

Notes to the Financial Statements

For the year ended 31 December 2003

1. Basis of Preparation of the Financial Statements

As at 31 December 2003, the Group had capital deficiency of HK\$204,291,000. However the Group had during the year entered into settlement and shares subscription arrangements with various parties. Such arrangements were duly executed subsequent to the balance sheet date (see Note 29). As a result the financial position of the Group has been strengthened. Therefore, the financial statements for the year ended 31 December 2003 are prepared on a going concern basis.

2. Principal Accounting Policies

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets and in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance.

In the current year, the Group has adopted the revised Hong Kong Statements of Standard Accounting Practice No.12 Income Taxes ("SSAP12 (revised)") issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In previous years partial provision was made for deferred tax using income statement liability method, that is, a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. The revised statement requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements, the new accounting policy has been adopted retrospectively, but the adoption of SSAP 12 (revised) has no material effect on the Group's current or prior year's financial statements.

The Group's principal accounting policies are set out below:

- (a) Group accounting
 - (i) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

2. Principal Accounting Policies *(continued)*

(a) Group accounting *(continued)*

(i) Consolidation *(continued)*

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

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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

(ii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement's items are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

Notes to the Financial Statements

For the year ended 31 December 2003

2. Principal Accounting Policies (continued)

(b) Goodwill/negative goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions occurring on or after 1 January 2001 is recognised as an asset and carried at cost less accumulated amortisation and impairment losses. Goodwill is amortised on a straight line basis over its estimated useful life.

Goodwill on acquisition that occurred prior to 1 January 2001 was written off against reserves. Any impairment arising on such goodwill is accounted for in the income statement.

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of the acquired subsidiaries at the date of acquisition over the cost of acquisition.

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

For acquisitions prior to 1 January 2001, negative goodwill was taken directly to reserves on consolidation.

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For the year ended 31 December 2003

2. Principal Accounting Policies (continued)

(c) Fixed assets

(i) Properties under development

Properties under development are investments in land and buildings on which development work has not been completed and which, upon completion, management intend to hold for investment purposes. These properties are carried at cost which includes development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses. On completion, the properties are transferred to investment properties at cost less accumulated impairment losses.

(ii) Other fixed assets

Other fixed assets, comprising leasehold improvements, office equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	over the lease term
Office equipment	20%
Motor vehicles	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iii) Gain or loss on sale

The gain or loss on disposal of a fixed asset other than properties under development is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to accumulated losses and is shown as a movement in reserves.

Notes to the Financial Statements

For the year ended 31 December 2003

2. Principal Accounting Policies (continued)

(d) Investment securities

Investment securities, which are securities held for an identified long-term strategic purpose, are stated at cost less impairment losses, if any. The carrying amounts of individual investment securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment security is reduced to its fair value. The impairment loss is recognised as an expense in the income statement.

Profits or losses on disposals of investment securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(e) Properties held for resale

Properties held for resale transferred from fixed assets to current assets are stated at the lower of the carrying value of the asset, as stated under its original classification, and net realisable value. Net realisable value is determined by reference to management's estimate of the selling price based on the prevailing market conditions, less any material estimated costs to be incurred on disposal.

(f) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the Financial Statements

For the year ended 31 December 2003

2. Principal Accounting Policies (continued)

(g) 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.

(h) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual 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.

(j) Mandatory Provident Fund

The Group contributes to Mandatory Provident Fund Scheme ("MPF Scheme") which is available to all employees. Contributions to the MPF Scheme by the Group and employees are calculated as a percentage of employees' basic salaries. Payments made to the MPF Scheme are charged as an expense to the income statement as they fall due.

The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

Notes to the Financial Statements

For the year ended 31 December 2003

2. Principal Accounting Policies (continued)

(k) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(n) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2. Principal Accounting Policies (continued)

(o) Revenue recognition

Revenue is recognised in the income statement as follows:

- (i) Rental income is recognised on a time proportion basis in accordance with the terms and conditions of the tenancy agreement.
- (ii) Income on property sales is recognised when the legally binding sales contracts are signed.
- (iii) Interest income from bank deposits is accrued on a time proportion basis on the principal outstanding and at the effective interest rates applicable.

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

(q) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Notes to the Financial Statements

For the year ended 31 December 2003

3. Turnover and Revenue

The principal activity of the Company during the year was investment holding. The principal activities of the subsidiaries during the year are set out in Note 15 to the financial statements.

