1. CORPORATE INFORMATION

The Company is a public company incorporated in Hong Kong with limited liability and the shares of which are listed on The Stock Exchange of Hong Kong Limited.

The Company acts as an investment holding company and provides corporate management services. The principal activities and other particulars of its principal subsidiaries are set out in note 15.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong, the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

A summary of the significant accounting policies followed by the Group in the preparation of the financial statements is set out below:

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the marking to market of certain investments in securities as explained in the accounting policies set out below.

(b) Basis of consolidation

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of 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 significant 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 and exchange difference which was not previously charged or recognised in the consolidated income statement.

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

(c) Investments in subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from their activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Interests in associates

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates and the goodwill (net of accumulated amortisation) on acquisition, less any identified impairment loss.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Interests in associates *(Continued)*

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

(e) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's share of the fair value of the identifiable assets and liabilities of the acquired subsidiaries and associates at the dates of acquisition.

Goodwill arising on acquisitions is capitalised and amortised on a straight-line basis over its estimated useful life.

Goodwill arising on the acquisition of associates is stated at cost less any accumulated amortisation and any impairment losses, and is included the carrying amount of the interests in associates. Goodwill arising on the acquisition of consolidated subsidiaries is stated at cost less any accumulated amortisation and any impairment losses, and is presented separately in the consolidated balance sheet.

On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill is included in the calculation of the profit or loss on disposal.

(f) Investments

Guaranteed income investments are accounted for as investments where the return therefrom is fixed. Such investments are initially recorded at cost less amortisation and impairment losses recognised.

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

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

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

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Investments *(Continued)*

Profits or losses on disposal of investments 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.

(g) Property, plant and equipment

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

The cost of leasehold land is depreciated over the period of the lease using the straight-line method. Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	2%
Furniture, fixtures and equipment	20% – 33%
Motor vehicles	20%

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.

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

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Income tax

The charge for taxation in the income statement for the year comprises current and deferred tax.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Initial recognition of assets or liabilities that affect neither accounting nor taxable profit is regarded as a temporary difference which is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be used. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) Revenue recognition

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

i. Sales of goods are recognised when goods are delivered and title has passed.

ii. Service income is recognised when services are provided.

iii. Guaranteed return is accrued on a time basis and is recognised when the guaranteed return becomes due and recoverability is reasonably assured.

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

v. Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

vi Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Translation of foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the exchanges rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

(l) Assets held under leases

i. Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The finance charges are charged to the income statement over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives and the lease periods.

ii. Operating leases

Leases where substantially all the risks and rewards of ownership of asset remain with the leasing company are accounted for as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(n) Impairment

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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.

(o) Employee benefits

i. Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii. The Group has participated in an approved Mandatory Provident Fund ("MPF") scheme effective from 1 December 2000 to provide MPF scheme to all eligible employees in Hong Kong. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution limited to 5% of HK$20,000 for each eligible employee) as calculated under the MPF legislation. Contributions to MPF scheme are recognised as an expense in the income statement as incurred. There were no forfeited contributions used to reduce future contributions as at 31 December 2003.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits *(Continued)*

iii. Employees in the Group's subsidiaries in the PRC are required to participate in defined contribution retirement scheme operated by relevant government authorities. The PRC subsidiaries are required to contribute a certain percentage of the employee payroll to the scheme in accordance with the relevant regulations in the PRC and such contributions are charged to the income statement as incurred. There were no forfeited contributions used to reduce future contributions as at 31 December 2003.

iv. When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

v. Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) Cash and cash equivalents

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

(q) 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.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) 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, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(s) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only 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, it 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 future events not wholly within the control of the Group. A contingent asset is not recognised but is 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.

(t) Related party transactions

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. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(u) Segment reporting

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Segment reporting *(Continued)*

In accordance with the Group's internal financial reporting, the Group has determined that business segment information be presented as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

Segment revenues, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenues, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

3. TURNOVER

Turnover represents the amount received and receivable for goods sold to outside customers, less returns and allowances, service income and guaranteed return for the year, and is analysed as follows:

	2003 HK$'000	2002 HK$'000
Continuing operations:		
Sale of computer hardware and maintenance support services	**91,264**	–
Software design and development	**732**	1,250
Return from a power plant in the PRC *(note)*	**–**	–
Return from an investment in a motor spare parts business in the PRC *(note)*	**–**	–
	91,996	1,250
Discontinuing operation:		
Internet software services	**–**	356
	91,996	1,606

Note:

No return has been recognised in the current and prior years as the recoverability of the guaranteed return is considered by the directors to be uncertain.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four operating divisions: (i) computer hardware and provision of maintenance support services; (ii) provision of software design and development; (iii) power plant; and (iv) motor spare parts business. These divisions are the bases on which the Group reports its primary segment information.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

The principal activities of the divisions are as follows:

Computer hardware and maintenance support services	–	Sale of computer hardware and provision of maintenance support services
Software design and development	–	E-commerce consultancy, software development, system integration, website design and sale of software
Power plant	–	Guaranteed income investment in a power plant in the PRC
Motor spare parts business	–	Guaranteed income investment in a motor spare parts business in the PRC

There were no sales or other transactions between the business segments.

The Group was also engaged in the provision of Internet software services. This operation was disposed of on 28 November 2003 (notes 5 and 30).

