1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations) issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Subsidiaries and controlled entities

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half 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 controlled subsidiaries are consolidated into the consolidated financial statements, unless they are acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions that significantly impair their ability to transfer funds to the Group, in which case, they are stated at fair value with changes in fair value recognised in the consolidated income statement and in the investment revaluation reserve respectively as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and controlled entities *(Continued)*

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, investments in subsidiaries are stated at cost less any impairment losses (see note 1(l)), unless they are acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions that significantly impair their ability to transfer funds to the Company, in which case, they are stated at fair value with changes in fair value recognised in the income statement and in the investment revaluation reserve respectively as they arise.

(d) Associates

An associate is a company 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.

Investments in associates are accounted for in the consolidated financial statements under the equity method and are initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associates' net assets, unless they are acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions that significantly impair their ability to transfer funds to the investor, in which case, they are stated at fair value with changes in fair value recognised in the consolidated income statement and in the investment revaluation reserve respectively as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of its associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e). When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates *(Continued)*

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(l)), unless they are acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions that significantly impair their ability to transfer funds to the investor, in which case, they are stated at fair value with changes in fair value recognised in the income statement and in the investment revaluation reserve respectively as they arise.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

– for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses (see note 1(l)); and

– for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(l)).

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(l)) is included in the carrying amount of the interest in associates or jointly controlled entities.

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

– for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and

– for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable or amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill *(Continued)*

In respect of any negative goodwill not yet recognised in the consolidated income statement:

– for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

– for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

(f) Other investments in securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries and associates are as follows:

(i) Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealers' margin.

(ii) Non-trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the income statement.

(iii) Transfers from the investment revaluation reserve to the income statement as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iv) Profits or losses on disposal of investments in securities are determined as the differences between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise. In the case of non-trading securities, the profit or loss includes any amount previously held in the investment revaluation reserve in respect of that security.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment

(i) Land and buildings held for own use and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(k)) and impairment losses (see note 1(l)).

(ii) Subsequent expenditure relating to a fixed asset 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 period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of a property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(h) Investment properties

Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by qualified external valuers. Surpluses arising on revaluations are credited on a portfolio basis to the income statement to the extent of any deficit arising on revaluation previously charged to the income statement and are thereafter taken to the investment properties revaluation reserve; deficits arising on revaluations are firstly set off against any previous revaluation surpluses and thereafter charged to the income statement.

On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is transferred to the income statement for the year.

Investment properties with an unexpired lease term of 20 years or less are stated at valuation less accumulated depreciation.

(i) Intangible assets

Intangible assets represent patent rights for software development acquired by the Group and are stated at cost less accumulated amortisation and impairment losses (see note 1(l)). Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of 10 years.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(k) Amortisation and depreciation

Depreciation is calculated to write off the cost or valuation of property, plant and equipment over their estimated useful lives on a straight-line basis as follows:

Land in Hong Kong held under long term lease	over the remaining lease term
Buildings in Hong Kong	50 years
Land use rights and buildings outside Hong Kong in the PRC held under short to medium term leases	over the period of the lease
Furniture, fixtures and fittings	3 to 20 years
Plant, machinery and equipment	2 to 10 years
Motor vehicles	3 to 10 years
Investment properties	
– unexpired lease term of more than 20 years	Nil
– unexpired lease term of 20 years or less	over the remaining lease term

(l) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- investments in subsidiaries, associates and joint ventures (except for those accounted for at fair value under notes 1(c) and (d));
- intangible assets; and
- positive goodwill (whether taken initially to reserves or recognised as an asset).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Impairment of assets *(Continued)*

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, or are amortised over more than 20 years from the date when the asset is available for use or goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset (including positive goodwill taken directly to reserves) exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Inventories

(i) *Trading and manufacturing*

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula 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 the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

(ii) *Property development*

Properties developed for sale are stated at the lower of cost and estimated net realisable value. Cost is determined by apportionment of the total development costs for that development project, including borrowing costs capitalised, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

(n) 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 consolidated cash flow statement.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 Company's contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred.

The employees of the PRC subsidiaries participate in defined contribution retirement plans managed by the local government authority whereby the subsidiaries are required to contribute to the schemes at fixed rates of the employees' salary costs. In addition to the local government defined contribution retirement plans, certain subsidiaries also participate in supplementary defined contribution retirement plans managed by independent insurance companies whereby the subsidiaries are required to make contributions to the retirement plans at fixed rates of the employees' salary costs. The Group's contributions to these plans are charged to the income statement when incurred. The subsidiaries have no obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

(iii) When the Group grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. The nominal consideration is recognised in the income statement on cash basis. When the options are exercised, equity is increased by the amount of the proceeds received.

(iv) 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) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax *(Continued)*

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax *(Continued)*

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) *Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

(ii) *Fee income*

Fee income from value-added technical services is recognised when the services are rendered.

(iii) *Contract revenue*

When the outcome of contract work can be estimated reliably:

– revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and

– revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of contract work cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iv) *Rental income from operating leases*

Rental income receivable under operating leases is recognised on a straight-line basis over the term of the respective leases.

(v) *Dividends*

– dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vi) Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and at the rate applicable.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of subsidiaries outside Hong Kong in the PRC are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are retranslated at the rates of exchange ruling at the balance sheet date. The exchange differences are dealt with as a movement in reserves.

(t) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Research costs are recognised as an expense in the period in which they are incurred. Development costs are recognised as an expense in the period in which they are incurred except those development costs which relate to a clearly defined project and the future benefits therefrom are reasonably assured.

(u) Borrowing costs

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

(v) 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) 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.

Segment revenue, 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. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, 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.

2 CHANGES IN ACCOUNTING POLICY

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with SSAP 12 (revised) “Income Taxes” issued by the HKSA, the Group adopted a new policy for deferred tax as set out in note 1(p).

As a result of the adoption of this accounting policy, the Group’s profit for the year has been increased by $1,407,000 (2002: decreased by $99,000) and the Group’s net assets as at 31 December 2003 has been increased by $4,422,000 (2002: $3,015,000).

The new accounting policy has been adopted retrospectively, with the opening balances of retained profits and goodwill arising on acquisition of subsidiaries, and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

3 TURNOVER

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacturing, distribution and sale of electronic and electrical products, office equipment and the provision of value-added technical services. Further details of the principal subsidiaries are set out in note 42 on the financial statements.

