments	–	–	–	–
Charged/(credited) to consolidated profit and loss account	149	(56)	(93)	–
At 31 December 2002 (restated)	697	(215)	(482)	–
At 1 January 2003				
– as previously reported	–	–	–	–
– prior period adjustment	697	(215)	(482)	–
– as restated	697	(215)	(482)	–
Exchange adjustments	–	–	–	–
Charged/(credited) to consolidated profit and loss account	(414)	(72)	486	–
Effect of change in tax rate				
– charged/(credited) to consolidated profit and loss account	24	(20)	(4)	–
At 31 December 2003	307	(307)	–	–

At 31 December 2003, the Group has unused tax losses of HK$110,014,000 (2002: HK$103,524,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$ nil (2002: HK$2,837,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$110,014,000 (2002: HK$100,687,000) due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

25. DEFERRED TAXATION (Continued)

In addition, the Group has deductible temporary differences of HK$13,893,000 (2002: HK$13,888,000). Deferred tax assets have been recognised in respect of HK$1,757,000 (2002: HK$1,347,000) of such differences. No deferred tax assets have been recognised in respect of the remaining HK$12,136,000 (2002: HK$12,541,000) due to the unpredictability of future profit streams arising from such fixed assets.

(b) The Company

The Company has no material deferred taxation for the year and at the balance sheet date.

26. SHARE CAPITAL

	Company			
	No. of shares		Share capital	
	2003	2002	**2003**	2002
			HK$'000	HK$'000
Authorised:				
Ordinary shares of HK$0.01 each	**2,205,586,400**	2,205,586,400	**22,056**	22,056
Issued and fully paid:				
At the beginning of the year				
Ordinary shares of HK$0.01 (2002: HK$0.01) each	**264,611,600**	147,074,400	**2,646**	1,471
Placing	**115,300,000**	44,000,000	**1,153**	440
Rights issue	**–**	73,537,200	**–**	735
At the end of the year				
Ordinary shares of HK$0.01 each	**379,911,600**	264,611,600	**3,799**	2,646

Details of the changes in the Company's share capital which occurred between 1 January 2003 and 31 December 2003 are as follows:

Placing

Pursuant to a resolution passed in the meeting of the Board on 18 August 2003, the Company issued by means of placing a total of new ordinary shares of 52,000,000 of HK$0.01 each at a price of HK$0.02 on 9 September 2003 to four independent investors. The aggregate nominal value of the issued share was HK$520,000, the share premium arising on the issue of shares was HK$520,000 and the share issue expenses amounted to HK$90,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

26. SHARE CAPITAL (Continued)

Pursuant to a resolution passed in the meeting of the Board on 10 November 2003, the Company issued by means of placing a total of new ordinary shares of 63,300,000 of HK$0.01 each at a price of HK$0.016 on 5 December 2003 to six independent placees through a placing agent, CM-CCS Securities Ltd. The aggregate nominal value of the issued share was HK$633,000, the share premium arising on the issue of shares was HK$380,000 and the share issue expenses amounted to HK$113,000.

Share options

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to employees including the executive directors of the Company or of its subsidiaries ("Eligible Participants") who contribute to the success of the Group's operations.

On 22 January 1998, the Company conditionally approved the Scheme under which the Directors may, at their discretion, grant options to Eligible Participants, to subscribe for shares of the Company during the 10 years from its date of approval. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 16 February 1998 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. No options have been granted since the approval of the Scheme.

Under the Scheme, the Directors may at their discretion grant options at HK$1.00 per option to Eligible Participants to subscribe for shares at a price calculated in accordance with paragraph below.

