



# NOTES TO FINANCIAL STATEMENTS

31 December 2003

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## 1. CORPORATE INFORMATION

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

- provision of information technology services
- restaurant operations
- property investment

In the opinion of the directors, the ultimate holding company is Beijing Holdings Limited, which is incorporated in Hong Kong.

## 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following new and revised SSAPs are effective for the first time for the current year’s financial statements:

- SSAP 12 (Revised): “Income taxes”
- SSAP 35: “Accounting for government grants and disclosure of government assistance”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised below:

SSAP 12 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 carryforward of unused tax losses (deferred tax). The 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 10 to the financial statements and include a reconciliation between the accounting profit and the tax income for the year.

SSAP 35 prescribes the accounting for government grants and other forms of government assistance. The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants. However, additional disclosures are now required and are detailed in notes 3 and 6 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain fixed assets as further explained below.

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 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 intercompany transactions and balances within the Group are eliminated on consolidation.

### **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. The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

### **Associates**

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

### **Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Joint venture companies** *(continued)*

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company/Group has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company/Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company/Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company/Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

### **Jointly-controlled entities**

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

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's interests in jointly-controlled entities.

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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### Goodwill

Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years. In the case of jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separate identified asset on the consolidated balance sheet. On disposal of subsidiaries or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

### Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account.

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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.

### Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### Fixed assets and depreciation

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

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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### Fixed assets and depreciation *(continued)*

The transitional provisions set out in paragraph 80 of SSAP 17 "Property, plant and equipment" have been adopted for assets stated at valuation. As a result, those assets stated at revalued amounts, based on revaluations which were reflected in financial statements for periods ended before 30 September 1995, have not been subsequently revalued to fair value by class. It is the directors' intention not to revalue these assets in the future. The asset revaluation reserve is transferred directly to retained earnings when the reserve is realised completely on the disposal or retirement of the asset, or partially as the asset is used by the Group.

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.

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

Leasehold land	Over the lease terms
Buildings	4%
Leasehold improvements	Over the lease terms or 10 years, whichever is shorter
Furniture, fixtures and equipment	10%-20%
Motor vehicles	12.5%-20%

### 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 their investment potential, any rental income being negotiated at arm's length. Such properties 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 values 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.



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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Intangible assets**

Management information systems and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 to 10 years.

### **Research and development costs**

All research costs are charged to the profit and loss account as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

### **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

### **Long term investment**

Long term investment is non-trading investment in unlisted equity securities intended to be held on a long term basis. It is stated at cost less any impairment losses.

### **Inventories**

Inventories 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 the estimated selling prices less any estimated costs necessary to make the sale.

### **Construction contracts**

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

# NOTES TO FINANCIAL STATEMENTS

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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### **Construction contracts** *(continued)*

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

### **Properties held for sale**

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis.

### **Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### **Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.



# NOTES TO FINANCIAL STATEMENTS

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

# NOTES TO FINANCIAL STATEMENTS

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

### Employee benefits

#### *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

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

#### *Pension schemes*

Certain companies within the Group have participated in the retirement benefits schemes required by the respective governments of the places in which they operate for their employees. Contributions are made based on a certain percentage of the covered payroll and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The Group's employer contributions vest fully with the employees when contributed into the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds.

#### *Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.



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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) receipts from restaurant operations, upon the delivery of food and beverages to customers;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (e) from the sale of properties, when the legally binding unconditional sales contracts are signed and exchanged;
- (f) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above; and
- (g) from the rendering of services, when the services are rendered.

### Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated to Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

# NOTES TO FINANCIAL STATEMENTS

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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### Foreign currencies *(continued)*

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## 4. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the information technology segment engages in: (i) the provision of last-mile networking services and telecommunications, data communications and management services; (ii) systems integration for intelligent building; (iii) the construction of information networks; (iv) the provision of IT technical support and consultation services; (v) the development and sales of software; and (vi) the implementation of smart card systems;
- (b) the restaurants segment engages in the operation of restaurants and the trading of dried seafood;
- (c) the property investment segment invests in office and factory space for its rental income potential; and
- (d) the corporate segment comprises corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

# NOTES TO FINANCIAL STATEMENTS

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## 4. SEGMENT INFORMATION *(continued)*

### (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

#### Group

	Information technology		Restaurants		Property investment		Corporate		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	268,151	179,896	206,890	200,571	6,304	6,910	-	-	-	-	481,345	387,377
Intersegment sales	-	-	-	-	954	1,032	-	-	(954)	(1,032)	-	-
<b>Total</b>	<b>268,151</b>	<b>179,896</b>	<b>206,890</b>	<b>200,571</b>	<b>7,258</b>	<b>7,942</b>	<b>-</b>	<b>-</b>	<b>(954)</b>	<b>(1,032)</b>	<b>481,345</b>	<b>387,377</b>
Segment results	50,526	32,215	(710)	5,186	3,962	4,810	-	-	-	-	53,778	42,211
Interest income											1,102	1,394
Unallocated corporate expenses											(12,199)	(14,239)
Profit from operating activities											42,681	29,366
Finance costs											(6,651)	(5,355)
Share of profits and losses of:												
Associates	(713)	-	-	-	(1,500)	(591)	-	-	-	-	(2,213)	(591)
Jointly-controlled entities	(230)	223	-	-	-	-	-	-	-	-	(230)	223
Amortisation of goodwill on acquisition of a jointly-controlled entity	(1,429)	-	-	-	-	-	-	-	-	-	(1,429)	-
Provision against an amount due from an associate	-	-	-	-	-	(5,592)	-	-	-	-	-	(5,592)
Profit before tax											32,158	18,051
Tax											116	2,844
Profit before minority interests											32,274	20,895
Minority interests											(10,553)	(5,479)
Net profit from ordinary activities attributable to shareholders											21,721	15,416

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## 4. SEGMENT INFORMATION *(continued)*

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### (a) Business segments *(continued)*