Turnover represents the invoiced value of goods sold and services provided to customers by the Group less returns, discounts, business tax and value added tax, and fee income from value-added technical services. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2003	2002
	$'000	*$'000*
Manufacturing, distribution and sale of electronic and electrical products and office equipment	**967,962**	952,375
Fee income from value-added technical services	**47,315**	42,278
Media-related business	**–**	1,313
	1,015,277	995,966

4 OTHER REVENUE

	2003	2002
	$'000	*$'000*
Interest income	**2,509**	2,559
Rental received from investment properties less outgoings	**2,254**	2,969
Others	**2,237**	3,140
	7,000	8,668

5 NON-OPERATING INCOME

	2003	2002
	$'000	$'000
Net realised/unrealised gain on equity securities	**1,849,377**	348,084
Impairment loss on non-trading securities	**(40,420)**	(79,353)
Loss on disposal of unlisted investments	**–**	(12,257)
Net gain/(loss) on disposal of interest in subsidiaries	**2,853**	(3,290)
Net profit on disposal of interest in associates	**–**	2,285
Impairment loss on goodwill	**(18,041)**	–
Revaluation deficit on investment properties	**(5,785)**	(3,490)
Provision for loan receivable	**(11,730)**	(3,570)
Gain on deemed disposal of an associate	**–**	2,586
Provision for diminution in value of a property held for sale	**(19,887)**	–
Write-off of disposal receivable	**(8,199)**	–
Others	**(2,613)**	(52)
	1,745,555	250,943

6 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

(a) Finance costs:

	2003	2002 restated
	$'000	$'000
Interest on bank advances and other borrowings repayable within five years	**2,921**	1,872
Interest on other loan	**682**	–
Other borrowing costs	**974**	410
Total borrowing costs	**4,577**	2,282

6 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION *(Continued)*

Profit from ordinary activities before taxation is arrived at after charging/(crediting): *(Continued)*

(b) Other items:

	2003	2002 restated
	$'000	*$'000*
Cost of inventories	**886,284**	879,628
Staff costs (including retirement costs of $5,353,000 (2002: $5,601,000))	**61,833**	74,683
Amortisation of goodwill	**2,178**	2,134
Amortisation of net positive/(negative) goodwill included in share of profits less losses of associates	**2,396**	(12,224)
Research and development costs	**2,431**	2,319
Provision for write down in value of obsolete inventories	**2,607**	7,735
Provision for bad and doubtful debts	**13,755**	1,807
Loss on disposal of property, plant and equipment	**1,119**	773
Depreciation	**6,589**	8,265
Management fees	**2,873**	2,592
Auditors' remuneration	**2,200**	2,400
Operating lease charges for land and buildings	**10,829**	11,873

7 DIRECTORS' REMUNERATION

Directors' remuneration, excluding emoluments waived, disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2003	2002
	$'000	*$'000*
Fees	**780**	545
Salaries and other emoluments	**4,178**	8,680
Retirement scheme contributions	**13**	18
	4,971	9,243

In addition, directors are eligible under the Company's share option scheme to subscribe for shares in the Company. There were no options granted to the directors during the year. The details of these benefits in kind are disclosed under the paragraph "Share Option Schemes" in the directors' report.

7 DIRECTORS' REMUNERATION *(Continued)*

The directors' remuneration is within the following bands:

	2003 Number of directors	2002 Number of directors
$ 0 – $1,000,000	**6**	4
$ 1,000,001 – $1,500,000	**2**	1
$ 1,500,001 – $2,000,000	**–**	–
$ 2,000,001 – $2,500,000	**–**	1
$ 2,500,001 – $3,000,000	**–**	–
$ 3,000,001 – $3,500,000	**–**	–
$ 3,500,001 – $4,000,000	**–**	–
$ 4,000,001 – $4,500,000	**–**	1

Included in the director's remuneration were fees of $780,000 (2002: $545,000) paid to Company's independent non-executive directors. The above number of directors also include the directors who were resigned during the respective years.

During the year ended 31 December 2003, three directors agreed to waive part of their emoluments totalling $11,291,000 (2002: $9,775,000) to which they are entitled under the service contracts entered into with the Company.

8 FIVE HIGHEST PAID INDIVIDUALS

The five individuals with the highest emoluments comprise three (2002: three) directors whose emoluments are disclosed in note 7 and two (2002: two) employees. Details of the emoluments in respect of these employees are as follows:

	2003 *$'000*	2002 *$'000*
Salary, housing and other emoluments	**1,615**	2,120

The emoluments of the above employees are within the following bands:

	2003 Number of employees	2002 Number of employees
$ 0 – $1,000,000	**2**	–
$ 1,000,001 – $1,500,000	–	2

9 INCOME TAX

(a) Income tax in the consolidated income statement represents:

	2003	2002 restated
	$'000	*$'000*
Current tax:		
Hong Kong Profits Tax	**–**	3
Income tax outside Hong Kong in the PRC ("PRC income tax")	**1,887**	954
Share of associates' PRC income tax	**1**	15
	1,888	972
Deferred tax:		
Origination and reversal of temporary differences *(note 34(a))*	**(1,304)**	200
	584	1,172

No provision for Hong Kong Profits Tax has been made in the financial statements as subsidiaries with operations in Hong Kong sustained losses for taxation purposes during the year. PRC income tax is calculated at the applicable rates on the estimated taxable income outside Hong Kong in the PRC.

Reconciliation between tax expense and accounting profit at applicable tax rates:

	2003	2002
	$'000	*$'000*
Profit from ordinary activities before taxation	**1,707,284**	204,867
Notional tax on profit from ordinary activities before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**295,664**	15,494
Tax effect of non-deductible expenses	**31,577**	41,399
Tax effect of non-taxable revenue	**(343,760)**	(79,505)
Tax effect of unused tax losses not recognised	**17,103**	23,784
Actual tax expense	**584**	1,172

9 INCOME TAX *(Continued)*

(b) Current taxation in the balance sheets represents:

	Group		Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Provision for Hong Kong Profits Tax				
– current year	**–**	3	**–**	–
– balance of profits tax recoverable relating to prior years	**–**	(14)	**–**	–
– provisional profits tax paid	**(3)**	–	**–**	–
Provision for PRC income tax	**15,231**	15,787	**–**	–
	15,228	15,776	**–**	–

10 PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

The profit for the year attributable to shareholders includes a profit of $507,562,000 (2002: loss of $109,762,000) which has been dealt with in the financial statements of the Company.

11 DIVIDEND

	2003	2002
	$'000	*$'000*
Special dividend proposed after the balance sheet date of 3 cents (2002: $ Nil) per share	**43,188**	–

The special dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year attributable to shareholders of $801,186,000 (2002 (restated): $36,646,000) and the weighted average number of 1,201,972,000 shares (2002: 1,198,565,000 shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the adjusted profit attributable to ordinary shareholders of $802,858,000 (2002 (restated): $36,646,000) after adding back the interest expense on convertible notes, and the weighted average number of 1,340,252,000 ordinary shares (2002: 1,198,565,000 shares) after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option schemes and issued convertible notes. Diluted earnings per share for 2002 was not presented because the existence of outstanding options during the year ended 31 December 2002 had an anti-dilutive effect on the calculation of diluted earnings per share for 2002.

(c) Reconciliations

	2003	2002 restated
	$'000	*$'000*
Profit attributable to shareholders used in calculating basic earnings per share	**801,186**	36,646
Interest expense on the convertible notes	**1,672**	–
Profit attributable to shareholders used in calculating diluted earnings per share	**802,858**	36,646

	Number of shares	Number of shares
	'000	*'000*
Weighted average number of ordinary shares used in calculating basic earnings per share	**1,201,972**	1,198,565
Deemed issue of ordinary shares for no consideration	**31,115**	–
Deemed issue of ordinary shares from conversion of convertible notes	**107,165**	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	**1,340,252**	1,198,565

13 RETIREMENT SCHEMES

Pursuant to the requirements of the Mandatory Provident Fund Schemes Ordinance and related guidelines, the Company's and employees' contributions to the MPF Scheme are based on 5% of the relevant income of the relevant staff. The Company's contributions payable to the MPF Scheme are charged to the income statement. Retirement costs for the MPF Scheme for the year were $199,000 (2002: $204,000).