The subscription price of the options may be determined by the Directors and shall be the higher of the nominal value of a share and 80 per cent of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the grant date of the options. The maximum number of shares over which options may be granted must not exceed 10 per cent of the issued share capital of the Company from time to time, excluding for this purpose shares issued pursuant to the Scheme. No options may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25 per cent of the aggregate number of shares subject to the Scheme, at the time it is proposed to grant the relevant option to such person.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

27. RESERVES

Group

	Share premium account HK$'000	Contributed surplus# HK$'000	Enterprise expansion fund * HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2002	29,630	710	429	–	(53,550)	(22,781)
Arising on issue of shares	11,238	–	–	–	–	11,238
Share issue expenses	(1,867)	–	–	–	–	(1,867)
Exchange realignments	–	–	16	(165)	–	(149)
Loss for the year	–	–	–	–	(2,515)	(2,515)
At 31 December 2002 and at 1 January 2003	39,001	710	445	(165)	(56,065)	(16,074)
Arising on issue of shares	900	–	–	–	–	900
Share issue expenses	(203)	–	–	–	–	(203)
Exchange realignments	–	–	–	–	–	–
Loss for the year	–	–	–	–	(5,072)	(5,072)
At 31 December 2003	39,698	710	445	(165)	(61,137)	(20,449)

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the reorganisation on 22 January 1998, over the nominal value of the Company's shares issued in exchange.

* The enterprise expansion fund is maintained, and annual allocations to the fund are made, in accordance with the Joint Venture Law of the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

27. RESERVES (Continued)

Company

	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2002	29,630	64,809	(96,346)	(1,907)
Arising on issue of shares	11,238	–	–	11,238
Share issue expenses	(1,867)	–	–	(1,867)
Loss for the year	–	–	(10,440)	(10,440)
At 31 December 2002 and 1 January 2003	39,001	64,809	(106,786)	(2,976)
Arising on issue of shares	900	–	–	900
Share issue expenses	(203)	–	–	(203)
Loss for the year	–	–	(2,039)	(2,039)
At 31 December 2003	39,698	64,809	(108,825)	(4,318)

The Company's contributed surplus represents the excess of the fair value of the subsidiary's shares acquired pursuant to the reorganisation on 22 January 1998, over the nominal value of the Company's shares issued in exchange. Under the Companies Act 1981 of Bermuda, a distribution may be made out of the contributed surplus in certain circumstances.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Cash and cash equivalents

	2003 HK$'000	2002 HK$'000
Cash and bank balances	**1,357**	3,360
Bank overdrafts, secured	**(4,943)**	(15,092)
	(3,586)	(11,732)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

As explained in note 24, the bank loan of approximately HK$8,317,000 at the balance sheet date was classified as current liabilities and was repayable within one year, or on demand. Because the Group, during the year, repaid partially the bank overdraft with the proceeds of disposal of all of the Group's investment properties, the banker did not demand for immediate repayment of the bank loan up to the date of approval of the financial statements. Under this circumstance, the bank loan was not classified as a bank loan with maturity within three months.

If the Group had failed to keep up with the repayment schedule, the banker would demand immediate repayment of the bank loan. Consequently, the bank loan would be classified as a short-term bank loan with maturity within three months and the cash and cash equivalents as at 31 December 2003 would be as follows:

	2003 HK$'000	2002 HK$'000
Cash and bank balances	1,357	3,360
Bank overdrafts, secured	(4,943)	(15,092)
Bank loan with maturity within 3 months	(8,317)	(8,317)
	(11,903)	(20,049)

(b) Analysis of changes in financing

	Share capital (including share premium) HK$'000	Trust receipt loans, bank loans and overdrafts HK$'000	(Repayment to)/ Advance from a related party HK$'000	(Repayment to)/ Advance from Directors HK$'000
Balance at 1 January 2002	31,101	28,947	14,649	2,166
Net cash inflow/(outflow) from financing	10,546	(5,538)	(6,873)	34
Balance at 31 December 2002 and at 1 January 2003	41,647	23,409	7,776	2,200
Net cash inflow/(outflow) from financing	1,850	(10,149)	(129)	(3)
Balance at 31 December 2003	43,497	13,260	7,647	2,197

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

29. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the audited financial statements were as follows:

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Banking facilities guaranteed by the Company which were utilised by the subsidiaries	**–**	–	**13,700**	23,409

(b) Included in the bank borrowing was a mortgage loan with principal amount of HK$8,317,000 as at 31 December 2003. There was no repayment from the Group since 14 November 2002. The accrued interest of HK$440,000 was provided and included in the balance sheet as account payable. No further liabilities were provided for the late repayment as there is no information available to quantify the further liability arisen from the late repayment, any penalty charge and other liability if any thereof.