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

2003

INCOME STATEMENT

	Discontinuing operation	Continuing operations					
	Internet software services HK$'000	Computer hardware and maintenance support services HK$'000	Software design and development HK$'000	Power plant HK$'000	Motor spare parts business HK$'000	Unallocated corporate HK$'000	Consolidated HK$'000
TURNOVER							
External sales	–	91,264	732	–	–	–	91,996
RESULTS							
Segment loss	(21)	(1,338)	(13,621)	–	–	–	(14,980)
Unallocated corporate expenses	–	–	–	–	–	(20,263)	(20,263)
Loss from operations	(21)	(1,338)	(13,621)	–	–	(20,263)	(35,243)
Finance costs	–	–	(13)	–	–	(1,564)	(1,577)
Net investment loss	–	–	–	–	–	(6,917)	(6,917)
Share of result of associate	–	–	–	–	–	(15,051)	(15,051)
Loss on disposal of discontinuing operation	–	–	–	–	–	(71)	(71)
Loss before taxation	(21)	(1,338)	(13,634)	–	–	(43,866)	(58,859)
Income tax	–	–	–	–	–	–	–
Loss after taxation	(21)	(1,338)	(13,634)	–	–	(43,866)	(58,859)
Minority interests	–	–	–	–	–	–	–
Net loss for the year	(21)	(1,338)	(13,634)	–	–	(43,866)	(58,859)
OTHER INFORMATION							
Capital additions	–	33	76	–	–	1,521	1,630
Depreciation and amortisation	17	3	10,911	–	–	2,473	13,404
Allowance for trade and other receivables	–	–	368	–	–	–	368

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

2003

BALANCE SHEET

	Discontinuing operation	Continuing operations				
	Internet software services HK$'000	Computer hardware and maintenance support services HK$'000	Software design and development HK$'000	Power plant HK$'000	Motor spare parts business HK$'000	Consolidated HK$'000
ASSETS						
Segment assets	–	941	1,030	–	–	1,971
Interest in associate						9,004
Unallocated corporate assets						50,583
Consolidated total assets						61,558
LIABILITIES						
Segment liabilities	–	263	454	–	–	717
Unallocated corporate liabilities						26,544
Consolidated total liabilities						27,261

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

2002

INCOME STATEMENT

	Discontinuing operation	Continuing operations					
	Internet software services HK$'000	Computer hardware and maintenance support services HK$'000	Software design and development HK$'000	Power plant HK$'000	Motor spare parts business HK$'000	Unallocated corporate HK$'000	Consolidated HK$'000
TURNOVER							
External sales	356	–	1,250	–	–	–	1,606
RESULTS							
Segment loss	(64)	–	(16,377)	(504)	–	–	(16,945)
Unallocated corporate expenses	–	–	–	–	–	(50,916)	(50,916)
Loss from operations	(64)	–	(16,377)	(504)	–	(50,916)	(67,861)
Finance costs	–	–	(3)	–	–	(1,909)	(1,912)
Net investment gain (loss)	2	–	–	–	–	(35,400)	(35,398)
Share of result of associate	–	–	–	–	–	(13,593)	(13,593)
Impairment losses	–	–	(20,000)	(8,992)	–	(217)	(29,209)
Loss before taxation	(62)	–	(36,380)	(9,496)	–	(102,035)	(147,973)
Income tax	–	–	–	–	–	–	–
Loss after taxation	(62)	–	(36,380)	(9,496)	–	(102,035)	(147,973)
Minority interests	–	–	–	–	–	(7)	(7)
Net loss for the year	(62)	–	(36,380)	(9,496)	–	(102,042)	(147,980)
OTHER INFORMATION							
Capital additions	126	–	721	–	–	4,965	5,812
Depreciation and amortisation	12	–	14,045	504	–	2,427	16,988
Allowance for trade and other receivables	–	–	–	–	–	11,000	11,000

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

2002

BALANCE SHEET

	Discontinuing operation	Continuing operations				
	Internet software services HK$'000	Computer hardware and maintenance support services HK$'000	Software design and development HK$'000	Power plant HK$'000	Motor spare parts business HK$'000	Consolidated HK$'000
ASSETS						
Segment assets	323	–	3,470	–	–	3,793
Interest in associate						24,055
Unallocated corporate assets						87,737
Consolidated total assets						115,585
LIABILITIES						
Segment liabilities	101	–	733	–	–	834
Unallocated corporate liabilities						21,595
Consolidated total liabilities						22,429

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments

In presenting information on the basis of geographical segments, segment revenues are based on the geographical location of customers. There were no sales between the geographical segments. Carrying amounts of segment assets and additions to property, plant and equipment are based on the geographical location of the assets.

	Segment revenues		Carrying amount of segment assets		Additions to property, plant and equipment	
	2003	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Hong Kong	**87,176**	–	**58,817**	83,890	**1,566**	5,345
Other regions of PRC	**3,010**	1,606	**383**	26,218	**64**	467
Taiwan	**1,366**	–	**–**	–	**–**	–
Australia	**381**	–	**–**	–	**–**	–
Others	**63**	–	**2,358**	5,477	**–**	–
	91,996	1,606	**61,558**	115,585	**1,630**	5,812

5. DISCONTINUING OPERATION

On 28 November 2003, the Group disposed of its entire equity interest in Fortune Sino Investments Limited, which owned the entire equity interest in Originsoft (Zhengzhou) Co., Ltd., to Mr. Zhang Yun Zhi (張蘊志) at a consideration of RMB100,000 (equivalent to approximately HK$94,000). Fortune Sino Investments Limited was incorporated in Hong Kong and was an investment holding company, whereas Originsoft (Zhengzhou) Co., Ltd. was established in the PRC and was engaged in the provision of Internet software services. For the period from 1 January 2003 to 28 November 2003 (date of disposal), Fortune Sino Investments Limited and its subsidiary contributed an aggregate of turnover of HK$Nil and a loss after taxation of approximately HK$21,000 to the Group.