Group	Information technology				Property investment				Corporate		Consolidated	
	2003		2002		2003		2002		2003		2002	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment assets	584,110	427,279	80,690	74,243	78,767	121,207	36,756	54,741	780,323	677,470		
Interests in associates	1,834	-	-	-	14,413	15,340	-	-	16,247	15,340		
Interests in jointly-controlled entities	44,601	7,562	-	-	-	-	-	-	44,601	7,562		
Bank overdrafts included in segment assets	-	-	-	-	-	-	1,092	-	1,092	-		
Total assets	630,545	434,841	80,690	74,243	93,180	136,547	37,848	54,741	842,263	700,372		
Segment liabilities	117,561	73,634	30,202	34,059	9,618	9,873	2,269	2,790	159,650	120,356		
Bank overdrafts included in segment assets	-	-	-	-	-	-	1,092	-	1,092	-		
Unallocated liabilities									155,779	153,552		
Total liabilities									316,521	273,908		
Other segment information:												
Depreciation	3,168	2,232	11,897	8,609	355	340	1,496*	1,394*	16,916	12,575		
Amortisation	16,421	14,140	-	-	-	-	-	-	16,421	14,140		
Capital expenditure	3,722	5,350	16,334	15,303	-	-	900	2	20,956	20,655		

\* These are included in "Unallocated corporate expenses".

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## 4. SEGMENT INFORMATION (continued)

### (b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group	Hong Kong		Mainland China		Singapore		Indonesia		Malaysia		Thailand		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:																
Sales to external customers	4,634	6,695	316,575	223,311	61,433	86,160	50,604	27,259	37,917	43,952	10,182	-	-	-	481,345	387,377
Intersegment sales	12,918	16,050	-	1,372	27,575	-	-	-	-	-	-	-	(40,493)	(17,422)	-	-
Total	17,552	22,745	316,575	224,683	89,008	86,160	50,604	27,259	37,917	43,952	10,182	-	(40,493)	(17,422)	481,345	387,377
Other segment information:																
Segment assets	77,548	156,580	692,208	481,582	35,862	41,883	20,457	9,954	9,552	10,373	5,544	-	-	-	841,171	700,372
Bank overdrafts included in segment assets	1,092	-	-	-	-	-	-	-	-	-	-	-	-	-	1,092	-
Total assets	78,640	156,580	692,208	481,582	35,862	41,883	20,457	9,954	9,552	10,373	5,544	-	-	-	842,263	700,372
Capital expenditure	900	2	4,693	5,397	428	14,666	11,983	58	42	532	2,910	-	-	-	20,956	20,655

# NOTES TO FINANCIAL STATEMENTS

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## 5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts; the value of services rendered; proceeds from the sale of properties held for sale; gross rental income; and receipts from restaurant operations.

Revenue from the following activities has been included in turnover:

	Group	
	2003 HK\$'000	2002 HK\$'000
Receipts from restaurant operations	206,141	198,360
Sales of dried seafood	749	2,211
Construction contracts	167,535	122,174
Rendering of services	100,616	57,722
Gross rental income	6,304	6,585
Sales of properties held for sale	–	325
	<b>481,345</b>	<b>387,377</b>



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## 6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	Group	
		2003 HK\$'000	2002 HK\$'000
Cost of inventories sold		93,650	106,722
Cost of sales of properties held for sale		–	60
Cost of services provided		38,899	26,982
Depreciation	13	16,916	12,575
Operating lease rentals for land and buildings:			
Minimum lease payments		19,466	16,351
Contingent rents		1,169	1,216
		<b>20,635</b>	17,567
Amortisation of goodwill*	14	14,503	12,254
Release of goodwill upon disposal of partial interests in subsidiaries*	14	10,750	–
Negative goodwill recognised as income during the year <sup>#</sup>	14	(1,939)	(3,354)
Amortisation of intangible assets <sup>@</sup>	15	1,918	1,886
Research and development costs:			
Current year expenditure		5,089	2,541
Less: Government grants released <sup>†</sup>		(1,340)	–
		<b>3,749</b>	2,541
Foreign exchange losses, net		638	513
Auditors' remuneration:			
Current year provision		1,885	1,493
Prior year's underprovision		221	185
		<b>2,106</b>	1,678
Staff costs (including directors' remuneration – note 8):			
Wages and salaries		65,149	58,080
Pension scheme contributions		3,391	3,209
		<b>68,540</b>	61,289
Gross rental income from investment properties		(3,236)	(3,365)
Gross rental income from properties held for sale		(3,068)	(3,220)
Less: Outgoings		2,210	2,015
Net rental income		<b>(4,094)</b>	(4,570)
Interest income		(1,102)	(1,394)
Gain on disposal of investment properties		–	(1,164)
Loss/(gain) on disposal of fixed assets		864	(185)

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## 6. PROFIT FROM OPERATING ACTIVITIES *(continued)*

- \* The amortisation of goodwill and release of goodwill are included in "Other operating expenses" on the face of the consolidated profit and loss account.
- # The negative goodwill recognised in the consolidated profit and loss account for the year is included in "Other revenue and gains" on the face of the consolidated profit and loss account.
- @ The amortisation of intangible assets is included in "Cost of sales" on the face of the consolidated profit and loss account.
- † Various government grants have been received for the research and development of management information systems for the education sector in Beijing, Mainland China. The government grants released have been deducted from the research and development costs to which they relate. There are no unfulfilled conditions or contingencies relating to these grants.