The employees of the subsidiaries in the PRC are members of the Central Pension Scheme operated by the Government of the PRC. The subsidiaries are required to contribute a certain percentage of the employee's payroll to the Central Pension Scheme to fund the benefits. The obligation for the Group with respect to the Central Pension Scheme is the required contributions under the Central Pension Scheme.

Other than the above, certain subsidiaries also participate in supplementary defined contribution retirement plans managed by independent insurance companies whereby the subsidiaries are required to make contributions to the retirement plans at fixed rates of the employees' salary costs.

Retirement costs for the Central Pension Scheme and supplementary retirement plans for the year were $5,154,000 (2002: $5,397,000).

14 SEGMENT REPORTING

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

Business segments

The Group comprises the following main business segments:

Electronics	:	The manufacture, distribution and sale of electronic and electrical products and office equipment.
Value-added technical services	:	The provision of software development, GIS solution, consultancy services on IT related projects including installation of intelligent systems for buildings and installation of value-added tax machines for enterprises.
Media-related business	:	The provision of ancillary services for the development of the cable television and other media-related business.

14 SEGMENT REPORTING *(Continued)*

	Electronics		Technology-based value-added services		Media-related business		Unallocated		Consolidated	
	2003	2002 restated	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002 restated
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue from external customers	**967,962**	952,375	**47,315**	42,278	**-**	1,313	**-**	–	**1,015,277**	995,966
Other revenue from external customers	**1,650**	2,496	**580**	341	**7**	303	**4,763**	5,528	**7,000**	8,668
Total	**969,612**	954,871	**47,895**	42,619	**7**	1,616	**4,763**	5,528	**1,022,277**	1,004,634
Segment result	**(18,119)**	(15,726)	**16,712**	(4,376)	**(307)**	(12,967)	**(16,798)**	(11,670)	**(18,512)**	(44,739)
Non-operating income									**1,745,555**	250,943
Finance costs									**(4,577)**	(2,282)
Share of profits less losses of associates	**(5,083)**	(6,973)	**(10,099)**	(116)	**-**	7,737	**-**	297	**(15,182)**	945
Income tax									**(584)**	(1,172)
Minority interests									**(905,514)**	(167,049)
Profit for the year attributable to shareholders									**801,186**	36,646
Depreciation and amortisation for the year	**7,132**	8,726	**489**	329	**-**	285	**1,146**	1,059	**8,767**	10,399
Significant non-cash expenses (other than depreciation and amortisation)	**14,356**	10,331	**52**	–	**-**	–	**1,954**	(211)	**16,362**	10,120
Segment assets	**599,091**	739,006	**37,772**	41,435	**678**	79	**2,378,650**	549,178	**3,016,191**	1,329,698
Investment in associates	**159,484**	159,057	**81**	10,203	**-**	–	**10,391**	10,391	**169,956**	179,651
Total assets									**3,186,147**	1,509,349
Segment liabilities	**173,369**	222,281	**22,567**	27,213	**664**	126	**331,943**	18,077	**528,543**	267,697
Capital expenditure incurred during the year	**7,900**	15,063	**721**	368	**-**	1,799	**61,295**	1,484	**69,916**	18,714

Geographical segments

No analysis of the Group's turnover and contribution from operations by geographical segment has been presented as almost all the Group's operating activities are carried out in the People's Republic of China. There is no other geographical segment with segment assets equal to or greater than 10 per cent of the Group's total assets.

15 INVESTMENT PROPERTIES

	Group		Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	**$'000**	*$'000*
Valuation:				
At 1 January	**61,537**	68,065	**–**	–
Exchange adjustments	**(258)**	–	**–**	–
Additions during the year	**30,488**	–	**4,100**	–
Deficit on revaluation	**(5,785)**	(3,490)	**–**	–
Transfer to fixed assets *(note 16(a))*	**(1,571)**	(3,038)	**–**	–
At 31 December	**84,411**	61,537	**4,100**	–

(a) The analysis of valuation of investment properties is as follows:

	Group		Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	**$'000**	*$'000*
Held in Hong Kong under long-term leases	**2,050**	2,020	**–**	–
Held outside Hong Kong in the PRC under medium-term leases	**82,361**	59,517	**4,100**	–
	84,411	61,537	**4,100**	–

(b) The investment properties held in Hong Kong and outside Hong Kong in the PRC were revalued at 31 December 2003 by Jointgoal Surveyors and DTZ Debenham Tie Leung Limited respectively who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an open market value basis. The revaluation deficit of $5,785,000 (2002: $3,490,000) has been transferred to the consolidated income statement.

(c) The gross carrying amounts of investment properties of the Group held for use in operating leases were $84,411,000 (2002: $61,537,000).

(d) The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	Group		Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	**$'000**	*$'000*
Within 1 year	**1,094**	1,937	**164**	–
After 1 year but within 5 years	**–**	19	**–**	–
	1,094	1,956	**164**	–

16 PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Land and buildings held for own use $'000	Furniture, fixtures and fittings $'000	Plant, machinery and equipment $'000	Motor vehicles $'000	Total $'000
Cost or valuation:					
At 1 January 2003	110,569	4,450	29,854	29,467	174,340
Additions	30,644	486	2,723	5,575	39,428
Transfer from investment properties *(note 15)*	1,571	–	–	–	1,571
Reductions through disposal of subsidiaries	(4,880)	(458)	(10,459)	(3,999)	(19,796)
Other disposals	–	(376)	(2,972)	(3,741)	(7,089)
Exchange adjustments	(298)	(6)	(134)	(123)	(561)
At 31 December 2003	137,606	4,096	19,012	27,179	187,893
Representing:					
Cost	136,913	4,096	19,012	27,179	187,200
Valuation in 1992	693	–	–	–	693
	137,606	4,096	19,012	27,179	187,893
Accumulated amortisation and depreciation:					
At 1 January 2003	64,354	2,872	23,344	18,826	109,396
Charge for the year	965	309	2,116	3,199	6,589
Reductions through disposal of subsidiaries	(4,880)	(458)	(9,417)	(3,737)	(18,492)
Written back on disposal	–	(316)	(2,385)	(2,750)	(5,451)
Exchange adjustments	(148)	(6)	(106)	(78)	(338)
At 31 December 2003	60,291	2,401	13,552	15,460	91,704
Net book value:					
At 31 December 2003	**77,315**	**1,695**	**5,460**	**11,719**	**96,189**
At 31 December 2002	46,215	1,578	6,510	10,641	64,944

16 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) Company

	Furniture, fixtures and fittings	Motor vehicles	Total
	$'000	*$'000*	*$'000*
Cost or valuation:			
At 1 January 2003	1,852	3,229	5,081
Additions	127	–	127
Disposals	(89)	–	(89)
At 31 December 2003	1,890	3,229	5,119
Accumulated amortisation and depreciation:			
At 1 January 2003	1,385	2,142	3,527
Charge for the year	207	495	702
Written back on disposal	(89)	–	(89)
At 31 December 2003	1,503	2,637	4,140
Net book value:			
At 31 December 2003	**387**	**592**	**979**
At 31 December 2002	467	1,087	1,554

(c) The analysis of cost or valuation of land and buildings is as follows:

	Group	
	2003	2002
	$'000	*$'000*
Held in Hong Kong under long-term leases	**47,084**	47,084
Held outside Hong Kong in the PRC under medium-term leases	**86,294**	54,795
Held outside Hong Kong in the PRC under short-term leases	**4,228**	8,690
	137,606	110,569

(d) Land and buildings held by certain subsidiaries with carrying value of $13,842,000 (2002: $14,176,000) were pledged as securities for banking facilities of $97,100,000 (2002: $116,700,000), which were utilised to the extent of $16,563,000 (2002: $43,456,000) at 31 December 2003 (note 27).