5. DISCONTINUING OPERATION *(Continued)*

The turnover, results, cash flows and net assets of the Internet software services segment were as follows:

	Internet software services From 1 January 2003 to 28 November 2003 HK$'000
Turnover	–
Operating costs	(21)
Loss from operations	(21)
Income tax	–
Loss after taxation	(21)
Net cash flows used in operating activities	40
Net cash flows used in investing activities	–
Net cash flows used in financing activities	–
Total net cash flows	40

5. DISCONTINUING OPERATION *(Continued)*

	As at 28 November 2003
	HK$'000
Property, plant and equipment	97
Current assets	170
Total assets	267
Total liabilities	(3,630)
Net liabilities	(3,363)
Net liabilities disposed of	3,363
Loan assigned	(3,528)
Proceeds from disposal	94
Loss on disposal of discontinuing operation	(71)
Tax thereon	–
After-tax loss on disposal	(71)

The net cash outflow on disposal is determined as follows:

Proceeds from disposal	94
Less: Cash and cash equivalents in subsidiaries disposed of	(22)
Disposal of subsidiaries, net of cash disposed	72

Further details of the above disposal are set out in note 30 to the financial statements.

6. LOSS FROM OPERATIONS

	2003 HK$'000	2002 HK$'000
Loss from operations has been arrived at after charging (crediting):		
Auditors' remuneration	**674**	529
Depreciation and amortisation of:		
– guaranteed income investments	**–**	504
– property, plant and equipment – owned assets	**2,862**	2,701
– leased assets	**122**	39
– goodwill arising on acquisition of subsidiary (included in other operating expenses)	**10,420**	11,475
– goodwill arising on acquisition of associates (included in other operating expenses)	**–**	2,269
	13,404	16,988
Gain on disposal of property, plant and equipment	**(25)**	(49)
Allowance for trade and other receivables	**368**	11,000
Reversal of allowance for trade and other receivables	**(5,000)**	–
Cost of inventories	**90,785**	–
Operating lease rentals in respect of land and buildings	**2,727**	5,567
Research and development costs	**1,100**	202
Staff costs, including directors' remuneration		
– Salaries, wages and other benefits	**18,192**	24,185
– Contributions to defined contribution retirement scheme	**143**	166
	18,335	24,351

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2003 HK$'000	2002 HK$'000
Directors' remuneration		
Fees:		
Executive directors	–	3,600
Independent non-executive directors	–	–
	–	3,600
Other emoluments (executive directors):		
Salaries and other benefits	2,141	6,345
Contributions to defined contribution retirement scheme	29	36
	2,170	6,381
	2,170	9,981

The emoluments of the directors were within the following bands:

	2003 Number of directors	2002 Number of directors
Nil to HK$1,000,000	9	4
HK$1,000,001 to HK$1,500,000	–	–
HK$1,500,001 to HK$2,000,000	–	1
HK$2,000,001 to HK$2,500,000	–	1
HK$5,000,001 to HK$5,500,000	–	1

There were no arrangements under which the directors have waived or agreed to waive any emoluments.

Employees' remuneration

During the year, the five highest paid individuals of the Group included two directors (2002: three directors) of the Company. The emoluments of the remaining three (2002: two) highest paid individuals were as follows:

	2003 HK$'000	2002 HK$'000
Salaries and other benefits	1,812	1,820
Contributions to defined contribution retirement scheme	36	23
	1,848	1,843

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

The emoluments of the employees were within the following bands:

	2003 Number of employees	2002 Number of employees
Nil to HK$1,000,000	**3**	2

No emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

8. FINANCE COSTS

	2003 HK$'000	2002 HK$'000
Interest on bank borrowings wholly repayable within five years	**1,524**	1,902
Interest element of finance leases	**13**	3
Other interests	**40**	7
Total borrowing costs	**1,577**	1,912

9. NET INVESTMENT LOSS

	2003 HK$'000	2002 HK$'000
Dividend income	**17**	30
Gain on disposal of unlisted investments in the PRC	**–**	700
Interest income	**219**	303
Loss on disposal of investment securities	**(1,200)**	–
Loss on disposal of other investments	**(5,953)**	(10,560)
Unrealised holding loss on other investments	**–**	(25,871)
	(6,917)	(35,398)

The unrealised holding loss on other investments has been calculated by reference to the market prices of the listed equity securities as at the balance sheet date.

10. IMPAIRMENT LOSSES

	2003 HK$'000	2002 HK$'000
Impairment losses recognised in respect of:		
– property, plant and equipment	–	217
– goodwill on acquisition of subsidiaries	–	20,000
– guaranteed income investments	–	8,992
	–	29,209

11. INCOME TAX

Current tax

Hong Kong profits tax is calculated at 17.5% (2002: 16%) on the estimated assessable profit for the year. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

No provision for Hong Kong profits tax has been made in the financial statements as the companies operating in Hong Kong did not have any assessable profit for the year ended 31 December 2003 (2002: Nil).

No provision for PRC income tax has been made in the financial statements as the companies operating in the PRC had no assessable profit for the year ended 31 December 2003 (2002: Nil).

Deferred tax

Details of the Group's deferred tax not provided for are set out in note 27 to the financial statements.

12. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2003 is based on net loss of the Group of approximately HK$58,859,000 (2002: HK$147,980,000) and on the weighted average of 2,663,370,218 ordinary shares (2002: 2,663,370,147 ordinary shares) in issue during the year.