## 7. FINANCE COSTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest on bank loans and overdrafts	6,651	5,355

## 8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Companies Ordinance is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Fees	80	40
Salaries, allowances and benefits in kind	1,320	1,623
Performance related bonuses	220	314
Pension scheme contributions	11	24
	<b>1,631</b>	<b>2,001</b>

# NOTES TO FINANCIAL STATEMENTS

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## 8. DIRECTORS' REMUNERATION *(continued)*

Fees include HK\$80,000 (2002: HK\$40,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive director during the year (2002: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	6	8
HK\$1,500,001 to HK\$2,000,000	1	–
	<b>7</b>	<b>8</b>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, 2,800,000 (2002: 6,000,000) share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 31 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2002: two) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2002: three) non-director, highest paid employees for the year are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Salaries, allowances and benefits in kind	2,730	2,467
Performance related bonuses	292	173
Pension scheme contributions	73	86
	<b>3,095</b>	<b>2,726</b>

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## 9. FIVE HIGHEST PAID EMPLOYEES *(continued)*

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2003	2002
Nil to HK\$1,000,000	3	2
HK\$1,000,001 to HK\$1,500,000	1	1
	4	3

## 10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

In accordance with the relevant tax rules and regulations in the PRC, certain of the Company's PRC subsidiaries, associates and jointly-controlled entities enjoy income tax exemptions and reductions. Certain PRC subsidiaries, associates and jointly-controlled entities are subject to income tax rates ranging from 7.5% to 33%.

	Group	
	2003 HK\$'000	2002 HK\$'000
Group:		
Current – Hong Kong		
Charge for the year	(226)	(298)
Overprovision in prior years	581	4,243
Current – Elsewhere		
Charge for the year	(1,028)	(1,661)
Overprovision in prior years	151	–
	(522)	2,284
Share of tax attributable to:		
Jointly-controlled entities	182	–
Associates	456	560
	638	560
Total tax credit for the year	116	2,844

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**10. TAX** (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries, associates and jointly-controlled entities are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

**Group****2003**

	Hong Kong		Mainland China		Others		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	(33,317)		68,864		(3,389)		32,158	
Tax at the statutory or applicable tax rate	(5,830)	17.5	22,725	33.0	(1,016)	30.0	15,879	49.4
Lower tax rate for specific provinces or local authority	–		(25,696)		(703)		(26,399)	
Adjustments in respect of current tax of previous periods	(581)		–		(151)		(732)	
Income not subject to tax	(426)		(1,715)		(332)		(2,473)	
Expenses not deductible for tax	4,997		1,680		977		7,654	
Tax losses utilised from previous periods	–		–		(103)		(103)	
Deferred tax assets not recognised in respect of losses	1,485		3,382		1,191		6,058	
Tax charge at the Group's effective rate	(355)		376		(137)		(116)	

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## 10. TAX (continued)

Group

2002

	Hong Kong		Mainland China		Others		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	(23,560)		40,925		686		18,051	
Tax at the statutory or applicable tax rate	(3,770)	16.0	13,505	33.0	206	30.0	9,941	55.1
Lower tax rate for specific provinces or local authority	–		(14,257)		(211)		(14,468)	
Adjustments in respect of current tax of previous periods	(4,243)		(380)		–		(4,623)	
Income not subject to tax	(655)		(1,142)		(759)		(2,556)	
Expenses not deductible for tax	3,732		1,196		1,044		5,972	
Tax losses utilised from previous periods	(204)		(62)		–		(266)	
Deferred tax assets not recognised in respect of losses	1,195		1,179		782		3,156	
Tax charge at the Group's effective rate	(3,945)		39		1,062		(2,844)	

## 11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company is HK\$36,967,000 (2002: HK\$536,000) (note 32(b)).

## 12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$21,721,000 (2002: HK\$15,416,000) and the weighted average of 479,519,199 (2002: 446,258,750) ordinary shares in issue during the year.

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## 12. EARNINGS PER SHARE *(continued)*

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$21,721,000. The weighted average number of ordinary shares used in the calculation is the 479,519,199 ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 29,299 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

Diluted earnings per share amount for the year ended 31 December 2002 has not been disclosed as the share options outstanding during that year had an anti-dilutive effect on the basic earnings per share for that year.

## 13. FIXED ASSETS

### Group

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of year	45,340	61,091	46,125	32,129	5,436	190,121
Additions	–	–	7,455	11,864	1,637	20,956
Disposals	–	–	(562)	(1,665)	(943)	(3,170)
Revaluation surplus	200	–	–	–	–	200
Exchange realignment	–	818	741	655	99	2,313
<b>At 31 December 2003</b>	<b>45,540</b>	<b>61,909</b>	<b>53,759</b>	<b>42,983</b>	<b>6,229</b>	<b>210,420</b>
At cost	–	18,409	53,759	42,983	6,229	121,380
At valuation	45,540	43,500	–	–	–	89,040
	45,540	61,909	53,759	42,983	6,229	210,420
Accumulated depreciation:						
At beginning of year	–	9,892	33,586	12,315	1,957	57,750
Provided during the year	–	1,380	6,834	7,337	1,365	16,916
Disposals	–	–	(424)	(690)	(798)	(1,912)
Exchange realignment	–	110	471	249	38	868
<b>At 31 December 2003</b>	<b>–</b>	<b>11,382</b>	<b>40,467</b>	<b>19,211</b>	<b>2,562</b>	<b>73,622</b>
Net book value:						
<b>At 31 December 2003</b>	<b>45,540</b>	<b>50,527</b>	<b>13,292</b>	<b>23,772</b>	<b>3,667</b>	<b>136,798</b>
At 31 December 2002	45,340	51,199	12,539	19,814	3,479	132,371

# NOTES TO FINANCIAL STATEMENTS

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## 13. FIXED ASSETS *(continued)*

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### Company

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:					
At beginning of year	43,500	527	354	1,315	45,696
Additions	–	636	264	–	900
Disposals	–	(61)	(192)	(127)	(380)
<b>At 31 December 2003</b>	<b>43,500</b>	<b>1,102</b>	<b>426</b>	<b>1,188</b>	<b>46,216</b>
At cost	–	1,102	426	1,188	2,716
At valuation	43,500	–	–	–	43,500
	43,500	1,102	426	1,188	46,216
Accumulated depreciation:					
At beginning of year	7,524	309	214	523	8,570
Provided during the year	1,026	146	86	238	1,496
Disposals	–	(61)	(167)	(127)	(355)
<b>At 31 December 2003</b>	<b>8,550</b>	<b>394</b>	<b>133</b>	<b>634</b>	<b>9,711</b>
Net book value:					
<b>At 31 December 2003</b>	<b>34,950</b>	<b>708</b>	<b>293</b>	<b>554</b>	<b>36,505</b>
At 31 December 2002	35,976	218	140	792	37,126