17 GOODWILL

Group

	Positive goodwill restated $'000	Negative goodwill $'000	Total restated $'000
Cost:			
At 1 January 2003	22,626	(1,654)	20,972
Addition arising on acquisition of subsidiaries	3,553	–	3,553
At 31 December 2003	26,179	(1,654)	24,525
Accumulated amortisation/ impairment loss:			
At 1 January 2003	2,322	–	2,322
Amortisation for the year	2,298	(120)	2,178
Impairment loss	18,041	–	18,041
At 31 December 2003	22,661	(120)	22,541
Carrying amount:			
At 31 December 2003	**3,518**	**(1,534)**	**1,984**
At 31 December 2002 (restated)	20,304	(1,654)	18,650

Positive/negative goodwill is recognised as expense/income on a straight-line basis over 10 or 15 years. The amortisation of positive and negative goodwill for the year are included in "Other operating expenses" in the consolidated income statement.

18 OTHER INTANGIBLE ASSETS

Group

	Computer software $'000
Cost:	
At 1 January and 31 December 2003	10,178
Accumulated amortisation/impairment loss:	
At 1 January and 31 December 2003	10,178
Net book value:	
At 31 December 2003	**–**
At 31 December 2002	–

19 INTEREST IN SUBSIDIARIES

	Company 2003 $'000	2002 $'000
Unlisted investments, at cost	**301,307**	318,824
Amounts due from subsidiaries	**689,486**	516,152
Amounts due to subsidiaries	**(1,784)**	(17,534)
	989,009	817,442
Impairment loss	**(175,389)**	(202,882)
	813,620	614,560

Details of the principal subsidiaries are set out in note 42 on the financial statements.

20 INTEREST IN ASSOCIATES

	Group		Company	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Unlisted investments, at cost	**–**	–	**112,520**	115,691
Share of net assets	**144,276**	138,971	**–**	–
Goodwill	**43,183**	45,579	**–**	–
	187,459	184,550	**112,520**	115,691
Impairment loss	**(17,503)**	(4,899)	**(14,800)**	(3,430)
	169,956	179,651	**97,720**	112,261

(a) At 31 December 2003, the management considered that there is an impairment in the value of interest in Beijing Bailu Office Article Co., Ltd. ("Bailu"), which is under liquidation, and Beijing East.net Information Technology Co., Ltd. ("East.net"), having considered the market demands and financial viability of the business in the foreseeable future. Based on this assessment, the carrying value of East.net and Bailu were written down by $8,656,000 (2002: $3,430,000) and $3,948,000 (2002: $1,469,000) for the year respectively.

(b) Details of the principal associates are set out in note 43 on the financial statements.

21 OTHER FINANCIAL ASSETS

	Group		Company	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Non-trading securities – equity securities				
Listed in Hong Kong	**11,180**	27,520	**11,180**	27,520
Unlisted	**31,862**	27,198	**4,793**	2
	43,042	54,718	**15,973**	27,522
Loan receivable	**15,300**	15,300	**15,300**	15,300
Less: Provision	**(15,300)**	(3,570)	**(15,300)**	(3,570)
	–	11,730	**–**	11,730
	43,042	66,448	**15,973**	39,252
Market value of listed securities	**11,180**	27,520	**11,180**	27,520

21 OTHER FINANCIAL ASSETS *(Continued)*

(a) Included in unlisted equity securities is an approximately 5.54% equity interest in China Cable Information Network Company Limited ("China Cable") with a carrying value of $22,679,000 (2002: $22,785,000) at 31 December 2003. This investment is held in trust on behalf of the Group by Stone Group Corporation, a minority shareholder of the Group.

Pursuant to a series of organisation restructuring steps undertaken by China Cable during the year, additional assets were injected into China Cable in return for equity shares issued to new shareholders, and the Group's equity interest in China Cable was thereby diluted from 9.51% at 31 December 2002 to approximately 5.54% at 31 December 2003.

At 31 December 2002, the management considered that there was an impairment in the value of the investment in China Cable, having considered the market demands and financial viability of the business in the foreseeable future. Based on this assessment, the carrying amount of China Cable was written down by $35,603,000 in 2002 and the cumulative loss of $79,353,000 was transferred from investment revaluation reserve to the income statement. Based on the management's assessment, there was no further impairment in the value of the investment in China Cable as at 31 December 2003.

(b) Loan receivable is the amount advanced to the founders of an associate, East.net which is secured by the 51% equity interest in East.net owned by these founders. Loan receivable is interest bearing at the prevailing lending rate of The Hongkong and Shanghai Banking Corporation Limited and is not expected to be settled within the next twelve months.

22 INVESTMENTS

Group

	Listed in Hong Kong $'000	Listed outside Hong Kong $'000	Total $'000
Equity securities, at market value			
At 1 January 2002	–	–	–
Transfer from interest in associate	–	131,694	131,694
Addition during the year	2,020	–	2,020
Net unrealised (loss)/gain during the year	(620)	348,704	348,084
At 31 December 2002 and 1 January 2003	1,400	480,398	481,798
Disposal during the year	–	(155,452)	(155,452)
Net unrealised gain during the year	340	1,354,004	1,354,344
At 31 December 2003	**1,740**	**1,678,950**	**1,680,690**

Equity securities listed outside Hong Kong represent ordinary shares of SINA Corporation ("SINA") with nominal value of US$0.133 (equivalent to $1.04) each. SINA is incorporated in the Cayman Islands and listed on NASDAQ in the United States.

23 INVENTORIES

	Group	
	2003 **$'000**	2002 $'000
Trading and manufacturing		
Raw materials	**14,510**	12,157
Work in progress	**3,599**	12,658
Finished goods	**128,434**	109,417
	146,543	134,232
Property development		
Properties held for sale	**10,131**	30,160
	156,674	164,392

The amount of trading and manufacturing inventories carried at net realisable value is $21,168,000 (2002: $33,661,000).

Properties held for sale are carried at net realisable value based on management estimates by reference to prevailing market conditions.

24 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Debtors, prepayments and other receivables	**360,610**	188,594	**244,204**	8,835
Gross amount due from customers for contract work	**10,897**	16,175	**–**	–
Amounts due from associates	**14,182**	10,916	**5,066**	–
Amounts due from related companies	**23,207**	35,258	**1,786**	2,581
	408,896	250,943	**251,056**	11,416

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

A credit period of 60 days to 90 days is normally granted to trade customers. Debtors with balances that are more than 6 months overdue are requested to settle all outstanding balances before any further credit is granted.

Included in the Group's debtors, prepayments and other receivables are trade debtors (net of specific and general provision for bad and doubtful debts) with the following ageing analysis:

	Group	
	2003	2002
	$'000	*$'000*
Current	**45,206**	105,047
Due over 6 months but within 12 months	**629**	9,956
Due over 12 months but within 24 months	**819**	1,089
	46,654	116,092

25 PLEDGED DEPOSITS

	Group		Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Pledged deposits with banks	**15,530**	3,357	**15,530**	–

At 31 December 2003, fixed deposits of $15,530,000 were pledged as security against general banking facilities extended to a subsidiary. In 2002, fixed deposits of $3,357,000 were pledged in respect of a bank guarantee issued to a customer of a subsidiary.