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

	2003 HK\$'000	2002 HK\$'000
Turnover		
Proceeds on disposal of properties	8,400	148,030
Rental income	1,257	4,760
	9,657	152,790
Other revenue		
Interest income	-	1
Other income	-	250
	-	251
Total revenue	9,657	153,041

4. Segmental Information

No segment information is presented as substantially all the Group's turnover and contribution to operating results were derived from properties investment in Hong Kong.

Notes to the Financial Statements

For the year ended 31 December 2003

5. Operating Loss before Provisions and Other Losses and Gains

	2003 HK\$'000	2002 HK\$'000
Operating loss before provisions and other losses and gains is stated after crediting and charging the following:		
<u>Crediting</u>		
Rentals receivable from properties less outgoings of HK\$818,000 (2002: HK\$1,354,000)	355	3,343
<u>Charging</u>		
Auditors' remuneration	450	450
Depreciation on owned fixed assets	251	633
Fixed assets written off	-	1,621
Net loss on disposal of fixed assets	101	81
	101	1,702
Operating lease on land and buildings	321	1,776
Staff costs (excluding directors' emoluments)	843	994

6. Finance Costs

	2003 HK\$'000	2002 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years (Note)	25,487	22,858
Interest on other loans wholly repayables within five years	901	1,727
Debenture		
– Interest and late penalties	-	1,341
– Compensation agreed on settlement	-	14,647
Interest on loan notes	2,032	1,025
	28,420	41,598

Note: Included in interest on bank loans and overdrafts wholly repayable within five years was an amount of HK\$6,346,000 (2002: HK\$2,343,000) which related to bank overdrafts borrowed through a third party.

Notes to the Financial Statements

For the year ended 31 December 2003

7. Taxation

(a) Taxation in the consolidated income statement represents:

	2003 HK\$'000	2002 HK\$'000
Hong Kong profits tax		
– Over provision in prior years	560	3

No provision for Hong Kong nor overseas profits tax is required for current year since each individual company sustained losses for taxation purposes.

(b) At the balance sheet date the Group and the Company has unused tax losses of HK\$9,211,000 (2002: HK\$9,111,000) and HK\$6,574,000 (2002: HK\$5,691,000) respectively available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

8. Loss Attributable to Shareholders

The loss attributable to shareholders includes a loss of HK\$13,049,000 (2002: HK\$142,752,000) which has been dealt with in the financial statements of the Company.

9. Loss per Share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$36,162,000 (2002: HK\$261,984,000) and the weighted average of 335,175,562 (2002: 299,313,502) ordinary shares in issue during the year.

There were no dilutive potential ordinary shares in existence in both 2003 and 2002.

Notes to the Financial Statements

For the year ended 31 December 2003

10. Staff Costs (including directors' emoluments)

	2003 HK\$'000	2002 HK\$'000
Wages and salaries	3,527	4,453
Unutilised annual leave	-	-
MPF contributions	65	92
	<u>3,592</u>	<u>4,545</u>

11. Mandatory Provident Fund

The Group did not operate any retirement scheme up to 30 November 2000. With effect from 1 December 2000, MPF Scheme has been set up for employees, including executive directors of the Company, in Hong Kong, in accordance with the Mandatory Provident Scheme Ordinance (the "MPF Ordinance"). Under the MPF Scheme, the Group's contributions are at 5% of employees' relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme from 31 December 2000. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group's contributions to the MPF Scheme charged to the income statement during the year amounted to approximately HK\$65,000 (2002: HK\$92,000).

12. Directors' Emoluments

Details of directors' emoluments disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

	2003 HK\$'000	2002 HK\$'000
Fees	320	422
Basic salaries, allowances and benefits in kind	2,400	3,080
MPF contributions	29	49
	<u>2,749</u>	<u>3,551</u>

Included in the directors' emoluments were HK\$273,000 (2002: HK\$284,000) and HK\$Nil (2002: HK\$100,000) paid to independent non-executive and non-executive directors respectively during the year.

Notes to the Financial Statements

For the year ended 31 December 2003

12. Directors' Emoluments (continued)

The emoluments of the directors fell within the following bands:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	6	8
HK\$1,000,001 to HK\$1,500,000	1	1
	<u>7</u>	<u>9</u>

There were no director waived emoluments in both 2003 and 2002.

No emoluments were paid or payable by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office during the year.

13. Five Highest Paid Individuals

Of the five individuals with the highest emoluments within the Group for the year, 2 (2002: 4) are directors whose emoluments are disclosed in Note 12. The emoluments in respect of the remaining individuals during the year are as follows:

	2003 HK\$'000		2002 HK\$'000	
Basic salaries, allowances and benefits in kind	552		216	
MPF contributions	28		11	
	<u>580</u>		<u>227</u>	

No emoluments were paid or payable to the individuals by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office during the year.