An analysis of the leasehold land and buildings, which are held under medium term leases, at the balance sheet date is as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Situated in Hong Kong:				
At 1994 valuation	43,500	43,500	43,500	43,500
Situated in Singapore:				
At cost	18,409	17,591	–	–
	<b>61,909</b>	61,091	<b>43,500</b>	43,500



# NOTES TO FINANCIAL STATEMENTS

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## 13. FIXED ASSETS *(continued)*

A revaluation of certain of the leasehold land and buildings situated in Hong Kong was carried out by CB Richard Ellis Limited, an independent professionally qualified valuer, on an open market value, existing use basis as at 31 December 1994. These land and buildings are stated at a carrying amount of HK\$34,950,000 (2002: HK\$35,976,000) at the balance sheet date. Had the land and buildings not been revalued, their net book value would have been as follows:

	<b>Group and Company</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Cost	4,339	4,339
Accumulated depreciation	(1,172)	(1,068)
<b>Net book value at 31 December</b>	<b>3,167</b>	3,271

An analysis of the investment properties at the balance sheet date is as follows:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Situated in Hong Kong	6,440	6,840
Situated in Mainland China	39,100	38,500
	<b>45,540</b>	45,340

The Group's investment properties were revalued on 31 December 2003 by CB Richard Ellis Limited, an independent professionally qualified valuer, on an open market value, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 35(a) to the financial statements.

Details of the investment properties, which are held under medium term leases, are as follows:

<b>Location</b>	<b>Use</b>
Part of the second floor and the whole of the third floor, A No. 1 Jian Guo Men Wai Avenue, Chao Yang District, Beijing, PRC	Office building
Units 1103, 1701, 1704 and 1903, Hong Kong Worsted Mills Industrial Building, 31-39 Wo Tong Tsui Street, Kwai Chung, New Territories, Hong Kong	Industrial

# NOTES TO FINANCIAL STATEMENTS

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## 14. GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet arising from the acquisition of subsidiaries are as follows:

Group	Goodwill HK\$'000	Negative goodwill HK\$'000
<hr/>		
Cost:		
At beginning of year	122,536	(5,445)
Acquisition of subsidiaries ( <i>note 33(a)</i> )	29,071	–
Acquisition of additional interests in subsidiaries ( <i>note 16(d)</i> )	23,238	(2,760)
Disposal of partial interests in subsidiaries ( <i>note 16(d)</i> )	(13,723)	–
<hr/>		
<b>At 31 December 2003</b>	<b>161,122</b>	<b>(8,205)</b>
<hr/>		
Accumulated amortisation/(recognition as income):		
At beginning of year	14,296	(3,354)
Amortisation provided/(recognised as income) during the year	14,503	(1,939)
Disposal of partial interests in subsidiaries ( <i>note 16(d)</i> )	(2,973)	–
<hr/>		
<b>At 31 December 2003</b>	<b>25,826</b>	<b>(5,293)</b>
<hr/>		
Net book value:		
<b>At 31 December 2003</b>	<b>135,296</b>	<b>(2,912)</b>
<hr/>		
At 31 December 2002	108,240	(2,091)
<hr/>		

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## 15. INTANGIBLE ASSETS

### Group

	Management information		Total HK\$'000
	systems HK\$'000	Licences HK\$'000	
Cost:			
At beginning of year	18,868	–	18,868
Additions	–	1,886	1,886
<b>At 31 December 2003</b>	<b>18,868</b>	<b>1,886</b>	<b>20,754</b>
Accumulated amortisation:			
At beginning of year	2,201	–	2,201
Provided during the year	1,887	31	1,918
<b>At 31 December 2003</b>	<b>4,088</b>	<b>31</b>	<b>4,119</b>
Net book value:			
<b>At 31 December 2003</b>	<b>14,780</b>	<b>1,855</b>	<b>16,635</b>
At 31 December 2002	16,667	–	16,667

## 16. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	218,924	193,947
Due from subsidiaries	251,058	194,668
	469,982	388,615
Provision for impairment	(3,836)	(3,836)
Provision against amounts due from subsidiaries	(67,000)	(81,000)
	399,146	303,779

# NOTES TO FINANCIAL STATEMENTS

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## 16. INTERESTS IN SUBSIDIARIES *(continued)*

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The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK\$42,000,000 (2002: HK\$6,000,000) which bears interest at 4.75% (2002: 4.5%) per annum.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
Ah Yat Abalone Forum Restaurant Holdings Pte. Ltd. <sup>Δ</sup>	Singapore	S\$250,000	51	45.9 <sup>®</sup>	Restaurant operations
Ah Yat Seafood Market Pte. Ltd. <sup>Δ</sup>	Singapore	S\$200,000	23 <sup>®</sup>	20.7 <sup>®</sup>	Restaurant operations
Astoria Innovations Limited <i>(note (a))</i>	British Virgin Islands/PRC	US\$1,000	51	–	Investment holding
Beijing Development Properties (Hong Kong) Limited*	Hong Kong	HK\$100,000	100	100	Property investment
Beijing Enterprises Jetrich Holdings Limited <i>(note (d))</i>	British Virgin Islands/PRC	US\$100	72	51	Investment holding
Beijing Enterprises Jetrich Limited <i>(note (d))</i>	British Virgin Islands/PRC	US\$1	72	51	Investment holding
Beijing Singapore Investments Pte. Ltd. <sup>*Δ</sup>	Singapore	S\$800,000	90	90	Property and investment holding
B E Information Technology Group Limited (formerly named Cyber Vantage Group Limited) <i>(note (d))</i>	British Virgin Islands/PRC	US\$1,000	72	100	Investment holding