30. LEASING ARRANGEMENTS

The Group leases out a portion of the land and building, which is used as its operating premises, to a third party under operating lease. The original terms of the lease ran for 2 years from 1 October 2003 to 30 September 2005.

During the current year, HK$50,000 (2002: nil) was recognised as rental income in the profit and loss account in respect of operating lease.

In previous year, the Group leased out one of the investment properties under operating lease. The original terms of the lease ran for two years for the period from 1 December 2000 to 30 November 2002. The lease term was early terminated in last year.

As the investment property was disposed of during the year as set out in Note 15. No rental income (2002: HK$240,000) was recognised in the profit and loss account in respect of operating lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

30. LEASING ARRANGEMENTS (Continued)

At 31 December 2003, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Within 1 year	200	–
After 1 year but within 5 years	150	–
	350	–

31. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

In respect of geographical segment reporting, turnover is based on the country in which the customers are located.

(a) Business Segments

The Group comprises the following main business segments:

Trading of motor vehicles – purchases and sales of motor vehicles

Property investment – leasing of office premises

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

31. SEGMENT REPORTING (Continued)

	2003				
	Trading of motor vehicles HK$'000	Property investment HK$'000	Unallocated HK$'000	Inter-segment elimination HK$'000	Group HK$'000
Segment revenue					
Revenue from external customers	5,166	50	–	–	5,216
Inter-segment revenue	–	720	–	(720)	–
Other revenue from external customers	382	11	–	–	393
Total	5,548	781	–	(720)	5,609
Segment result	(2,680)	433	(1,099)	–	(3,346)
Inter-segment transactions	720	(720)	–	–	–
Loss from operations	(1,960)	(287)	(1,099)	–	(3,346)
Interest income					8
Loss on disposal of investment properties					(285)
Finance costs					(1,422)
Loss before taxation					(5,045)
Taxation					(27)
Loss attributable to shareholders					(5,072)
Segment assets	632	7,973	1,318	–	9,923
Tax recoverable					–
Total assets					9,923
Segment liabilities	7,224	611	10,396	–	18,231
Bank loan					8,317
Tax liabilities					25
Total liabilities					26,573
Other information					
Bad debts recovered	288	–	–	–	288
Bad debts written off	(28)	–	–	–	(28)
Provision for doubtful debts	(81)	–	–	–	(81)
Depreciation and amortization for the year	(2)	(180)	–	–	(182)
Impairment loss on land and buildings	–	–	–	–	–
Deficit arising on revaluation of investment properties	–	–	–	–	–
Capital expenditure	(3)	–	–	–	(3)
Write-down of inventories	(369)	–	–	–	(369)
Disposal of investment properties	–	11,500	–	–	11,500

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

31. SEGMENT REPORTING (Continued)

	2002				
	Trading of motor vehicles HK$'000	Property investment HK$'000	Unallocated HK$'000	Inter-segment elimination HK$'000	Group HK$'000
Segment revenue					
Revenue from external customers	33,193	240	–	–	33,433
Inter-segment revenue	–	720	–	(720)	–
Other revenue from external customers	3,100	8	215	–	3,323
Total	36,293	968	215	(720)	36,756
Segment result	404	(3,639)	(991)	–	(4,226)
Inter-segment transactions	720	(720)	–	–	–
Contribution/(Loss) from operations	1,124	(4,359)	(991)	–	(4,226)
Interest income					30
Loss on disposal of investment properties					–
Finance costs					(2,060)
Loss before taxation					(6,256)
Taxation					3,741
Loss attributable to shareholders					(2,515)
Segment assets	12,430	19,695	120	(8,100)	24,145
Tax recoverable					13
Total assets					24,158
Segment liabilities	18,754	8,188	10,427	(8,100)	29,269
Bank loan					8,317
Tax liabilities					–
Total liabilities					37,586
Other information					
Bad debts recovered	184	8	–	–	192
Bad debts written off	–	–	–	–	–
Provision for doubtful debts	–	–	–	–	–
Depreciation and amortization for the year	(21)	(213)	–	–	(234)
Impairment loss on land and buildings	–	(1,487)	–	–	(1,487)
Deficit arising on revaluation of investment properties	–	(2,500)	–	–	(2,500)
Capital expenditure	–	–	–	–	–
Write-down of inventories	–	–	–	–	–
Disposal of investment properties	–	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