26 CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Deposits with banks and other financial institutions	**233,023**	41,856	**170,160**	–
Cash at bank and in hand	**290,511**	171,836	**165,812**	1,864
Cash and cash equivalents in the balance sheets and cash flow statement	**523,534**	213,692	**335,972**	1,864

27 BANK LOANS

	Group	
	2003	2002
	$'000	*$'000*
Secured *(Note)*	**16,563**	43,465
Unsecured	**18,530**	3,206
	35,093	46,671
Bank loans are repayable as follows:		
Within 1 year or on demand	**31,093**	34,671
Between 1 year and 2 years	**4,000**	12,000
	35,093	46,671

Note: The banking facilities of the Company and certain subsidiaries are secured by fixed deposits of $15,530,000 (2002: $Nil), mortgages over their land and buildings with an aggregate carrying value of $13,842,000 (2002: $14,176,000) and an investment property of a related company with carrying value of $3,000,000 (2002: $3,000,000) at 31 December 2003. Such banking facilities amounting to $97,100,000 (2002: $116,700,000), were utilised to the extent of $16,563,000 (2002: $43,465,000) at 31 December 2003 (note 16(d)).

28 OTHER LOAN

	Group	
	2003	2002
	$'000	*$'000*
Secured and repayable within 1 year or on demand	**116,475**	–

The other loan is secured by 2,000,000 ordinary shares of SINA held by the Group with carrying value of US$67.5 million (equivalent to approximately $524 million) as at 31 December 2003. The other loan bears interest at a rate of LIBOR plus 1% per annum and is repayable on demand.

29 TRADE AND OTHER PAYABLES

	Group		Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Creditors, accruals and other payables	**141,877**	196,099	**5,623**	3,654
Amounts due to associates	**518**	94	**–**	–
Amounts due to related companies	**9,352**	9,057	**275**	–
	151,747	205,250	**5,898**	3,654

Included in the Group's creditors, accruals and other payables are trade creditors with the following ageing analysis:

	Group	
	2003	2002
	$'000	*$'000*
Due within 6 months or on demand	**53,700**	97,243
Due after 6 months but within 12 months	**2,697**	2,704
Due after 12 months but within 24 months	**1,153**	3,280
Due after 24 months but within 36 months	**1,173**	5,570
	58,723	108,797

30 CONVERTIBLE NOTES

	Group and Company	
	2003	2002
	$'000	*$'000*
Balance at 31 December	**210,000**	–

(a) On 6 June 2003, the Company and a placing agent entered into an agreement whereby (i) the placing agent agreed to procure subscribers to subscribe as principals for the convertible notes of a principal amount of at least $50 million, and (ii) the Company granted to the placing agent the option ("the Option") to require the Company to issue additional convertible notes up to an additional principal amount of $350 million for subscription by the subscribers upon the terms and conditions of the placing agreement. The Option is exercisable by placing agent on or before 13 January 2005.

(b) On 14 July 2003 and 20 October 2003, convertible notes of $50 million and $170 million were issued respectively. The convertible notes bear interest at a rate of 3% per annum, payable annually in arrears with the first interest payment for each convertible note to be made on the date falling twelve months from the date of issue of such convertible note.

(c) The convertible notes will be redeemed at 100% of the principal amount plus any accrued and unpaid interest on the maturity date. The Company can redeem in whole or in part the issued convertible notes prior to their maturity dates by serving at least seven calendar days written notice and payment of 100% of the principal amount plus an early redemption fee of 7% on the redeemed amount and any accrued and unpaid interest. The convertible note holders can, by written notice to the Company, within fourteen days immediately after the expiry of a six-month period following the date of issue of the respective convertible notes, require the Company to redeem the convertible notes at an amount equivalent to 100% of the principal amount of the convertible notes plus a 1.7% premium.

(d) The convertible notes are convertible at any time on the day following 90 calendar days after the date of issue of the convertible notes up to the fourteenth days prior to and exclusive of the maturity date at a conversion price of $0.52 per share. The maturity date of each convertible note is the date falling sixty months from (and inclusive of) the date of issue of such convertible note.

(e) On 30 October 2003, $10 million convertible notes were converted into 19,230,769 ordinary shares of the Company (note 32).

(Expressed in Hong Kong dollars)

31 EQUITY COMPENSATION BENEFITS

The Group adopted a new share option scheme (the "New Scheme") pursuant to the shareholders' resolution in a general meeting on 12 April 2002, following the amendments on the Listing Rules which came into effect from September 2001. Pursuant to the New Scheme, no further options will be granted under the old share option scheme that was adopted on 23 July 1993 (the "Old Scheme") after 12 April 2002 but the provisions of the Old Scheme remain in force and all options granted prior thereto will continue to be valid and exercisable in accordance with the provisions of the Old Scheme. During the year, all options issued under the Old Scheme were lapsed.

Under the terms of the New Scheme, the directors may at their discretion invite employees and directors of the Company or any of its subsidiaries and associates to take up options to subscribe for shares of the Company. The New Scheme shall be valid and effective for a period of ten years, ending on 11 April 2012, after which no further options will be granted. The exercise price of options is determinable by the board and is the highest of (i) the nominal value of the shares (ii) the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange") for five business days immediately preceding the date of the grant and (iii) the closing price of the shares on the Stock Exchange on the date of the offer.

The exercise period of the options granted is determinable by the board, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant. A nominal consideration of $1 is payable on acceptance of the grant of options. Each option gives the holder the right to subscribe for one share.

(a) Movements in share options

	2003 Number	2002 Number
At 1 January	**265,363,000**	25,651,000
Granted	**–**	239,712,000
Lapsed	**(55,851,000)**	–
Exercised *(note 32)*	**(250,000)**	–
At 31 December	**209,262,000**	265,363,000
Options vested at 31 December	**170,112,000**	198,988,000

(Expressed in Hong Kong dollars)

31 EQUITY COMPENSATION BENEFITS *(Continued)*

(b) Terms of unexpired and unexercised share options at balance sheet date

Date granted	Exercise period	Exercise price	2003 Number	2002 Number
29 February 2000	29 August 2000 to 22 July 2003	$2.796	**–**	11,500,000
15 August 2001	15 February 2002 to 22 July 2003	$0.7264	**–**	14,151,000
22 May 2002	22 May 2002 to 21 May 2012	$0.792	**17,356,000**	39,356,000
22 May 2002	22 August 2002 to 21 May 2012	$0.792	**19,325,000**	20,125,000
22 May 2002	22 August 2003 to 21 May 2012	$0.792	**19,575,000**	20,125,000
22 May 2002	22 August 2004 to 21 May 2012	$0.792	**19,575,000**	20,125,000
22 May 2002	22 August 2005 to 21 May 2012	$0.792	**19,575,000**	20,125,000
31 December 2002	31 December 2002 to 30 December 2012	$0.476	**113,856,000**	113,856,000
31 December 2002	31 March 2003 to 30 December 2012	$0.476	**–**	1,500,000
31 December 2002	31 March 2004 to 30 December 2012	$0.476	**–**	1,500,000
31 December 2002	31 March 2005 to 30 December 2012	$0.476	**–**	1,500,000
31 December 2002	31 March 2006 to 30 December 2012	$0.476	**–**	1,500,000
			209,262,000	265,363,000