# NOTES TO FINANCIAL STATEMENTS

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## 16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
BD Ah Yat Abalone Group Limited* ^	Hong Kong	HK\$6,800,000	51	–	Investment holding and trading of dried seafood
Business Net Limited* <i>(note (c))</i>	British Virgin Islands/PRC	US\$100	100	–	Investment holding
H.K. Forewell Investments Limited	Hong Kong	HK\$10,000	51	51	Investment holding
Lord King Investment Limited	Hong Kong/ PRC	HK\$1,000,000	51	51	Restaurant operations
Wisdom Elite Holdings Limited <i>(notes (b) and (d))</i>	British Virgin Islands/PRC	US\$100	72	–	Investment holding
北京市北控捷通培訓中心^	PRC	RMB500,000	68.4	–	Provision of training services
北京市電信通系統集成有限公司 <i>(note (d))</i>	PRC	RMB1,000,000	36.7 <sup>®</sup>	51	Provision of networking services
北京北控三興信息技術有限公司^	PRC	RMB3,000,000	51	–	Software developer
北京北控偉仕軟件工程技術有限公司 <i>(notes (b) and (d))</i>	PRC	RMB2,000,000	72	–	Software developer

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## 16. INTERESTS IN SUBSIDIARIES *(continued)*

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Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
北京北控電信通信息技術 有限公司 (Beijing Enterprises Teletron Information Technology Co., Ltd.) <i>(note (d))</i>	PRC	RMB65,000,000	72	100	Construction of information networks; and the provision of IT technical support and consultation services
北京北控電信通技術服務有限公司 <sup>^</sup>	PRC	RMB1,000,000	100	–	Dormant
北京阿一鮑魚酒家有限公司	PRC	US\$1,400,000	48.5 <sup>@</sup>	48.5 <sup>@</sup>	Restaurant operations
北控軟件有限公司 (Becom Software Co., Ltd.) <i>(note (d))</i>	PRC	RMB50,000,000	68.4	71.2	Provision of management information system services
北控捷通(北京)科技發展有限公司 <sup>^</sup>	PRC	US\$2,450,000	72	–	Provision of total education solutions
北京捷通瑞奇信息技術有限公司 <i>(note (d))</i>	PRC	RMB5,000,000	63	44.6 <sup>@</sup>	Construction of information networks and the provision of IT technical support services
北京電信通智能科技有限公司 <i>(note (d))</i>	PRC	RMB1,100,000	57.6	80	Provision of system integration services

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## 16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
北京發展物業投資管理有限公司	PRC	US\$4,000,000	85.5	85.5	Property investment
湖南教育信息服務有限公司	PRC	RMB10,000,000	41 <sup>@</sup>	42.7 <sup>@</sup>	Construction of information networks and the provision of IT technical support services

<sup>△</sup> Not audited by Ernst & Young Hong Kong or other Ernst & Young Global member firms.

<sup>@</sup> These entities are accounted for as subsidiaries by virtue of control over the entities.

\* Directly held by the Company.

<sup>^</sup> Set up during the year.

### Notes:

- (a) On 17 April 2003, the Group acquired from independent third parties a 51% equity interest in Astoria Innovations Limited for a cash consideration of HK\$9.6 million.
- (b) On 6 January 2003, the Company acquired from independent third parties a 60% equity interest in Wisdom Elite Holdings Limited and its wholly-owned subsidiary, 北京北控偉仕軟件工程技術有限公司, for a consideration of HK\$21,204,000, satisfied as to HK\$8,481,600 in cash and HK\$12,722,400 by way of the allotment of 12,722,400 new shares of the Company at an issue price of HK\$1 per share. Subsequently, the Group's interests in these companies increased from 60% to 72% pursuant to a group reorganisation.
- (c) The Company acquired this company during the year. Further details of this acquisition are included in note 18(a) to the financial statements.
- (d) Pursuant to a group reorganisation during the year, the Company's equity interests in these companies changed. As a result, goodwill of HK\$23,238,000 arose (note 14) and goodwill previously recognised of HK\$10,750,000 was released (note 14).

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected 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.

# NOTES TO FINANCIAL STATEMENTS

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## 17. INTERESTS IN ASSOCIATES

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	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	1,477	650
Amounts due from associates	14,770	14,690
	<b>16,247</b>	15,340

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

Particulars of the principal associates, all of which are indirectly held by the Company, are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2003	2002	
Overseas Union Investments Limited	Corporate	Hong Kong	50	50	Investment holding
北京千龍網都科技有限公司 <sup>^</sup>	Corporate	PRC	18 <sup>®</sup>	–	Sales of IT products
北京得來速科技服務有限公司 <sup>^</sup>	Corporate	PRC	14.4 <sup>®</sup>	–	Design of telephone ordering systems

<sup>®</sup> These entities are held by non-wholly owned subsidiaries of the Company.

<sup>^</sup> Set-up during the year.

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



# NOTES TO FINANCIAL STATEMENTS

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## 56 18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	21,534	7,562
Goodwill on acquisition	23,067	–
	<b>44,601</b>	7,562

The amount of goodwill capitalised as an asset in the consolidated balance sheet arising from the acquisition of a jointly-controlled entity is as follows:

	HK\$'000
Cost:	
At beginning of year	–
Acquisition of a jointly-controlled entity	24,496
<b>At 31 December 2003</b>	<b>24,496</b>
Accumulated amortisation:	
At beginning of year	–
Provided during the year	1,429
<b>At 31 December 2003</b>	<b>1,429</b>
Net book value:	
<b>At 31 December 2003</b>	<b>23,067</b>
At 31 December 2002	–

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## 18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(continued)*

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Particulars of the jointly-controlled entities, all of which are indirectly held, are as follows:

Name	Business structure	Place of registration and operations	Percentage of			Principal activity
			Ownership interest	Voting power	Profit sharing	
北京世訊互通通訊技術有限公司	Corporate	PRC	36	50	36	Dormant
北京教育信息網服務中心有限公司	Corporate	PRC	36	50	36	Provision of information network services
北京市政交通一卡通有限公司 (Beijing Municipal Administration & Communications Card Co., Ltd.) ("BMAC") <i>(note (a))</i>	Corporate	PRC	38	22.2	38	Operations of contactless multipurpose electronic payment cards

*Note:*

- (a) On 30 May 2003, the Company acquired from Beijing Enterprises Holdings Limited ("BEHL"), the Company's holding company, the entire issued share capital of Business Net Limited together with all the benefits and interest of and in the shareholder's loan amounting to RMB19 million (approximately HK\$17.92 million) owing by Business Net Limited to BEHL at an aggregate consideration of HK\$40 million, satisfied as to HK\$5 million in cash and HK\$35 million by way of the issue of 35 million shares of the Company at an issue price of HK\$1 per share. The sole asset of Business Net Limited is a 38% interest in BMAC and the consideration of the transaction was determined with reference to the business valuation of BMAC.