The emoluments of the five highest paid individuals (including directors and other employees) fell within the following bands:

	Number of individuals	
	2003	2002
Nil to HK\$1,000,000	4	4
HK\$1,000,001 to HK\$1,500,000	1	1
	<u>5</u>	<u>5</u>

Notes to the Financial Statements

For the year ended 31 December 2003

14. Fixed Assets

	The Group				
	Properties under development	Leasehold improvements	Office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:					
At 1 January 2003	–	128	556	1,065	1,749
Additions	–	–	6	–	6
Acquisition of a subsidiary	5,556	–	–	–	5,556
Disposals	–	–	(461)	(1,065)	(1,526)
	<u>–</u>	<u>–</u>	<u>(461)</u>	<u>(1,065)</u>	<u>(1,526)</u>
At 31 December 2003	<u>5,556</u>	<u>128</u>	<u>101</u>	<u>–</u>	<u>5,785</u>
Accumulated depreciation:					
At 1 January 2003	–	10	235	515	760
Charge for the year	–	26	46	179	251
Disposals	–	–	(235)	(694)	(929)
	<u>–</u>	<u>–</u>	<u>(235)</u>	<u>(694)</u>	<u>(929)</u>
At 31 December 2003	<u>–</u>	<u>36</u>	<u>46</u>	<u>–</u>	<u>82</u>
Net book value:					
At 31 December 2003	<u>5,556</u>	<u>92</u>	<u>55</u>	<u>–</u>	<u>5,703</u>
At 31 December 2002	<u>–</u>	<u>118</u>	<u>321</u>	<u>550</u>	<u>989</u>

Notes to the Financial Statements

For the year ended 31 December 2003

14. Fixed Assets (continued)

	Leasehold improvements HK\$'000	The Company Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At 1 January 2003	128	391	1,065	1,584
Additions	–	6	–	6
Disposals	–	(296)	(1,065)	(1,361)
	<u>128</u>	<u>101</u>	<u>–</u>	<u>229</u>
At 31 December 2003	<u>128</u>	<u>101</u>	<u>–</u>	<u>229</u>
Accumulated depreciation:				
At 1 January 2003	10	70	515	595
Charge for the year	26	46	179	251
Disposals	–	(70)	(694)	(764)
	<u>36</u>	<u>46</u>	<u>–</u>	<u>82</u>
At 31 December 2003	<u>36</u>	<u>46</u>	<u>–</u>	<u>82</u>
Net book value:				
At 31 December 2003	<u>92</u>	<u>55</u>	<u>–</u>	<u>147</u>
At 31 December 2002	<u>118</u>	<u>321</u>	<u>550</u>	<u>989</u>

Notes to the Financial Statements

For the year ended 31 December 2003

15. Investments in Subsidiaries

	The Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted, at cost	12,738	24,194
Loans to subsidiaries	952,786	976,810
Less: Impairment losses	965,524 (965,524)	1,001,004 (1,000,773)
	-	231

The loans to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Details of subsidiaries which, in the opinion of the directors of the Company, materially contributed to the results of the Group or held a material portion of assets or liabilities of the Group are set out below. To give full details of subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

Name of company	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held
Direct subsidiaries				
Day Success Company Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of HK\$1 each	100%
Diamond Gold Limited	British Virgin Islands	Dormant	1 ordinary share of US\$1 each	100%
Kong Tai Properties Development Company Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of HK\$1 each	100%
Marson Development Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of HK\$1 each	100%

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15. Investments in Subsidiaries (continued)

Name of company	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held
Pak Fook Company Limited	Hong Kong	Dormant	2 ordinary shares of HK\$1 each	100%
Sheen Win Investment Limited	Hong Kong	Provision of funding for the Group in Hong Kong	2 ordinary shares of HK\$1 each	100%
Solar Regent Investments Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of HK\$1 each	100%
Teleking Development Limited	Hong Kong	Dormant	2 ordinary shares of HK\$1 each	100%
Wholesome Investments Limited	Hong Kong	Dormant	2 ordinary shares of HK\$1 each	100%
Wiseshall Star Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK\$1 each	100%
Indirect subsidiary				
Henrich Development Limited	Hong Kong	Property development in Hong Kong	10,000 ordinary shares of HK\$1 each	95%

None of the subsidiaries has issued any debt securities.