No diluted loss per share has been calculated as the exercise of the share options would result in a decrease in loss per share for both years.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP				
COST				
As at 1 January 2003	839	7,675	7,356	15,870
Additions	–	109	1,521	1,630
Disposals	(839)	(5)	(3,236)	(4,080)
Through disposal of subsidiaries	–	(1,552)	(276)	(1,828)
As at 31 December 2003	–	6,227	5,365	11,592
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
As at 1 January 2003	38	4,230	4,149	8,417
Provided for the year	13	1,615	1,356	2,984
Written back on disposal	(51)	(3)	(2,997)	(3,051)
Through disposal of subsidiaries	–	(1,455)	(276)	(1,731)
As at 31 December 2003	–	4,387	2,232	6,619
NET BOOK VALUE				
As at 31 December 2003	**–**	**1,840**	**3,133**	**4,973**
As at 31 December 2002	801	3,445	3,207	7,453

The Group's leasehold land and buildings as at 31 December 2002 were situated in Hong Kong and held under medium term leases.

As at 31 December 2003, the net book value of furniture, fixtures and equipment held by the Group under finance leases amounted to approximately HK$245,000 (2002: HK$356,000).

The Group enters into finance lease arrangement for certain of its equipment. The term of finance lease entered into is three years. At the end of the lease term, the Group has the option to renew the lease on the same terms and conditions as set out in the lease agreement. None of the lease includes contingent rentals.

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
THE COMPANY			
COST			
As at 1 January 2003 and 31 December 2003	364	893	1,257
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
As at 1 January 2003	260	893	1,153
Provided for the year	37	–	37
As at 31 December 2003	297	893	1,190
NET BOOK VALUE			
As at 31 December 2003	**67**	**–**	**67**
As at 31 December 2002	104	–	104

14. GOODWILL

	HK$'000
COST	
As at 1 January 2003 and 31 December 2003	78,028
ACCUMULATED AMORTISATION AND IMPAIRMENT	
As at 1 January 2003	33,744
Amortisation charge for the year	10,420
As at 31 December 2003	44,164
CARRYING AMOUNT	
As at 31 December 2003	**33,864**
As at 31 December 2002	44,284

The goodwill represents the excess of the cost of acquisition of the entire interest of Sharpo Holdings Limited over the Group's share of the fair value of identifiable assets and liabilities of Sharpo Holdings Limited at the date of acquisition, further details of which are set out in note 29. Goodwill is amortised on a straight-line basis over five years. The amortisation of goodwill for the year is included in "other operating expenses" in the consolidated income statement.

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK$'000	HK$'000
Unlisted shares, at cost	**1**	1
Amounts due from subsidiaries	**389,644**	395,191
	389,645	395,192
Allowance for amounts due from subsidiaries	**(270,895)**	(224,420)
	118,750	170,772

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, no part of the balances will be repayable within twelve months from the balance sheet date and the balances are therefore shown as non-current.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

Particulars of the Company's principal subsidiaries as at 31 December 2003 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operation	Particulars of issued and paid up capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Miracle Luck Limited *(note (i))*	Hong Kong	20 ordinary shares of HK$1	–	100%	Investment in securities
Sharpo Limited	Hong Kong	10,000 ordinary shares of HK$1	–	100%	Management and corporate service
Chainstoreonline.net Limited	Hong Kong	30,000 ordinary shares of HK$1	–	100%	Website design, development, installation and maintenance of computer software, sale of related computer products in Hong Kong
Sharpo Solutions Limited	British Virgin Islands	1 ordinary share of US$1 each	–	100%	Trading of computer products and the provision of maintenance support services

15. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or establishment/ operation	Particulars of issued and paid up capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
廣洲宏中電腦科技有限公司 ("廣洲宏中") *(note (ii))*	PRC	Registered capital of RMB760,000	–	95%	Website design, development, installation and maintenance of computer software, sale of related computer products in the PRC

Notes:

(i) Statutory financial statements of subsidiaries not audited by HLB Hodgson Impey Cheng. On 30 January 2004, the Group entered into a sale and purchase agreement in relation to the disposal of the entire interest in the share capital of Miracle Luck Limited at a consideration of HK$2,000,000.

(ii) 廣洲宏中is a wholly foreign-owned enterprise established in the PRC with an operational term of 10 years until 26 April 2011.

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.

16. INTEREST IN ASSOCIATE

	THE GROUP	
	2003	2002
	HK$'000	HK$'000
Share of net assets	**9,004**	24,055

16. INTEREST IN ASSOCIATE *(Continued)*

Particulars of the Group's associate as at 31 December 2003 are as follows:

Name of associate	Place of establishment and operation	Fully paid registered capital	Proportion of ownership interest	Principal activities
Henan Zhongzhou Radio & TV Information Network Co., Ltd. 河南中洲廣電信息網絡有限公司	PRC	RMB165,000,000	49%	Construction, maintenance enhancement and running of cable broadcasting and television network in Henan Province, the PRC.

The following financial information has been extracted from the unaudited management accounts of Henan Zhongzhou Radio & TV Information Network Co., Ltd. 河南中洲廣電信息網絡有限公司 for the years ended 31 December 2002 and 2003:

	2003 **HK$'000**	2002 HK$'000
Income statement		
Turnover	**11,917**	9,486
Depreciation and amortisation	**27,545**	21,630
Loss before taxation	**30,717**	26,437
Loss before taxation attributable to the Group	**15,051**	12,954

	2003 **HK$'000**	2002 HK$'000
Balance sheet		
Non-current assets	**101,248**	116,378
Current assets	**101,001**	99,449
Current liabilities	**(183,873)**	(166,734)
Net assets	**18,376**	49,093
Net assets attributable to the Group	**9,004**	24,055

16. INTEREST IN ASSOCIATE *(Continued)*

On 1 January 2004, the Group entered into a conditional sale and purchase agreement (as amended by a supplemental agreement dated 2 January 2004) in relation to the disposal of the 49% equity interest in Henan Zhongzhou Radio & TV Information Network Co., Ltd. at a consideration of RMB58,800,000 (equivalent to approximately HK$55,500,000).