## 19. LONG TERM INVESTMENT

	Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted equity investment, at cost	472	—

# NOTES TO FINANCIAL STATEMENTS

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## 20. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Materials, at cost	56,977	53,025

## 21. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	Group	
	2003 HK\$'000	2002 HK\$'000
Amounts due from customers for contract work	3,112	4,516
Amounts due to customers for contract work	(1,022)	(1,204)
	<b>2,090</b>	3,312
Contract costs incurred plus recognised profits less recognised losses to date	7,611	6,629
Less: Progress billings received and receivable	(5,521)	(3,317)
	<b>2,090</b>	3,312

## 22. PROPERTIES HELD FOR SALE

The details of the Group's properties held for sale are as follows:

Location	Group interest	Existing use	Gross floor area
Units 101-103, 107, 1501, 1503, 2001, 2101 and 2103-2104; private car parks nos. 4, 6, 8, 10-13, 16 and 19-21 on the upper ground floor; lorry carpark nos. 2-8, 12-14, 16-25, 27, 29 and container space no. 30 on the ground floor; roof and external wall; Hong Kong Worsted Mills Industrial Building, 31-39 Wo Tong Tsui Street, Kwai Chung, New Territories, Hong Kong	100%	Factory and carpark (excluding roof rental and car parks)	44,551 sq.ft.

# NOTES TO FINANCIAL STATEMENTS

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## 23. TRADE RECEIVABLES

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	Group	
	2003 HK\$'000	2002 HK\$'000 (Restated)
Due from third parties	192,690	94,003
Due from a fellow subsidiary	23,168	4,529
Due from a jointly-controlled entity	2,798	–
Due from related companies	3,454	–
	<b>222,110</b>	98,532
Portion classified as current assets	<b>(172,744)</b>	(86,873)
Long term portion	<b>49,366</b>	11,659

The various Group companies have different credit policies, dependent on the requirements of their markets and the business which they operate. Certain customers are allowed to settle the construction contract sum by 3 annual instalments. An aged analysis of trade receivables is regularly prepared and closely monitored in order to minimise any related credit risk.

An aged analysis of the Group's trade receivables as at balance sheet date, based on the payment due date and net of provisions, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current and within 3 months	179,327	85,589
4-6 months	5,308	7,989
7-12 months	19,164	3,019
Over 1 year	18,311	1,935
	<b>222,110</b>	98,532

# NOTES TO FINANCIAL STATEMENTS

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## 24. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Prepayments	5,176	2,821	5	–
Deposits and other receivables	59,524	60,475	323	146
Due from subsidiaries	–	–	39,037	–
Due from fellow subsidiaries	16,963	16,963	–	–
Due from related companies	4,442	5,021	–	–
Due from a minority shareholder	3,302	–	–	–
Due from a jointly-controlled entity	–	193	–	–
Due from an associate	–	43,518	–	43,518
	<b>89,407</b>	128,991	<b>39,365</b>	43,664

The balances with subsidiaries, fellow subsidiaries, related companies, a minority shareholder, a jointly-controlled entity and an associate are unsecured, interest-free and have no fixed terms of repayment, except for an amount due from a subsidiary of HK\$5,660,000 which bears interest at 4.5% per annum and is repayable in 2004.

## 25. TRADE AND BILLS PAYABLES

	Group	
	2003 HK\$'000	2002 HK\$'000
Trade payables	44,474	44,800
Bills payable	37,058	15,628
	<b>81,532</b>	60,428

# NOTES TO FINANCIAL STATEMENTS

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## 25. TRADE AND BILLS PAYABLES *(continued)*

An aged analysis of the Group's trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 3 months	70,634	49,543
4-6 months	2,374	2,106
7-12 months	691	1,221
Over 1 year	7,833	7,558
	<b>81,532</b>	60,428

## 26. OTHER PAYABLES AND ACCRUALS

	Note	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Other payables		25,904	15,780	1,285	985
Accruals		42,860	32,494	985	1,305
Current portion of long term payables	28	3,691	3,931	–	–
Amount due to a fellow subsidiary		–	255	–	–
Amounts due to related companies		2,642	471	–	–
		<b>75,097</b>	52,931	<b>2,270</b>	2,290

The balances with the fellow subsidiary and related companies are unsecured, interest-free and have no fixed terms of repayment.

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## 27. BANK LOANS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank overdrafts, secured	1,092	–	1,092	–
Bank loans:				
Secured	7,853	10,146	2,499	4,556
Unsecured	146,990	143,406	52,650	58,500
	154,843	153,552	55,149	63,056
	155,935	153,552	56,241	63,056
Bank overdrafts repayable within one year or on demand	1,092	–	1,092	–
Bank loans repayable:				
Within one year	111,610	93,288	16,760	7,907
In the second year	38,389	17,247	38,389	16,760
In the third to fifth years, inclusive	1,617	39,905	–	38,389
After five years	3,227	3,112	–	–
	154,843	153,552	55,149	63,056
	155,935	153,552	56,241	63,056
Portion classified as current liabilities	(112,702)	(93,288)	(17,852)	(7,907)
Long term portion	43,233	60,264	38,389	55,149

Certain of the Group's bank facilities are secured by:

- (a) the Group's investment properties which had an aggregate carrying value at the balance sheet date of HK\$6,440,000 (2002: HK\$6,840,000);
- (b) the Group's leasehold land and buildings which had an aggregate net book value at the balance sheet date of HK\$50,527,000 (2002: HK\$51,199,000);

# NOTES TO FINANCIAL STATEMENTS

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## 27. BANK LOANS *(continued)*

- (c) the Group's properties held for sale which had an aggregate carrying value at the balance sheet date of HK\$11,527,000 (2002: HK\$11,527,000); and
- (d) the Group's bank deposits at the balance sheet date of HK\$6,865,000 (2002: HK\$9,408,000).