31 EQUITY COMPENSATION BENEFITS *(Continued)*

(c) Details of share options granted during the year

Exercise period	Exercise price	2003 Number	2002 Number
22 May 2002 to 21 May 2012	$0.792	–	119,856,000
31 December 2002 to 30 December 2012	$0.476	–	119,856,000
		–	239,712,000

(d) Details of share options exercised during the year

Exercise date	Exercise price	Market value per share at exercise date	Proceeds received	Number
25 August 2003	$0.792	$0.85	$198,000	250,000

32 SHARE CAPITAL

	2003		2002	
	Number of shares	**Amount**	Number of shares	Amount
	'000	***$'000***	*'000*	*$'000*
Authorised:				
Ordinary shares of $0.10 each	**3,000,000**	**300,000**	2,000,000	200,000
Issued and fully paid:				
At 1 January	**1,198,565**	**119,856**	1,198,565	119,856
Shares issued under share option scheme *(note 31)*	**250**	**25**	–	–
Shares issued upon conversion of convertible notes *(note 30)*	**19,231**	**1,924**	–	–
At 31 December	**1,218,046**	**121,805**	1,198,565	119,856

33 RESERVES

(a) Group

	Capital redemption reserve $'000	Share premium $'000	Capital reserve $'000	Investment revaluation reserve $'000	Exchange fluctuation reserve $'000	Retained profits/ (accumulated losses) $'000	Total $'000
At 1 January 2003							
– as previously reported	151	1,022,607	15,274	(24,080)	(2,325)	(198,174)	813,453
– prior period adjustment in respect of deferred taxation *(note 2)*	–	–	–	–	–	3,015	3,015
– as restated	151	1,022,607	15,274	(24,080)	(2,325)	(195,159)	816,468
Share premium on issue of shares							
– under share option scheme	–	169	–	–	–	–	169
– upon conversion of convertible notes	–	8,039	–	–	–	–	8,039
Capital reserve released on disposal of a subsidiary	–	–	(1,017)	–	–	–	(1,017)
Exchange differences arising on consolidation	–	–	–	–	3,890	–	3,890
Unrealised loss on revaluation of investments in securities	–	–	–	(16,340)	–	–	(16,340)
Impairment loss realised to consolidated income statement	–	–	–	40,420	–	–	40,420
Profit for the year	–	–	–	–	–	801,186	801,186
At 31 December 2003	**151**	**1,030,815**	**14,257**	**-**	**1,565**	**606,027**	**1,652,815**
Attributable to:							
The Company and subsidiaries	151	1,030,815	14,257	–	(7,503)	624,556	1,662,276
Associates	–	–	–	–	9,068	(18,529)	(9,461)
	151	**1,030,815**	**14,257**	**-**	**1,565**	**606,027**	**1,652,815**

33 RESERVES *(Continued)*

(a) Group *(Continued)*

	Capital redemption reserve	Share premium	Capital reserve	Investment revaluation reserve	Exchange fluctuation reserve	Accumulated losses	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2002							
– as previously reported	151	1,022,607	15,267	(48,480)	(7,188)	(234,919)	747,438
– prior period adjustment in respect of deferred taxation *(note 2)*	–	–	–	–	–	3,114	3,114
– as restated	151	1,022,607	15,267	(48,480)	(7,188)	(231,805)	750,552
Capital reserve released on disposal of a subsidiary and an associate	–	–	7	–	–	–	7
Exchange differences arising on consolidation	–	–	–	–	4,863	–	4,863
Unrealised loss on revaluation of investments in securities	–	–	–	(54,953)	–	–	(54,953)
Impairment loss realised to consolidated income statement	–	–	–	79,353	–	–	79,353
Profit for the year	–	–	–	–	–	36,646	36,646
At 31 December 2002	151	1,022,607	15,274	(24,080)	(2,325)	(195,159)	816,468
Attributable to:							
The Company and subsidiaries	151	1,022,607	15,274	(24,080)	(5,608)	(191,813)	816,531
Associates	–	–	–	–	3,283	(3,346)	(63)
	151	1,022,607	15,274	(24,080)	(2,325)	(195,159)	816,468

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

The capital reserve and exchange fluctuation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill arising on or derived from acquisition or disposal of subsidiaries and associates and the foreign currency translation.

The investment revaluation reserve has been set up and will be dealt with in accordance with the accounting policies adopted for the gain or loss on revaluation and disposal of non-trading securities.

33 RESERVES *(Continued)*

(b) Company

	Capital redemption reserve $'000	Share premium $'000	Investment revaluation reserve $'000	Retained profits/ (accumulated losses) $'000	Total $'000
At 1 January 2003	151	1,022,607	(24,080)	(341,281)	657,397
Unrealised loss on revaluation of investments in securities	–	–	(16,340)	–	(16,340)
Impairment loss realised to income statement	–	–	40,420	–	40,420
Share premium on issue of shares					
– under share option scheme	–	169	–	–	169
– upon conversion of convertible notes	–	8,039	–	–	8,039
Profit for the year	–	–	–	507,562	507,562
At 31 December 2003	**151**	**1,030,815**	**–**	**166,281**	**1,197,247**
At 1 January 2002	151	1,022,607	(4,730)	(231,519)	786,509
Unrealised loss on revaluation of investments in securities	–	–	(19,350)	–	(19,350)
Loss for the year	–	–	–	(109,762)	(109,762)
At 31 December 2002	151	1,022,607	(24,080)	(341,281)	657,397

At 31 December 2003, the amount of distributable reserves of the Company amounted to $166,281,000 (2002: $Nil).

34 DEFERRED TAXATION

(a) Deferred tax assets and liabilities recognised:

(i) *Group*

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of related depreciation	Deferred revenue	Provision for obsolete inventories	Provision for bad and doubtful debts	Reversal of overprovision and accruals	Tax losses	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Deferred tax arising from:							
At 1 January 2002							
– as previously reported	–	–	–	–	–	–	–
– prior period adjustments	62	–	(1,775)	(3,105)	743	(62)	(4,137)
– as restated	62	–	(1,775)	(3,105)	743	(62)	(4,137)
Charged/(credited) to consolidated income statement	69	(472)	658	447	(433)	(69)	200
At 31 December 2002 (restated)	131	(472)	(1,117)	(2,658)	310	(131)	(3,937)
At 1 January 2003							
– as previously reported	–	–	–	–	–	–	–
– prior period adjustments	131	(472)	(1,117)	(2,658)	310	(131)	(3,937)
– as restated	131	(472)	(1,117)	(2,658)	310	(131)	(3,937)
Charged/(credited) to consolidated income statement	(64)	(328)	(605)	(284)	(87)	64	(1,304)
At 31 December 2003	**67**	**(800)**	**(1,722)**	**(2,942)**	**223**	**(67)**	**(5,241)**

34 DEFERRED TAXATION *(Continued)*

(a) Deferred tax assets and liabilities recognised: *(Continued)*

(ii) Company

	Depreciation allowances in excess of related depreciation	Tax losses	Total
	$'000	*$'000*	*$'000*
At 1 January 2002			
– as previously reported	–	–	–
– prior period adjustments	62	(62)	–
– as restated	62	(62)	–
Charged/(credited) to income statement	69	(69)	–
At 31 December 2002 (restated)	131	(131)	–
At 1 January 2003			
– as previously reported	–	–	–
– prior period adjustments	131	(131)	–
– as restated	131	(131)	–
Charged/(credited) to income statement	(64)	64	–
At 31 December 2003	**67**	**(67)**	**–**

(b) Deferred tax assets not recognised:

The Group has not recognised deferred tax assets in respect of unused tax losses of $28,178,000 (2002: $19,136,000) and deductible temporary differences of $37,273,000 (2002: $33,656,000) as it is not probable that there will be sufficient taxable profits available against which the unused tax losses and deductible temporary differences can be utilised. The tax losses do not expire under current tax legislation.