17. GUARANTEED INCOME INVESTMENTS

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted investments in the PRC, at cost	**124,299**	124,299	**121,495**	121,495
Accumulated amortisation	**(22,244)**	(22,244)	**(21,683)**	(21,683)
	102,055	102,055	**99,812**	99,812
Accumulated impairment loss recognised	**(102,055)**	(102,055)	**(99,812)**	(99,812)
	–	–	**–**	–

The unlisted investments in the PRC represent the Group's investments in Henan Taiwu Electric Power Co., Ltd. 河南太屋電力有限公司 ("Taiwu") and Kaifeng Hongya Machinery Co., Ltd. 開封宏亞機械有限公司 ("Kaifeng").

(a) Taiwu, a wholly owned subsidiary of the Company, had obtained consents from relevant PRC authorities to construct and operate a 25,000KW power generating unit (the "Unit") in Henan Province, the PRC and to produce and distribute electricity to Jiyuan Shi, Henan Province, the PRC, for the period from 25 June 1996 to 24 June 2017. The development and construction of the Unit was sub-contracted to Jiyuan Power Plant Company 河南省濟源電廠 ("Jiyuan") on a turnkey basis at a fixed cost of RMB130,000,000 (approximately HK$121,495,000). Commencing from 15 August 1997, the operation and management of the Unit has been sub-contracted to Jiyuan pursuant to an operating agreement signed between Taiwu and Jiyuan (the "Operating Agreement"). The directors of the Company do not anticipate that any additional investment into the Unit will be required in the foreseeable future. Under the Operating Agreement, Jiyuan is responsible for the management and operation of the Unit, and all the profits and losses generated from the operation as well as taxes payable will be taken up by Jiyuan. Jiyuan will pay a guaranteed return to Taiwu, which is equivalent to 17% per annum on the total investment of Taiwu. Upon the expiry of the Operating Agreement, the Unit will revert to Jiyuan at no cost.

The Group's guaranteed return in Taiwu was pledged to a bank to secure banking facilities granted to the Group, details of which are set out in note 23 to the financial statements.

17. GUARANTEED INCOME INVESTMENTS *(Continued)*

(b) In 1999, the Group acquired a 37.5% interest in Kaifeng, a company which is engaged in the manufacture and sales of spare parts for automobiles in Henan Province, the PRC. The Group entered into an operating agreement (the "Agreement") with an independent third party 開封宏達撥叉(集團)有限公司 ("宏達") for the operation and management of Kaifeng for a period of ten years. The directors of the Company do not anticipate that any additional investment in Kaifeng will be required in the foreseeable future. Under the Agreement, 宏達 is responsible for the management and operation of Kaifeng, and all the profits and losses generated from the operation as well as taxes payable will be taken up by 宏達. 宏達 will pay to the Group a guaranteed return of RMB750,000 per annum for the first four years and RMB700,000 per annum for the remaining six years.

(c) Since the Group has no control over the assets or management or operations of Taiwu and Kaifeng, and only receives passive income from Jiyuan and 宏達 respectively, the directors of the Company consider that it is more appropriate to classify the investments as guaranteed income investments and state at cost less impairment loss and amortisation on a straight-line basis over the operating tenure of twenty years and ten years, respectively. The Group does not have any further commitment to invest in Taiwu and Kaifeng.

(d) Since 2000, the Group experienced difficulties in collecting the guaranteed returns in respect of its investments in Taiwu, principally because of the restriction in operation imposed by the PRC government on smaller power generating units, and Kaifeng. An aggregate amount of RMB4,650,000 (equivalent to approximately HK$4,346,000) has been received by the Group up to 31 December 2003. The Group has issued demand letters through solicitors to Jiyuan and 宏達 and is considering to take further actions to collect the outstanding guaranteed income amounts. As the recoverability of the aggregate outstanding guaranteed income of RMB86,700,000 (equivalent to approximately HK$81,792,000) was considered by the directors to be uncertain, it has not been recognised by the Group as revenue in the financial statements.

(e) Taking into the account of the restriction in operation of Taiwu and the inability to collect on the guaranteed return arrangements, the directors consider that there had been a decline in the recoverable amount of these guaranteed income investments and accumulated impairment losses of HK$102,055,000 have been recognised in the financial statements for the previous financial years, thus reducing the carrying value of the guaranteed income investments to nil.

18. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Investment securities				
Unlisted overseas investment, at cost less impairment loss *(note (i))*	**–**	3,119	**–**	–
Club membership in Hong Kong, at cost	**–**	220	**–**	–
Club membership in the PRC, at cost *(note (ii))*	**–**	630	**–**	630
	–	3,969	**–**	630
Other investments				
Listed equity securities in Hong Kong, at market value	**–**	12,387	**–**	3,423
	–	16,356	**–**	4,053
Carrying amount analysed for reporting purposes as:				
Current	**–**	12,387	**–**	3,423
Non-current	**–**	3,969	**–**	630
	–	16,356	**–**	4,053

Notes:

(i) The unlisted overseas investment as at 31 December 2002 represented the Group's 1.66% interest in StemCyte, Inc., a company incorporated in the United States of America specialising in stem cell banking. During the year ended 31 December 2003, this unlisted overseas investment was disposed of at a consideration of HK$2,500,000.

(ii) The club membership in the PRC represented the Group's club membership in Xili Golf and Country Club which is a proprietary club wholly owned by Shenzhen Xili Golf Club (深圳西麗高爾夫球會). The club membership was disposed of on 14 April 2003 at a consideration of HK$50,000.