## 28. LONG TERM PAYABLES

	Note	Group	
		2003 HK\$'000	2002 HK\$'000
Amounts payable:			
Within one year		3,691	3,931
In the second year		1,999	2,000
In the third to fifth years, inclusive		—	1,999
		5,690	7,930
Portion classified as current liabilities	26	(3,691)	(3,931)
Long term portion		1,999	3,999

The long term payables represent the amounts payable for the acquisition of a subsidiary in 1995. The amounts are interest-free and are repayable by annual instalments up to the year 2005.

## 29. DEFERRED TAX

The Group has tax losses arising in Hong Kong and Singapore of HK\$112,965,000 (2002: HK\$103,104,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in companies that have been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability to additional tax should such amounts be remitted.



# NOTES TO FINANCIAL STATEMENTS

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## 30. SHARE CAPITAL

### Shares

	Company	
	2003 HK\$'000	2002 HK\$'000
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$1 each	1,000,000	1,000,000
<i>Issued and fully paid:</i>		
493,981,150 (2002: 446,258,750) ordinary shares of HK\$1 each	493,981	446,259

During the year, the movements in share capital were as follows:

- (a) On 6 January 2003, 12,722,400 new shares of HK\$1 each were issued at a price of HK\$1 per share as part of the consideration for the acquisition of Wisdom Elite Holdings Limited (note 16(b)).
- (b) On 30 May 2003, 35,000,000 new shares of HK\$1 each were issued at a price of HK\$1 per share as part of the consideration for the acquisition of Business Net Limited (note 18(a)).

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000
At 1 January 2003	446,258,750	446,259
New issue of shares for the acquisition of subsidiaries	47,722,400	47,722
<b>At 31 December 2003</b>	<b>493,981,150</b>	<b>493,981</b>

The market price of HK\$0.9 per share of the Company's shares on 6 January 2003 and 30 May 2003 was used to determine the fair values of the shares issued as purchase considerations in the above acquisitions. The difference between the par values and the fair values of the shares issued amounting to HK\$4,772,000 was debited to the accumulated losses.

# NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 30. SHARE CAPITAL *(continued)*

### Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 31 to the financial statements.

## 31. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") to give executives and key employees of the Group an interest in preserving and maximising shareholder value in the longer term, to enable the Company and the relevant subsidiaries to attract and retain individuals with experience and ability and to reward individuals for future performance. Eligible participants of the Scheme include the executive directors and employees of the Company or any of its subsidiaries. The Scheme became effective on 18 June 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme is limited to 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date on which the offer of the share options is accepted or on the expiry date of the Scheme, whichever is earlier.

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

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

# NOTES TO FINANCIAL STATEMENTS

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## 31. SHARE OPTION SCHEME *(continued)*

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options			
	At 1 January 2003	Granted during the year	Lapsed during the year	At 31 December 2003
<b>Directors</b>				
Mr. Xiong Da Xin*	(a) 2,800,000	–	(2,800,000)	–
	(b) 1,200,000	–	(1,200,000)	–
	4,000,000	–	(4,000,000)	–
Mr. Ng Kong Fat, Brian	(a) 2,300,000	–	–	<b>2,300,000</b>
	(b) 1,200,000	–	–	<b>1,200,000</b>
	3,500,000	–	–	<b>3,500,000</b>
Mr. E Meng	(a) 1,600,000	–	–	<b>1,600,000</b>
	(b) 1,200,000	–	–	<b>1,200,000</b>
	2,800,000	–	–	<b>2,800,000</b>
Mr. Zhao Jifeng	(c) –	2,800,000	–	<b>2,800,000</b>
Dr. Mao Xiang Dong, Peter	(a) 1,600,000	–	–	<b>1,600,000</b>
	(b) 1,200,000	–	–	<b>1,200,000</b>
	2,800,000	–	–	<b>2,800,000</b>
Other employees	(a) 6,900,000	–	(2,600,000)	<b>4,300,000</b>
	(b) 18,900,000	–	(1,200,000)	<b>17,700,000</b>
	25,800,000	–	(3,800,000)	<b>22,000,000</b>
	38,900,000	2,800,000	(7,800,000)	<b>33,900,000</b>

\* Mr. Xiong Da Xin resigned as a director on 15 October 2003.

# NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 31. SHARE OPTION SCHEME *(continued)*

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### Notes:

- (a) These options were granted on 19 June 2001 at an exercise price of HK\$1.13 per share. The options can be exercised in two or three equal portions. The first portion is exercisable at any time commencing on 1 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 26 June 2006.
- (b) These options were granted on 18 January 2002 at an exercise price of HK\$1.00 per share. The options can be exercised in three equal portions. The first portion is exercisable at any time commencing on 18 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 17 January 2007.
- (c) These options were granted on 2 October 2003 at an exercise price of HK\$1.05 per share. The closing price of the Company's shares on the Stock Exchange on the trading day immediately prior to the date of the grant of the share options was HK\$1.05. The options can be exercised in three equal portions. The first portion is exercisable at any time commencing on 2 October 2003, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 1 October 2008.

No share options were exercised during the year. At the balance sheet date, the Company had 33,900,000 share options outstanding under the Scheme, which represented approximately 6.9% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 33,900,000 additional ordinary shares of the Company and additional share capital of HK\$33,900,000 and share premium of HK\$1,414,000 (before issue expenses).

## 32. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 20 of the financial statements.

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Group's subsidiaries in the PRC has been transferred to PRC reserve funds which are restricted as to use.