35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

During the year, the Group acquired an additional 45% equity interest in Shanghai Stone Hu Guang Technology Shareholding Limited ("Shanghai Hu Guang") and 9.3% equity interest in Shenzhen Shentong Printing Equipment Co., Ltd ("SSPE") from the minority shareholders of Shanghai Hu Guang and SSPE.

	2003	2002
	$'000	*$'000*
Net assets acquired:		
Property, plant and equipment	**–**	8,212
Inventories	**–**	4,329
Debtors, prepayments and other receivables	**–**	619
Cash at bank and in hand	**–**	420
Amounts due to group companies	**–**	(2,084)
Creditors, accruals and other payables	**–**	(4,342)
Minority shareholders' interests	**4,033**	(3,347)
	4,033	3,807
Goodwill on acquisition of subsidiaries	**3,553**	(1,654)
Total consideration	**7,586**	2,153
Satisfied by:		
Cash consideration	**4,961**	2,153
Trade and other payables	**2,625**	–
	7,586	2,153

35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries

	2003	2002
	$'000	*$'000*
Cash consideration	**(4,961)**	(2,153)
Cash and cash equivalents acquired	**–**	420
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(4,961)**	(1,733)

(c) Disposal of interest in subsidiaries

	2003	2002
	$'000	*$'000*
Net assets disposed of:		
Property, plant and equipment	**1,304**	1,338
Inventories	**–**	1,794
Debtors, prepayments and other receivables	**3,688**	7,744
Cash at bank and in hand	**5,381**	140
Bank loans	**–**	(660)
Creditors, accruals and other payables	**(8,369)**	(9,383)
Minority shareholders' interests	**(3,232)**	2,310
	(1,228)	3,283
Capital reserve released on disposal	**(1,017)**	7
Profit/(loss) on disposal	**2,853**	(3,290)
	608	–
Satisfied by:		
Other receivables	**608**	–

(d) Analysis of the net outflow of cash and cash equivalents in respect of the disposal of interests in subsidiaries

	2003	2002
	$'000	*$'000*
Net outflow of cash and cash equivalents in respect of the disposal of interests in subsidiaries represents cash at bank and in hand disposed of	**(5,381)**	(140)

36 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2003 not provided for in the financial statements were as follows:

	Group		Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Contracted for	**15,017**	1,024	**833**	1,024

(b) Operating lease commitments

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

	Group		Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Within 1 year	**4,786**	4,171	**312**	120
After 1 year but within 5 years	**4,419**	4,970	**252**	–
After 5 years	**1,305**	1,990	**–**	–
	10,510	11,131	**564**	120

37 CONTINGENT LIABILITIES

	Group		Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Guarantees given to banks in respect of credit facilities granted to subsidiaries	**–**	–	**121,848**	121,848
Counter guarantee for bank loans given to an associate	**36,363**	52,867	**36,363**	52,867
	36,363	52,867	**158,211**	174,715

38 MATERIAL RELATED PARTY TRANSACTIONS

The following material transactions with related parties were, in the opinion of the directors, carried out in the ordinary course of business and on normal commercial terms:

		2003	2002
		$'000	$'000
(a)	Transactions with and amounts paid to or received from Stone Group Corporation, a minority shareholder of the Group:		
	Sale of traded products	**20,072**	19,325
	Purchase of traded products and component parts	**167**	124
	Management fees (based on actual cost incurred) paid in relation to training, secretarial and general administrative services *(note (i))*	**2,873**	2,592
	Interest received	**51**	265
	Rental paid for staff quarters	**999**	537
	Rental income on properties *(note (ii))*	**1,212**	1,471
	Handling fee *(note (iii))*	**784**	1,197
(b)	Purchase of traded products and component parts from a minority shareholder of a subsidiary	**32,981**	57,460
(c)	Transactions with associates of the Group		
	– Sales of traded products	**23**	2,155
	– Purchases of traded products and component parts	**–**	8,058
	– Interest received	**75**	–

(d) One of the subsidiaries of Stone Group Corporation ("SGC Company") entered into an agreement with a non-wholly owned subsidiary of the Group, whereby certain units of the investment property owned by this subsidiary are leased to SGC Company. SGC Company may sub-lease the units and will bear all the expenses of the investment property. The Group is entitled to share a portion of the net profit but not the loss, after deduction of expenses and relevant taxes, generated by SGC Company from leasing activities. A profit of Rmb400,000 (equivalent to approximately $375,000) was shared by the Group in this arrangement for the year ended 31 December 2003 (2002: $Nil).

(e) The Group placed deposits totalling $4,933,000 (2002: $7,841,000) as at 31 December 2003 with Beijing Stone Finance Company, a subsidiary of Stone Group Corporation and a licensed financial company in the PRC.

38 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(f) Stone Group Corporation holds in trust for Beijing Stone Electronic an approximately 5.54% investment in China Cable pursuant to an agreement entered into between the two parties in April 2003. In addition, Beijing Stone Electronic has the right to sell to the Stone Group Corporation (which has the obligation to buy) its 5.54% equity interest in China Cable at a consideration equals to the fair value of the investment at the time of sales but to be capped at the original investment cost of $108,388,000. The effective period for exercising such right will end on 31 December 2005.

(g) Stone Advance Technology Limited, a wholly-owned subsidiary of the Group has entered into sales arrangements from time to time in respect of the sales of GSM module and GPS board to Beijing Yizhou Qicheng Information Technology Co Ltd ("Beijing Yizhou"), a subsidiary of Beijing Centek Data Communication Technology Co Ltd ("Beijing Centek"). Beijing Centek is a subsidiary of Beijing Centergate Technologies (Holdings) Co., Ltd ("Centergate"). Centergate is the major investor of an associate of the Group, and the Group's Chairman, Mr Duan Yongji is the Chief Executive Officer and director of Centergate. The amount due from Beijing Yizhou amounted to US$1,044,472 (equivalent to approximately $8,146,000) as at 31 December 2002 has not been settled during the year. This outstanding balance as at 31 December 2003 has been fully provided for as management consider the amount is irrecoverable.

(h) During the year, Key Success Trading Limited and Gold Vantage Investments Limited, wholly-owned subsidiaries of the Group, have entered into sales and purchase agreements with Centergate for the purchase of two office units located at Zhongguancun High-Tech Trade Centre in Beijing for a total consideration of Rmb65,167,000 (equivalent to approximately $61,132,000).