31. SEGMENT REPORTING (Continued)

Segment assets consist primarily of fixed assets, properties, inventories, receivables, net of allowance and provisions and operating cash, while most such assets can be directly attributed to individual segments. Segment liabilities comprise bank overdrafts and operating liabilities.

Inter-segment revenue eliminated on consolidation represents inter-company rental charges on a property owned by the Group. Inter-segment transactions are conducted at arm's length.

(b) Geographical Segments

The Group's operations are located in Hong Kong and the PRC. The Group's trading of motor vehicles is carried out in Hong Kong and the PRC. Property investment is located in Hong Kong.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of assets.

	Hong Kong		The PRC		Group	
	2003	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover	**932**	8,974	**4,284**	24,459	**5,216**	33,433
Segment assets	**8,812**	22,984	**1,111**	1,161	**9,923**	24,145
Capital expenditure	**3**	–	**–**	–	**3**	–

32. RELATED PARTY TRANSACTIONS

At the balance sheet date, the outstanding balance due to Winsley amounted to HK$7,647,000 (2002: HK$7,776,000). The amount is unsecured, interest-free and has no fixed terms of repayment.

33. RETIREMENT SCHEME

The Group operates a MPF scheme under the Hong Kong MPF Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by an independent trustee. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5 per cent of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

During the year ended 31 December 2003, the gross aggregate amount of employer's contribution made by the Group to the MPF scheme was approximately HK$54,000 (2002: HK$77,000) and there was a refund of long service payment in the sum of HK$nil (2002: HK$35,000), thereby reducing the MPF contribution to approximately HK$54,000 (2002: HK$42,000). As at 31 December 2003 and 2002, there was no forfeited contribution available to reduce future contribution.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

34. POST BALANCE SHEET EVENT

The Placing

The Company and Forex entered into a placing agreement on 4 February 2004 in relation to the placing of 265,100,000 shares of the Company at a price of HK$0.018 each (the "2004 Placing"). The 2004 Placing shares represent approximately 69.78% of the existing issued share capital of the Company, approximately 41.10% of the enlarged share capital of the Company upon completion of the 2004 Placing and approximately 24.66% of the enlarged share capital of the Company upon completion of the 2004 Placing and the Loan Capitalisation (as described below). The 2004 Placing is subject to a number of conditions including, among others, the completion of the Loan Capitalisation. The consideration of HK$4,771,800 will be satisfied in cash by Forex upon completion of the 2004 Placing. EVEI and its associates (as defined under the Listing Rules) will abstain from voting on the resolution approving the 2004 Placing at a special general meeting of the Company held on 1 April 2004 (the "SGM"). The 2004 Placing will generate a gross amount of proceeds of HK$4,771,800 and net proceeds of approximately HK$4,311,800 after payment of financial, legal, printing and publication charges of approximately HK$460,000. The Company intends to apply approximately HK$3.09 million for partial repayment of debts and the remaining HK$1.22 million for other general working capital purpose, including annual listing fees of HK$145,000, annual audit and result announcement charges of approximately HK$430,000. Directors' fees of HK$300,000, share registrars' fees of HK$35,000, staff costs of approximately HK$210,000, premises expenses of approximately HK$40,000 and other office utilities of approximately HK$60,000.