# NOTES TO FINANCIAL STATEMENTS

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## 32. RESERVES (continued)

### (b) Company

	<b>Asset revaluation reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2002	35,487	(145,590)	(110,103)
Net profit for the year	–	536	536
Transfer to accumulated losses	(922)	922	–
<b>At 31 December 2002 and beginning of year</b>	<b>34,565</b>	<b>(144,132)</b>	<b>(109,567)</b>
Net profit for the year	–	36,967	36,967
Transfer to accumulated losses	(922)	922	–
Issue of shares in acquisition of subsidiaries	–	(4,772)	(4,772)
<b>At 31 December 2003</b>	<b>33,643</b>	<b>(111,015)</b>	<b>(77,372)</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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### (a) Acquisition of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Interest in a jointly-controlled entity	–	6,868
Fixed assets	–	112
Cash and bank balances	1,887	5,020
Trade receivables	–	24
Inventories	–	2,497
Other receivables, prepayments and deposits	–	2,050
Trade and bills payables	–	(21)
Other payables and accruals	–	(2,872)
Minority interests	(755)	(2,432)
	<b>1,132</b>	11,246
Goodwill/(negative goodwill) on acquisition ( <i>note 14</i> )	<b>29,071</b>	(5,445)
	<b>30,203</b>	5,801
Satisfied by:		
Cash	18,753	5,801
Issue of shares	11,450	–
	<b>30,203</b>	5,801

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2003 HK\$'000	2002 HK\$'000
Cash consideration	(18,753)	(5,801)
Consideration payable in 2004	4,811	–
Cash and bank balances acquired	1,887	5,020
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<b>(12,055)</b>	(781)

# NOTES TO FINANCIAL STATEMENTS

31 December 2003

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## 33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

### (a) Acquisition of subsidiaries *(continued)*

The subsidiaries acquired during the year contributed HK\$34,067,000 to the Group's turnover and HK\$29,682,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2003. The subsidiaries acquired in the prior year contributed HK\$37,906,000 to the Group's turnover and HK\$9,242,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2002.

### (b) Major non-cash transactions

During the year, 12,722,400 shares and 35,000,000 shares of HK\$1 each were issued at a price of HK\$1 per share as part of the consideration for the acquisition of Wisdom Elite Holdings Limited and Business Net Limited, respectively.

## 34. CONTINGENT LIABILITIES

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

	Company	
	2003 HK\$'000	2002 HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	100,190	52,760

At 31 December 2003, the guarantees given to the banks in connection with bank facilities granted to the subsidiaries by the Company were utilised to the extent of approximately HK\$99,694,000 (2002: HK\$43,326,000).

## 35. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties (note 13) and certain properties held for sale (note 22) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits.

# NOTES TO FINANCIAL STATEMENTS

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## 35. OPERATING LEASE ARRANGEMENTS *(continued)*

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### (a) As lessor *(continued)*

At 31 December 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	3,845	4,123
In the second to fifth years, inclusive	3,839	1,899
	<b>7,684</b>	6,022

### (b) As lessee

The Group leases certain of its office properties, restaurant premises and staff quarters under operating lease arrangements. Leases are negotiated for terms ranging from 1 to 10 years. Under certain lease agreements for the restaurant premises, contingent rentals in excess of the minimum lease payments are payable if the turnover of such restaurants reaches a pre-determined level.

At 31 December 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	17,269	16,133	–	60
In the second to fifth years, inclusive	24,442	31,024	–	–
After five years	7,277	13,912	–	–
	<b>48,988</b>	61,069	–	60



# NOTES TO FINANCIAL STATEMENTS

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## 36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35(b) above, the Group's shares of the jointly-controlled entity's own capital commitments were as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Contracted, but not provided for	12,106	–

## 37. PLEDGE OF ASSETS

Details of the Group's borrowings secured by the assets of the Group are set out in note 27 to the financial statements.

Bank deposits of HK\$13,646,000 (2002: HK\$966,000) were pledged as guarantees for tenders and contracts.

## 38. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	Group	
		2003 HK\$'000	2002 HK\$'000
Sales of materials to a company in which a director of the Company has beneficial interests	<i>(i)</i>	749	2,211
Sales of materials to a jointly-controlled entity	<i>(i)</i>	16,990	–
Service income from a fellow subsidiary	<i>(ii)</i>	35,232	28,302
Service income from related companies	<i>(iii)</i>	3,832	–
Service income from a jointly-controlled entity	<i>(iii)</i>	1,887	–

Notes:

- (i) The sales of materials to related parties were priced at the estimated market value.
- (ii) The service fees were charged at the higher of (i) 8-9% of the turnover of the fellow subsidiary; or (ii) certain minimum guaranteed amounts.
- (iii) The service fees were determined with reference to fees charged to third parties.

# NOTES TO FINANCIAL STATEMENTS

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## 39. POST BALANCE SHEET EVENT

On 10 February 2004, the Company (and other vendors) entered into a conditional agreement with Xteam Software International Limited ("Xteam") pursuant to which the Company has agreed to transfer all its interest in its software businesses to Xteam in consideration for the issue of new shares by Xteam to the Company and the other vendors representing, in aggregate, 75% of the enlarged issued share capital of Xteam (on a fully diluted basis). The Xteam shares agreed to be issued to the Company represent approximately 56.29% of the enlarged issued share capital of Xteam (based on the present shareholding structures of the Company and Xteam). The Listing Division of the Stock Exchange has ruled that the transaction constitutes a reverse takeover for Xteam and a spin-off for the Company. The Company and Xteam have applied for such rulings to be reviewed by the Listing Committee of the Stock Exchange. It is uncertain whether the transaction will be able to proceed or not. Any financial effect of the transaction cannot be estimated reliably at present.

## 40. COMPARATIVE AMOUNTS

Trade receivables of HK\$11,659,000 in the balance sheet as at 31 December 2002 have been reclassified from current assets to non-current assets to conform with the current year's presentation. In the opinion of the directors, this classification would better reflect the financial position of the Group.

## 41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 April 2004.