19. INVENTORIES

	THE GROUP	
	2003	2002
	HK$'000	HK$'000
Merchandise, at cost	**117**	21

20. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers. The ageing analysis of trade receivables as at the balance sheet date is as follows:

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Up to 30 days	**81**	744	**–**	–
31 to 60 days	**–**	–	**–**	–
61 to 90 days	**–**	–	**–**	–
91 days or above	**400**	39	**–**	–
Total trade receivables	**481**	783	**–**	–
Other receivables (note)	**12,313**	19,648	**4,878**	4,951
	12,794	20,431	**4,878**	4,951

Note:

Included in other receivables as at 31 December 2003 are the outstanding balance for the purchase consideration due from the purchaser in connection with the disposal of a subsidiary during the year ended 31 December 2001. This outstanding balance, which is repayable within one year from the balance sheet date, is analysed as follows:

	THE GROUP AND THE COMPANY
	HK$'000
Buildnow Industries Limited	9,729
Allowance for other receivables	(6,000)
	3,729

The directors of the Company are currently negotiating for the recovery of the outstanding balance. Buildnow Industries Limited is not related to the Group, or the Company's directors or substantial shareholders.

21. TRADE AND OTHER PAYABLES

The ageing analysis of trade payables as at the balance sheet date is as follows:

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Up to 30 days	**106**	32	**–**	–
Total trade payables	**106**	32	**–**	–
Other payables *(note)*	**10,250**	3,374	**9,269**	1,636
	10,356	3,406	**9,269**	1,636

Note:

Included in other payables as at 31 December 2003 are amounts due to directors, Mr. Chung Chi Shing and Mr. Lin Hoi Kwong amounting to approximately HK$910,000 and HK$195,000 respectively. The amounts due represented operating expenses paid by the directors on behalf of the Group, the terms of which are unsecured, interest-free and repayable within one year from the balance sheet date.

22. OBLIGATIONS UNDER FINANCE LEASES

As at 31 December 2003, the Group had obligations under finance leases repayable as follows:

	The Group					
	2003			2002		
	Present value of the minimum lease payments	**Interest expense relating to future periods**	**Total minimum lease payments**	Present value of the minimum lease payments	Interest expense relating to future periods	Total minimum lease payments
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Within 1 year	**148**	**13**	**161**	175	13	188
After 1 year but within 2 years	**34**	**10**	**44**	143	13	156
After 2 years but within 5 years	**–**	**–**	**–**	33	10	43
	34	**10**	**44**	176	23	199
	182	**23**	**205**	351	36	387

23. BANK LOAN

	THE GROUP AND THE COMPANY	
	2003	2002
	HK$'000	HK$'000
The maturity of the bank loan is as follows:		
Within one year and shown under current liabilities	**16,723**	18,672

As at 31 December 2003, the bank loan of approximately HK$16,723,000 (2002: HK$18,672,000) was guaranteed by HHF, a wholly owned subsidiary of HHE, without charge. In addition, the Group's guaranteed return in Taiwu was also pledged to the bank to secure the bank loan. Subsequent to 31 December 2003, HK$15,500,000 of the bank loan has been repaid.

24. SHARE CAPITAL

	Number of shares		Value	
	2003	2002	**2003**	2002
			HK$'000	HK$'000
Authorised:				
Ordinary shares of HK$0.20 each	**6,000,000,000**	6,000,000,000	**1,200,000**	1,200,000
Issued and fully paid:				
At beginning of the year	**2,663,370,147**	2,663,370,147	**532,674**	532,674
Exercise of share options *(note (i))*	**853**	–	**–**	–
At end of the year	**2,663,371,000**	2,663,370,147	**532,674**	532,674

Notes:

(i) On 27 November 2003, 853 ordinary shares were issued by the Company to the grantee upon exercising of share options granted under 2002 Share Option Scheme. The total cash proceeds received by the Company was HK$170.60 which was credited to the share capital. These shares rank pari passu with the then existing shares in issue.

24. SHARE CAPITAL *(Continued)*

(ii) The share capital of the Company was by virtue of a special resolution passed by the shareholders of the Company on 3 October 2003 (the "Special Resolution") and with the sanction of an Order of the High Court of The Hong Kong Special Administrative Region dated 3 February 2004 (the "Order") reduced from HK$532,674,200 divided into 2,663,371,000 shares of HK$0.20 each to HK$2,663,371 divided into 26,633,710 shares of HK$0.10 each, and that such reduction be effected by consolidating every 100 of the 2,663,371,000 shares of HK$0.20 each in issue into one consolidated share of HK$20, and cancelling paid up capital to the extent of HK$19.90 upon each such consolidated share, and by reducing the nominal amount of all such consolidated shares to HK$0.10 per new share, with effect from 10 February 2004.

The share premium account of the Company was by virtue of the Special Resolution and with the sanction of the Order reduced from HK$491,076,364 as at 30 June 2003 to HK$149,839,914, with effect from 10 February 2004.

By virtue of the reduction of capital sanctioned by the Order and the Special Resolution, the share capital of the Company is accordingly HK$1,200,000,000 consisting of 12,000,000,000 ordinary shares of HK$0.10 each, of which 26,633,710 ordinary shares have been issued and fully paid, with effect from 10 February 2004.

(iii) On 30 June 2003, the Company entered into a subscription agreement with Aimstar Holdings Limited (the "Investor") and Mr. Chan Tat Chee, a director of the Company, as guarantor in relation to the subscription of an aggregate of 29,500,000 new shares by the Investor for a total consideration of HK$18,000,000. The subscription agreement was completed subsequent to the balance sheet date, on 10 February 2004. The net proceeds from the subscription have been applied to repay a substantial portion of the bank loan.

25. SHARE OPTIONS

1992 Share Option Scheme

In accordance with the Company's share option scheme, which was adopted pursuant to a resolution passed on 24 July 1992 and subsequently terminated on 27 May 2002 (the "1992 Share Option Scheme"), the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares of the Company in order to recognise the significant contributions of the eligible employees to the Group.