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16. Investment Securities

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Club debentures	997	997

17. Properties under Development for Resale

	The Group	
	2003	2002
	HK\$'000	HK\$'000
At 1 January	11,000	97,500
Disposals	(11,000)	(80,000)
Write down	-	(6,500)
At 31 December	-	11,000

An analysis of the carrying value of the properties under development for resale is as follows:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	-	11,000

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18. Properties Held for Resale

	The Group	
	2003 HK\$'000	2002 HK\$'000
At 1 January	32,500	73,015
Transfer from fixed assets	-	120,000
Disposals	(1,400)	(139,015)
Write down	-	(21,500)
At 31 December	<u>31,100</u>	<u>32,500</u>

An analysis of the carrying value of properties held for resale is as follows:

	The Group	
	2003 HK\$'000	2002 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	22,600	24,000
Leases of between 10 to 50 years	8,500	8,500
	<u>31,100</u>	<u>32,500</u>

At 31 December 2003, the carrying value of properties held for resale that was carried at net realisable value amounted to HK\$31,100,000 (2002: HK\$32,500,000).

At 31 December 2003, the properties held for resale with carrying value of HK\$31,100,000 (2002: HK\$32,500,000) were pledged to banks for banking facilities granted to the Group (Note 21(a) and Note 22(a)).

Subsequent to the balance sheet date, one of the above mentioned properties with carrying value of HK\$10,600,000 was surrendered to a bank as part of the consideration of a loans settlement agreement (Please see Notes 21(a) and 29(d) for details).

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19. Trade and Other Receivables

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade receivables (Note)	22	162	22	26
Other receivables	17,095	19,858	79	3,822
Less: provision for doubtful debts	(17,006)	-	-	-
	89	19,858	79	3,822
Prepayments and deposits	735	667	352	142
	846	20,687	453	3,990

Note: The majority of the Group's turnover is the proceeds received on disposal of properties which are in accordance with the terms and conditions of the agreements. The remaining portion of turnover is rental income. The payment terms of rental income are in accordance with the tenancy agreements and the payments are normally due on the first day of the month. At 31 December 2003, the ageing analysis of the trade receivables was as follows:

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Current – 60 days	-	135	-	-
61 – 90 days	-	-	-	-
Over 90 days	22	27	22	26
	22	162	22	26

20. Trade and Other Payables

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade payables (Note (a))	1,860	1,388	-	-
Other payables and accruals (Note (b))	8,319	14,927	8,704	10,127
Rental deposits received	280	875	-	-
Due to subsidiaries (Note (c))	-	-	20,301	22,135
Due to directors (Note (d))	3,630	2,762	3,630	2,762
	14,089	19,952	32,635	35,024

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20. Trade and Other Payables (continued)

Notes:

(a) At 31 December 2003, the ageing analysis of the trade payables was as follows:

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Current – 60 days	266	142	-	-
61 – 90 days	26	45	-	-
Over 90 days	1,568	1,201	-	-
	1,860	1,388	-	-

(b) Included in other payables and accruals as at 31 December 2002 was a provision in the amount of HK\$3,074,000 for alleged claims of service fees regarding certain past directors and a consultant. After detail review of the matter and obtaining independent legal advice on the merits of such claims, the Board considers that the related liabilities were very remote and would not be crystallized. Accordingly, the provision was written back in the year ended 31 December 2003

(c) The amounts due to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(d) The amounts due to directors are unsecured, interest free and have no fixed terms of repayment.

21. Short Term Borrowings

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank overdrafts (Note (a))	130,378	118,025	34,580	35,023
Other loans, secured (Note (b))	10,500	10,222	10,500	10,222
Other loans, unsecured (Note (c))	10,529	-	5,001	-
Loan from a director (Note (d))	7,000	5,289	7,000	5,289
Loan notes (Note (e))	17,057	16,025	17,057	16,025
	175,464	149,561	74,138	66,559

Notes to the Financial Statements

For the year ended 31 December 2003

21. Short Term Borrowings (continued)

Notes:

- (a) (i) Included in bank overdrafts is accrued interest of HK\$43,124,000 (2002: HK\$22,532,000).
- (ii) The bank overdrafts include a sum of HK\$33,862,000 (2002: HK\$34,392,000) which was borrowed through a third party.
- (iii) Bank overdrafts to the extent of HK\$23,353,000 (2002: HK\$20,936,000) are secured by properties held for resale with carrying value of HK\$10,600,000 (2002: HK\$12,000,000) and are guaranteed by a third party. Bank overdrafts to the extent of HK\$72,445,000 (2002: HK\$62,065,000) are guaranteed by the same third party. The remaining bank overdrafts of HK\$718,000 (2002: HK\$632,000) is unsecured.
- (iv) On 31 December 2003, the Group entered into a settlement agreement with a bank regarding the bank overdrafts of HK\$130,378,000 and loans of HK\$35,238,000 (Note 22(b)). The principal terms of settlement are as follows:
- (1) cash payment of HK\$18 million ("Settlement Sum") on or before 31 March 2004;
 - (2) the delivery of possession of a mortgaged property with carrying value of HK\$10,600,000 (Note 18);
 - (3) filing of a winding-up petition against a subsidiary within 3 months from the date of settlement agreement and obtaining a winding-up order within 12 months from the filing of the winding-up petition.
 - (4) the delivery of 60% of any future recovery, if any, on six existing projects of the Group after deducting all reasonable actual expenses incurred for the recovery.

By 31 March 2004, the group fully settled the Settlement Sum, delivered the mortgaged property and filed a winding-up petition against the subsidiary. The guarantees referred to in note (a)(iii) were discharged by the bank. Pursuant to the terms of the settlement agreement, that part of the bank overdrafts and loans which has not been and will not be repaid in full by the Settlement Sum referred to in (1) above, the proceeds recoverable from the property and the project receivables are deemed to be fully repaid. Upon commencement of the winding up procedures of the subsidiary, all its outstanding loans are excluded from the Group, no further consent from the bank will be required and no member of the Group will be liable to the bank for such loans.

Notes to the Financial Statements

For the year ended 31 December 2003

21. Short Term Borrowings (continued)

Notes: (continued)

- (b) Subsequent to the balance sheet date, a sum of HK\$10,000,000 was capitalised into 100,000,000 shares of HK\$0.1 each (Note 29(b)).
- (c) Unsecured other loan to the extent of HK\$5,528,000 is interest free and repayable on or before 31 October 2005.

The balance of HK\$5,000,000 bears interest of 10% per annum and is repayable on demand. In consideration of the loan, the lender ("Lender") was granted an option to enter into a subscription agreement with the Company. Subsequent to the balance sheet date, this loan was discharged upon the execution of the subscription agreement (Please see Note 29(a) for details).

- (d) The loan from a director is unsecured, interest free and has no fixed terms of repayment.

Subsequent to the balance sheet date, the loan was capitalised into 70,000,000 shares of HK\$0.1 each (Note 29(b)).

- (e) Included in loan notes (the "Notes") is accrued interest of HK\$2,057,000 (2002: HK\$1,025,000).

Subsequent to the balance sheet date, the Notes to the extent of HK\$17,000,000 were capitalised into 170,000,000 shares of HK\$0.1 each (Note 29(b)).

22. Long Term Borrowings

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans, secured (Note (a))	19,789	21,358	-	-
Bank loans (Note (b))	35,238	46,967	-	-
Other loan, secured	-	594	-	594
	55,027	68,919	-	594
Current portion of long term borrowings	(55,027)	(68,590)	-	(265)
	-	329	-	329

Notes to the Financial Statements

For the year ended 31 December 2003

22. Long Term Borrowings (continued)

Notes:

- (a) Included in secured bank loans is accrued interest of HK\$4,154,000 (2002: HK\$2,373,000).

The loans are secured by two properties held for resale with carrying value of HK\$20,500,000 (2002: HK\$20,500,000).

Subsequent to the balance sheet date, the Group paid a sum of HK\$12,500,000 to a bank as full settlement of the secured bank loans of HK\$19,789,000 pursuant to the terms of the deed of settlements.

- (b) Included in bank loans is accrued interest of HK\$18,538,000 (2002: HK\$20,381,000). Bank loans to the extent of HK\$11,072,000 (2002: HK\$24,605,000) are guaranteed by a third party (Please see Note 21(a)(iv) regarding settlement arrangement of the bank loans.)

The long term borrowings are repayable as follows:

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
On demand or within one year	55,027	68,590	-	265
In the second year	-	302	-	302
In the third to fifth year	-	27	-	27
	<u>55,027</u>	<u>68,919</u>	<u>-</u>	<u>594</u>

23. Debentures Payable

	The Group and The Company	
	2003 HK\$'000	2002 HK\$'000
Debentures payable	-	2,047

The Company has fully repaid the outstanding amount during the year.