The Loan Capitalisation

The Company and Winsley entered into a loan capitalisation agreement on 4 February 2004 whereby Winsley agreed to subscribe for 430,000,000 shares of the Company at a price of HK$0.018 each (the "Loan Capitalisation"). The Loan Capitalisation shares represent approximately 113.18% of the existing issued share capital of the Company and approximately 40.00% of the enlarged share capital of the Company upon completion of the 2004 Placing and the Loan Capitalisation. The consideration of HK$7,740,000 will be satisfied as to HK$7,647,163 by setting off against amount owed by the Company to Winsley and the remaining HK$92,837 by cash upon completion of the Loan Capitalisation, which will take place simultaneously with that of the 2004 Placing.

As Winsley is a company jointly controlled by Mr. Chan and Madam Lam, the Loan Capitalisation constitutes a connected transaction for the Company under Rule 14.26 of the Listing Rules and will be subject to the approval by the independent shareholders of the Company (the "Independent Shareholders") at the SGM. EVEI and its associates (as defined under the Listing Rule) will abstain from the resolutions approving the Loan Capitalisation and the Whitewash Waiver (as described below) at the SGM. The Loan Capitalisation is also subject to a number of other conditions which include, among others, the granting of the Whitewash Waiver by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director (the "Executive"). An independent board committee was formed to consider the terms of the Loan Capitalisation and the Whiteash Waiver and REXCAPITAL (Hong Kong) Limited was appointed to advise the independent board committee in this regard.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

34. POST BALANCE SHEET EVENT (Continued)

Whitewash Waiver

Under Rule 26 of the Takeovers Code, upon completion of the 2004 Placing and the Loan Capitalisation, Winsley and parties acting in concert with it would be obligated to make a mandatory unconditional general offer for all the shares of the Company in issue other than those already owned or agreed to be acquired by Winsley and/or parties acting in concert with it. Winsley applied to the Executive for a waiver from Rule 26 (the "Whitewash Waiver"), which if granted, would normally be subject to the approval of the Independent Shareholders on a vote taken by way of a poll at the SGM, there will be no general offer made under Rule 26 of the Takeovers Code.

The effect of the 2004 Placing and the Loan Capitalisation on the shareholding structure of the Company is as follows:

	At present		Immediately after completion of 2004 Placing and the Loan Capitalisation	
	Number of Shares	Approximate Percentage	Number of Shares	Approximate Percentage
EVEI	110,377,586	29.05%	110,377,586	10.27%
Winsley	–	–	430,000,000	40.00%
Subtotal	–	–	540,377,586	50.27%
Forex	–	–	265,100,000	24.66%
Public	269,534,014	70.95%	269,534,014	25.07%
Total	379,911,600	100%	1,075,011,600	100%

The Company made announcement in relation to the 2004 Placing, the Loan Capitalisation, and the Whitewash Waiver on 17 February 2004 and the Company is pleased to announce that all resolutions in respect of the 2004 Placing, the Loan Capitalisation, and the Whitewash Waiver were duly passed at the SGM.

The Executive gave a conditional waiver on 2 April 2004 to waive the obligation of Winsley and its concert parties to make a general offer for the shares of the Company. On the same day, the Stock Exchange also gave a conditional listing of and permission to deal in the 2004 Placing shares and the Loan Capitalisation shares. The 2004 Placing and the Loan Capitalisation are expected to be completed on 20 April 2004, and the relevant announcement in respect of the completion of the event would be published on 21 April 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

35. COMMITMENTS

The Group's commitments outstanding at 31 December and not provided for in the financial statements were as follows:

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Contracted for:				
Legal and advisory expenditure	**170**	–	**170**	–

36. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with current year's presentation.

37. ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 December 2003 to be EVEI.

38. APPROVAL OF THE FINANCIAL STATEMENTS

After the review and recommendations by the Audit Committee, the audited financial statements were approved by the Board on 16 April 2004.