As at 31 December 2003, the number of shares in respect of which options have been granted under the 1992 Share Option Scheme was 41,500,000, representing 1.56% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the 1992 Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The maximum number of shares in respect of which options may be granted under the 1992 Share Option Scheme in any one financial year shall not exceed 3% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The total number of shares in respect of which options may be granted to any eligible employee is not permitted to exceed 25% of the total number of shares in respect of which options may be granted under the 1992 Share Option Scheme, without prior approval from the Company's shareholders.

25. SHARE OPTIONS *(Continued)*

1992 Share Option Scheme *(Continued)*

No consideration was payable on the grant of the options. Options may generally be exercised at any time during the period commencing on the first anniversary of the date of grant of such option and expiring at the close of business on the tenth anniversary thereof. The exercise price is the higher of the nominal value of the shares and an amount which is based on 80% of the average of the closing prices of the shares of the Company on the five business days immediately preceding the date of grant.

As at 31 December 2003, the options to subscribe for shares outstanding under the 1992 Share Option Scheme were as follows:

Date of grant	Number of share options as at 31.12.2003	Exercisable period	Exercise price per share
			HK$
26.1.2000	19,500,000	26.1.2001 to 25.1.2010	0.3300
3.2.2000	10,000,000	3.2.2001 to 2.2.2010	0.3648
19.6.2000	3,000,000	19.6.2001 to 18.6.2010	0.3152
28.7.2000	9,000,000	28.7.2001 to 27.7.2010	0.2784
	41,500,000		

No option was granted, cancelled, exercised or lapsed under the 1992 Share Option Scheme during the year.

2002 Share Option Scheme

On 27 May 2002, a new share option scheme (the "2002 Share Option Scheme") was adopted and the 1992 Share Option Scheme was simultaneously terminated by the shareholders of the Company. Accordingly, no further share options can be granted under the 1992 Share Option Scheme.

The purpose of the 2002 Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group. The participants include (i) any eligible employee; (ii) any supplier of goods or services to any member of the Group or any entity in which any member of the Group holds any interest ("Invested Entity"); (iii) any customer of the Group or any Invested Entity; (iv) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; (v) any shareholder or any member of the Group or any Invested Entity; and (vi) any company wholly owned by any participant. The 2002 Share Option Scheme will remain in force for a period commencing on 27 May 2002 and expiring at the close of business on the business day preceding the tenth anniversary.

25. SHARE OPTIONS *(Continued)*

2002 Share Option Scheme *(Continued)*

The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on which the 2002 Share Option Scheme was adopted, without prior approval from the Company's shareholders. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to and including the date of grant of options shall not exceed 1% of the shares in issue.

The subscription price will be determined by the directors, which shall not be less than the higher of the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of option or the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five days immediately preceding the date of grant of option. Options may generally be exercised in whole or in part at any time during the period commencing on the first business day from the date of grant of the option and expiring on the close of business on the last day of such period as determined by the directors and notified to the grantee (in any event such period must not be more than 10 years from the date of grant of the option).

The following table discloses the movements in the Company's share options under the 2002 Share Option Scheme during the year:

			Number of share options		
Date of grant	Exercisable period	Exercise price per share	Granted during the year	Exercised during the year	Outstanding as at 31.12.2003
27.11.2003	27.11.2003 to 26.11.2013	HK$0.20	853	(853)	–

On 27 November 2003, 853 ordinary shares were issued by the Company to the grantee upon exercising of share options granted under 2002 Share Option Scheme. The total cash proceeds received by the Company was HK$170.60 which was credited to the share capital. These shares rank pari passu with the then existing shares in issue. The market value per share at the exercise date was HK$0.21.

No option under the 2002 Share Option Scheme was cancelled or lapsed during the year.

26. RESERVES

	Share premium HK$'000	Translation reserve HK$'000	Deficit HK$'000	Total HK$'000
THE GROUP				
As at 1 January 2002	491,076	(16)	(782,605)	(291,545)
Net loss for the year	–	–	(147,980)	(147,980)
As at 31 December 2002 and 1 January 2003	491,076	(16)	(930,585)	(439,525)
Net loss for the year	–	–	(58,859)	(58,859)
As at 31 December 2003	**491,076**	**(16)**	**(989,444)**	**(498,384)**

The deficit of the Group includes accumulated losses of approximately HK$69,000,000 (2002: approximately HK$54,000,000) attributable to an associate of the Group.

	Share premium HK$'000	Deficit HK$'000	Total HK$'000
THE COMPANY			
As at 1 January 2002	491,076	(791,645)	(300,569)
Net loss for the year	–	(71,787)	(71,787)
As at 31 December 2002 and 1 January 2003	491,076	(863,432)	(372,356)
Net loss for the year	–	(62,346)	(62,346)
As at 31 December 2003	**491,076**	**(925,778)**	**(434,702)**

The Company did not have any reserves available for distribution to shareholders as at 31 December 2002 and 2003.

27. DEFERRED TAX

No deferred tax liabilities are recognised in the financial statements as the Group and the Company did not have material temporary difference arising between the tax bases of assets and liabilities and their carrying amounts as at 31 December 2002 and 2003.