Notes to the Financial Statements

For the year ended 31 December 2003

24. Share Capital

	Note	No. of shares '000	HK\$'000
Authorised:			
Ordinary shares of HK\$0.10 (2002: HK\$0.10) each			
At 1 January 2002		64,000,000	1,600,000
Reduction in par value	(b)(i)	–	(1,536,000)
Increase in share capital	(b)(i)	1,536,000,000	1,536,000
Consolidation of shares	(c)	<u>(1,584,000,000)</u>	<u>–</u>
At 31 December 2002 and 2003		<u>16,000,000</u>	<u>1,600,000</u>
Issued and fully paid:			
Ordinary shares of HK\$0.10 (2002: HK\$0.10) each			
At 1 January 2002		28,914,137	722,853
Issue of shares	(a)	1,365,000	34,125
Reduction in par value	(b)(ii)	–	(726,699)
Consolidation of shares	(c)	(29,976,407)	–
Exercise of share options	(d)	<u>62</u>	<u>–</u>
At 31 December 2002		302,792	30,279
Issue of shares	(e)	<u>60,000</u>	<u>6,000</u>
At 31 December 2003		<u>362,792</u>	<u>36,279</u>

24. Share Capital (continued)

During the last and current years, the following transactions in respect of the share capital of the Company took place:

- (a) On 4 April 2002, 1,365,000,000 ordinary shares of HK\$0.025 each were issued at par to the debenture holder.
- (b) On 22 July 2002, a special resolution was passed at an extraordinary general meeting to:
 - (i) reduce the nominal value of the authorised share capital of the Company from HK\$0.025 to HK\$0.001 per share such that the authorised share capital is reduced from HK\$1,600,000,000 to HK\$64,000,000.

Upon the reduction of capital taking effect, the authorised share capital of the Company was increased to HK\$1,600,000,000 by the creation of an additional 1,536,000,000,000 shares of HK\$0.001 each.

- (ii) reduce the issued share capital of the Company from HK\$756,978,000 to HK\$30,279,000 by cancelling the paid-up capital to the extent of HK\$0.024 on each share of HK\$0.025 in issue such that the nominal value of all shares of HK\$0.025 in the Company in issue was reduced by HK\$0.024 to HK\$0.001 per share.

The credit of HK\$726,699,000 arising from the capital reduction has been transferred to the Company's special capital reserve in accordance with the direction of the High Court of Hong Kong SAR (Note 25).

Notes to the Financial Statements

For the year ended 31 December 2003

24. Share Capital (continued)

- (c) By an ordinary resolution passed on 22 July 2002, the 1,600,000,000,000 shares of HK\$0.001 each in the authorised share capital of the Company was consolidated into 16,000,000,000 shares of HK\$0.10 each by the consolidation of every one hundred shares of HK\$0.001 each into one consolidated share of HK\$0.10 each following the capital reduction mentioned in note (b)(i) above became effective.

The issued share capital of the Company was also consolidated into 302,792,000 shares of HK\$0.10 each.

The special resolution in respect of the capital reduction (Note 24(b)) was approved by the High Court of Hong Kong SAR on 20 November 2002 and duly registered by the Companies Registry on 21 November 2002. The resolution of share consolidation also took effect on 21 November 2002.

- (d) Options exercised on 21 November 2002, resulted in 62,237 shares being issued at HK\$0.025 each.
- (e) On 10 June 2003, the Company entered into subscription agreements with 5 subscribers for the subscription of a total of 60,000,000 subscription shares at HK\$0.10 per share. The subscription shares were allotted on 18 June 2003. The net proceeds were used to repay the Group's outstanding borrowings and as general working capital.
- (f) No options to subscribe for shares of the Company have been granted, exercised, lapsed or cancelled during the year. At 31 December 2003, no share options were outstanding.

Notes to the Financial Statements

For the year ended 31 December 2003

25. Reserves

(a)

	The Group				
	Share premium HK\$'000	Special capital reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	318,399	-	178	(987,390)	(668,813)
Issue of shares upon exercise					
of share options	2	-	-	-	2
Loss for the year	-	-	-	(261,984)	(261,984)
Reduction in par value					
of share capital	-	726,699	-	-	726,699
	<u>318,401</u>	<u>726,699</u>	<u>178</u>	<u>(1,249,374)</u>	<u>(204,096)</u>
At 31 December 2002	<u>318,401</u>	<u>726,699</u>	<u>178</u>	<u>(1,249,374)</u>	<u>(204,096)</u>
At 1 January 2003	318,401	726,699	178	(1,249,374)	(204,096)
Issue of shares	(134)	-	-	-	(134)
Reversal of exchange reserve					
as a result of deconsolidation					
of subsidiaries	-	-	(178)	-	(178)
Loss for the year	-	-	-	(36,162)	(36,162)
	<u>318,267</u>	<u>726,699</u>	<u>-</u>	<u>(1,285,536)</u>	<u>(240,570)</u>
At 31 December 2003	<u>318,267</u>	<u>726,699</u>	<u>-</u>	<u>(1,285,536)</u>	<u>(240,570)</u>

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

The application of the special capital reserve is subject to the court order granted by the High Court of Hong Kong SAR. Pursuant to the High Court Order dated 20 November 2002, as long as the Company shall remain a listed company, the balances shall be treated as an undistributable reserve of the Company for the purposes of Section 79C of the Companies Ordinance (Cap. 32) or any statutory re-enactment or modification thereof provided that (1) the Company shall be at liberty to apply the said special capital reserve for the same purposes as a share premium account may be applied; and (2) the amount standing to the credit of the special capital reserve may be reduced by the amount of any increase, after the effective date, in the paid up share capital or the amount standing to the credit of the share premium account of the Company as the result of the payment up of shares by the receipt of new consideration or the capitalisation of distributable profits.

Notes to the Financial Statements

For the year ended 31 December 2003

25. Reserves (continued)

(b)

	Share premium HK\$'000	The Company Special capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	318,399	–	(1,031,615)	(713,216)
Issue of shares upon exercise of share options	2	–	–	2
Loss for the year	–	–	(142,752)	(142,752)
Reduction in par value of share capital	–	726,699	–	726,699
	<u>318,401</u>	<u>726,699</u>	<u>(1,174,367)</u>	<u>(129,267)</u>
At 31 December 2002	<u>318,401</u>	<u>726,699</u>	<u>(1,174,367)</u>	<u>(129,267)</u>
At 1 January 2003	318,401	726,699	(1,174,367)	(129,267)
Issue of shares	(134)	–	–	(134)
Loss for the year	–	–	(13,049)	(13,049)
	<u>318,267</u>	<u>726,699</u>	<u>(1,187,416)</u>	<u>(142,450)</u>
At 31 December 2003	<u>318,267</u>	<u>726,699</u>	<u>(1,187,416)</u>	<u>(142,450)</u>

At 31 December 2003 the aggregate amount of reserves available for distribution to shareholders of the Company was HK\$Nil (2002: HK\$Nil)

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

The application of the special capital reserve is subject to the court order granted by the High Court of Hong Kong SAR (Details please refer to Note 25(a)).

Notes to the Financial Statements

For the year ended 31 December 2003

26. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of loss before taxation to net cash from/(used in) operating activities

	2003	2002
	HK\$'000	HK\$'000
Loss before taxation	(36,722)	(261,987)
Adjustments for:		
Finance costs	28,420	41,598
Interest income	-	(1)
Depreciation	251	633
Impairment losses on goodwill	367	-
Net loss on disposal/written off of fixed assets	101	1,702
Bad and doubtful debts	17,006	-
Gain on deconsolidation of subsidiaries	(16,551)	-
Gain on disposal of subsidiaries	-	(3,100)
Investment securities written off	-	110,000
Write back of other payables	(3,074)	-
Operating loss before working capital changes	(10,202)	(111,155)
Decrease in properties held for resale	1,400	160,515
Decrease in properties under development for resale	11,000	86,500
Decrease in trade and other receivables	2,652	6,576
Increase/(decrease) in trade and other payables	1,218	(47,335)
Cash generated from operations	6,068	95,101
Interest paid	(1,466)	(4,815)
Hong Kong profits tax refunded	560	3
Net cash from operating activities	5,162	90,289

Notes to the Financial Statements

For the year ended 31 December 2003

26. Notes to the Consolidated Cash Flow Statement (continued)

(b) Purchase of a subsidiary

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Properties under development	5,556	–
Bank and cash balances	1	–
Trade and other payables	(350)	–
Other loans	(5,528)	–
	(321)	–
Goodwill	367	–
	46	–

(c) Analysis of net outflow of cash and cash equivalents in respect of the purchase of a subsidiary

	2003 HK\$'000	2002 HK\$'000
Cash consideration	10	–
Acquisition expenses	36	–
Bank and cash balances acquired	(1)	–
Net outflow of cash and cash equivalents in respect of the purchase of a subsidiary	45	–