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits due to the uncertainty of future profit streams against which the asset can be utilised. As at 31 December 2003, the deferred tax asset of the Group and of the Company not recognised are as follows:

27. DEFERRED TAX *(Continued)*

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax effect of timing difference attributable to estimated tax losses	**23,805**	21,182	**20,057**	16,610

28. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH (USED IN) FROM OPERATING ACTIVITIES

	2003	2002
	HK$'000	HK$'000
Loss before taxation	**(58,859)**	(147,973)
Adjustments for:		
Impairment losses	**–**	29,209
Share of result of associate	**15,051**	13,593
Unrealised holding loss of other investments	**–**	25,871
Gain (loss) on disposal of investment securities	**1,200**	(700)
Loss on disposal of discontinuing operation	**71**	–
Dividend income from investments	**(17)**	(30)
Interest income	**(219)**	(303)
Interest expenses	**1,577**	1,912
Amortisation of guaranteed income investments	**–**	504
Amortisation of goodwill arising on acquisition of		
– subsidiary	**10,420**	11,475
– associates	**–**	2,269
Depreciation and amortisation of property, plant and equipment	**2,984**	2,740
Gain on disposal of property, plant and equipment	**(25)**	(49)
Loss on disposal of other investments	**5,953**	10,560
Operating loss before changes in working capital	**(21,864)**	(50,922)
Increase in inventories	**(96)**	(21)
Decrease in trade and other receivables	**7,489**	92,425
Increase (decrease) in trade and other payables	**7,052**	(2,227)
Cash (used in) generated from operations	**(7,419)**	39,255
Interest paid	**(1,577)**	(1,912)
Interest received	**219**	303
Net cash (used in) from operating activities	**(8,777)**	37,646

29. ACQUISITION OF A SUBSIDIARY

On 25 March 2002, the Group acquired the remaining 55% issued share capital of Sharpo Holdings Limited and the shareholder's loan due from Sharpo Holdings Limited to the vendor, an independent third party, for an aggregate cash consideration of HK$41,000,000. Sharpo Holdings Limited and its subsidiaries are principally engaged in e-commerce consultancy, software development, system integration, website design and sale of software. The fair value of the net identifiable assets of Sharpo Holdings Limited at the date of acquisition was approximately HK$857,000. The resulting goodwill of approximately HK$40,282,000 is amortised on a straight-line basis over five years.

	2002 HK$'000
Net assets acquired:	
Property, plant and equipment	675
Goodwill	617
Trade and other receivables	521
Bank balances and cash	124
Trade and other payables	(1,080)
	857
Interest in associate	(386)
Goodwill arising on acquisition	40,282
Net purchase price	40,753
Satisfied by:	
Cash consideration	40,605
Shareholder's loan	395
	41,000
Analysis of net outflow of cash and cash equivalents on acquisition of a subsidiary:	
Consideration paid in cash	(40,605)
Expenses incurred on acquisition	(148)
Bank balances and cash acquired	124
Net outflow of cash and cash equivalents on acquisition of a subsidiary	(40,629)

30 DISPOSAL OF SUBSIDIARY

During the year ended 31 December 2003, the Group disposed of its entire equity interests in Fortune Sino Investments Limited and its subsidiary at a consideration of RMB100,000 (equivalent to approximately HK$94,000).

Summary of the effects of the disposal of subsidiaries are as follows:

	2003 HK$'000
Net liabilities disposed of:	
Property, plant and equipment	97
Trade and other receivables	148
Bank balances and cash	22
Trade and other payables	(102)
Amount due to ultimate holding company	(3,528)
	(3,363)
Loss on disposal of subsidiaries	(71)
	(3,434)
Satisfied by:	
Cash consideration received	94
Amount due to ultimate holding company	(3,528)
	(3,434)
Net cash outflow arising from disposal:	
Bank balances and cash disposed of	(22)
Cash consideration received	94
	72

31. OPERATING LEASE COMMITMENTS

As at 31 December 2003, the total future minimum lease payments under non-cancellable operating leases in respect of rented office premises and staff quarters are payable as follows:

	THE GROUP	
	2003	2002
	HK$'000	HK$'000
Within one year	**3,558**	3,306
In the second to fifth year inclusive	**–**	3,630
	3,558	6,936

Operating lease payments represent rentals payable by the Group for certain of its office premises and staff quarters. The leases typically run for lease term of one to three years, with an option to renew the lease at which time all terms are renegotiated. None of the lease includes contingent rentals.

32. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out on normal commercial terms and in the ordinary course of the Group's business, are as follows:

(a) As at 31 December 2003, bank loan of approximately HK$16,723,000 (2002: HK$18,672,000) was guaranteed without charge by HHF, a wholly owned subsidiary of HHE.

(b) The Group did not recognise any guaranteed profit receivable from HHF for the year ended 31 December 2000. Details of the guaranteed profit arrangement with HHF are set out in note 33 to the financial statements.

33. CONTINGENCIES

In 1999, the Group acquired the entire equity interest in Henan Hong Kong (Jiyuan) Coking Company Limited 豫港(濟源)焦化有限公司 ("HH Coking") from HHF. HHF was a wholly owned subsidiary of HHE, a substantial shareholder of the Company.

HHF guaranteed the profit available for distribution of HH Coking, calculated in accordance with accounting principles generally accepted in Hong Kong, to be not less than an equivalent of HK$36,000,000 for the year ended 31 December 2000. For the year ended 31 December 2000, HH Coking incurred an operating loss of HK$9,872,000.

33. CONTINGENCIES *(Continued)*

The Group experienced difficulties in collecting the aforesaid guaranteed profit amount under the HH Coking guaranteed profit arrangement. The Group has issued demand letters through solicitors to the guarantor and is taking further legal actions in order to collect the guaranteed profit amount. As the recoverability of the guaranteed profit was considered by the directors to be uncertain, the guaranteed profit had not been recognised in the financial statements.

In 2001, the Group disposed of its entire shareholding in Grace Melody Enterprises Limited, which held the entire interest in HH Coking, to Buildnow Industries Limited at a consideration of RMB23,588,000 (equivalent to approximately HK$22,045,000).

34. SUBSEQUENT EVENTS

Save as those disclosed in notes 15, 16 and 24 above, the Group has no significant subsequent events.