Notes to the Financial Statements

For the year ended 31 December 2003

26. Notes to the Consolidated Cash Flow Statement (continued)

(d) Deconsolidation/disposal of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Investment securities	-	59,638
Impairment loss on investment securities	-	(59,638)
Trade and other receivables	183	-
Trade and other payables	(4,279)	-
Bank loan	(12,277)	-
Exchange reserve	(178)	-
	(16,551)	-
Net gain on deconsolidation/disposal	16,551	3,100
	-	3,100
Satisfied by:		
Cash consideration	-	3,100

(e) Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Cash consideration and net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	-	3,100

Notes to the Financial Statements

For the year ended 31 December 2003

26. Notes to the Consolidated Cash Flow Statement (continued)

(f) Analysis of changes in financing during the year

	Share capital and share premium HK\$'000	Bank loans HK\$'000	Other loans HK\$'000	Loan from a director HK\$'000	Loan notes HK\$'000	Debentures HK\$'000
At 1 January 2002	1,041,252	157,614	14,443	4,805	-	27,105
Issue of shares	34,127	-	-	-	-	-
Reduction in par value	(726,699)	-	-	-	-	-
New loans raised	-	-	25,000	484	15,000	-
Transfer (to)/from other payables and accruals	-	-	(706)	-	-	782
Repayment of loans/interest	-	(100,585)	(29,648)	-	-	-
Penalty accrued for debentures	-	-	-	-	-	1,341
Interest for the year	-	11,296	1,727	-	1,025	-
Compensation agreed on settlement of debentures	-	-	-	-	-	14,647
Settlement of debentures	-	-	-	-	-	(41,828)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	348,680	68,325	10,816	5,289	16,025	2,047
Issue of shares	5,866	-	-	-	-	-
New loans raised	-	-	6,000	1,711	-	-
Interest for the year	-	5,129	901	-	2,032	-
Additions through acquisition of a subsidiary	-	-	5,528	-	-	-
Discharge of bank loan on deconsolidation of a subsidiary	-	(12,277)	-	-	-	-
Transfer to other payables and accruals	-	-	(156)	-	-	-
Repayment of loans/debentures	-	(6,150)	(1,594)	-	-	(2,047)
Interest paid	-	-	(466)	-	(1,000)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	<u>354,546</u>	<u>55,027</u>	<u>21,029</u>	<u>7,000</u>	<u>17,057</u>	<u>-</u>

Notes to the Financial Statements

For the year ended 31 December 2003

27. Commitments under Operating Leases

At 31 December 2003, the future aggregate minimum lease payments under non-cancellable operating leases of the Company and the Group are as follows:

Operating leases payable for the office premises

	The Group and The Company	
	2003 HK\$'000	2002 HK\$'000
Within one year	149	210
In the second to fifth years inclusive	-	123
	149	333

28. Future Operating Lease Arrangements

At 31 December 2003, the future aggregate minimum lease receipts under non-cancellable operating leases are as follows:

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	1,487	1,757	-	202
In the second to fifth years inclusive	1,080	2,534	-	-
	2,567	4,291	-	202

Notes to the Financial Statements

For the year ended 31 December 2003

29. Events after the Balance Sheet Date

- (a) On 12 January 2004, the Lender of a loan of HK\$5,000,000 referred to in Note 21(c) executed the subscription agreement, and subscribed for 500,000,000 shares of the Company at HK\$0.10 each. The subscription shares were subsequently issued together with 1,500,000,000 bonus shares on the basis of three bonus shares for each share subscribed by the Lender. The aforesaid loan of HK\$5,000,000 was discharged as a deposit for the subscription agreement. The remaining HK\$45,000,000 was paid to the Company on 12 March 2004.
- (b) On 10 January 2004 and 13 January 2004, the Company entered into four loan capitalisation agreements with four of its creditors in respect of a total outstanding loan amount of HK\$34,000,000 (Notes 21(b), (d) and (e)). Pursuant to the loan capitalisation agreements, 340,000,000 shares of the Company at HK\$0.10 each were issued to the creditors. The capitalisation shares were issued together with 1,020,000,000 bonus shares on the basis of three bonus shares for each share subscribed by the creditors.
- (c) On 27 February 2004, the Group paid HK\$12,500,000 to a bank to settle the outstanding indebtedness of HK\$19,789,000 (Note 22(a)).
- (d) On 19 March 2004, the Group paid HK\$18,000,000, delivered the possession of a mortgaged property with carrying value of HK\$10,600,000 to a bank and filed a winding-up petition against one of its subsidiaries as part of the loans settlement arrangements to settle the outstanding indebtedness of HK\$165,616,000 with the bank (Notes 21(a)(iv) and 22(b)).

30. Comparative Figures

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