(i) On 3 December 2003, Beijing Stone Computer Co., Ltd. ("Beijing Stone Computer"), a 51% owned subsidiary of the Group made an advance in the amount of Rmb5,000,000 (equivalent to approximately $4,690,000) to Beijing Orientstar Information Technology Co., Ltd. ("Beijing Orientstar"). The advance is repayable on 3 April 2004 and bears interest at a fixed rate of 5.6% per annum. Beijing Orientstar is owned as to 25% by Beijing Yizhou and 75% by a third party. The advance has been subsequently repaid on 6 February 2004.

(j) Stone Group Corporation and Beijing Stone Electronic Technology Co., Ltd. ("Beijing Stone Electronic") entered into two loan agreements ("Loan Agreements") on 22 September 2003 and 23 September 2003 respectively with Guangdong Development Bank ("GDB"). Pursuant to the Loan Agreements, GDB advanced two loans ("the Loans") in the total sum of Rmb12,000,000 to Stone Group Corporation for a term of six months from 22 September 2003 and 23 September 2003 respectively. In addition, Beijing Stone Electronic entered into two pledge agreements ("Pledge Agreements") on 22 September 2003 and 23 September 2003 respectively with GDB. Pursuant to the Pledge Agreements, Beijing Stone Electronic placed two fixed deposits in a total amount of Rmb12,600,000 (equivalent to approximately $11,820,000) as a pledge for granting the Loans to Stone Group Corporation by GDB. The Loans have been repaid in December 2003 and the pledged deposits were released accordingly.

38 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

(i) On 24 September 2003, the Company entered into a management contract whereby Stone Group Corporation agreed to provide secretarial and other related services and the use of office equipment to the Group at reimbursement cost which shall not exceed $3,500,000 per annum for a term of five years commencing from 23 July 2003.

(ii) A subsidiary of the Group acquired the Stone Building situated in Beijing from Stone Group Corporation during 1996 and leased various units of the Stone Building to Stone Group Corporation for a lease term of three years commencing from 1 August 1996. The lease term has been renewed on an annual basis thereafter. The rental income received for the year ended 31 December 2003 was calculated at a daily rate of Rmb6 per square metre which was considered to be not materially different from the then market rental.

(iii) In March 1999, Beijing Stone New Technology Industrial Company Limited ("Beijing New Technology") entered into an agreement with Stone Group Corporation, pursuant to which Beijing New Technology appointed Stone Group Corporation to act as its agent to deal with all import procedural matters during the year 2000. The agreement may be renewed on an annual basis thereafter. A handling fee was payable to Stone Group Corporation pursuant to the agreement and was calculated at 1.3% of the cost of goods shipped which was considered to be not materially different from the then market price.

39 POST BALANCE SHEET EVENTS

(a) In December 2003, Beijing Stone Computer entered into a joint venture agreement with 新會江裕信息產業有限公司 ("Xinhui Jiangyu") to establish an equity joint venture, Beijing Stone Business Information Technology Ltd ("Beijing SBIT") of which Beijing Stone Computer and Xinhui Jiangyu owned 80% and 20% equity interest, satisfied by cash contribution of Rmb15,120,000 and Rmb3,780,000 respectively. Beijing SBIT was established subsequently on 2 March 2004 and both parties have made their respective capital contributions.

(b) On 3 December 2003, Stone Giant Life Sciences Development Limited ("Stone Giant"), a wholly owned subsidiary of the Group entered into a conditional sale and purchase agreement ("S&P agreement") with Ready Finance Limited ("Ready Finance") to acquire the entire issued share capital of Central New International Limited ("Central New") which holds 75% equity interest in Shanghai GoldPartner Biotech Co., Ltd. ("GoldPartner Biotech"). The purchase consideration is $1,171,955,403 and will be satisfied as to $600,000,000 by cash and as to the remaining of $571,955,403 by the issue of convertible notes of the Company. Stone Giant has paid US$15,000,000 (equivalent to $117,000,000) and $120,000,000 to Ready Finance for the year and the amount has been included in "Trade and other receivables" (note 24). Details of the acquisition were set out in the circular dated 4 February 2004 issued to the shareholders.

Pursuant to the S&P agreement, Ready Finance will provide a guarantee for the audited profits after taxation and minority interests of GoldPartner Biotech for the year ended 31 December 2003, and for the two consecutive twelve-month periods commencing from the transaction completion date would not be less than Rmb90,000,000, Rmb170,000,000 and Rmb170,000,000 respectively ("Guaranteed Profit"). In the event that the Guaranteed Profits are less than the specified amounts, Ready Finance will be obliged to pay Stone Giant the compensation as stated in the S&P agreement.

(Expressed in Hong Kong dollars)

39 POST BALANCE SHEET EVENTS *(Continued)*

(b) *(Continued)*

This transaction was completed on 4 March 2004 giving rise to a goodwill of approximately $1,063,000,000 which will be amortised over the estimated useful life of 20 years.

40 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2003 to be Beijing Stone Investment Company Limited, a company established in the PRC.

41 COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of changes in accounting policy for deferred taxation in order to comply with SSAP 12 (revised), details of which are set out in note 2.

42 SUBSIDIARIES

Details of the principal subsidiaries, which materially affected the results or assets of the Group at 31 December 2003, are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid capital/ registered capital	Attributable interest	Principal activities
Stone Advance Technology Limited	Hong Kong	$1,000,000	100%	Sourcing of electronic and office equipment, and component parts
Stone Potant Limited	Hong Kong	$1,000,000	100%	Sourcing of electronic and office equipment, and component parts
Prexton Investment Limited	Hong Kong	$10,000	100%	Property investment
Key Success Trading Limited	Hong Kong	$2	100%	Property investment

(Expressed in Hong Kong dollars)

42 SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid capital/ registered capital	Attributable interest	Principal activities
Gold Vantage Investments Limited	Hong Kong	$2	100%	Property investment
Beijing Stone Electronic Technology Co., Ltd.	PRC	US$20,000,000	100%	Investment holding
Beijing Stone New Technology Industrial Co., Ltd.*	PRC	Rmb175,000,000	100%	Investment holding and distribution and sale of electronic and electrical products and office equipment
Shenzhen Shentong Printing Equipment Co., Ltd.	PRC	US$3,000,000	55%	Provision of sub-contracting services
Shanghai Stone-MTI Computer Engineering Co., Ltd.	PRC	Rmb30,800,000	71%	Provision of comprehensive GIS solutions, software development and integration
Beijing Stone Industrial Control Technology Company Limited*	PRC	Rmb30,000,000	61.67%	Sale of industrial controllers products
Beijing Stone Computer Co., Ltd.* ("Beijing Stone Computer")	PRC	Rmb50,000,000	51%	Manufacture and distribution of computers and network components
Shenyang Stone Limited Liability Company*	PRC	Rmb5,150,723	65%	Sale of electronic and electrical products and office equipment

(Expressed in Hong Kong dollars)

42 SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid capital/ registered capital	Attributable interest	Principal activities
Sun Stone Media Group Limited*	BVI	$8	##51%	Investment holding
Tianjin Stone Computer Equipment Corporation Limited*	PRC	US$800,000	75%	Manufacture and sale of fluorescent electronic ballasts
Stone Online Sci & Tech Co., Ltd. (Beijing)*	PRC	Rmb22,500,000	80%	Investment holding
Shanghai Stone Hu Guang Technology Shareholding Company Limited*	PRC	Rmb14,000,000	^48.96%	Manufacture and distribution of lighting fixtures and sliding doors

* *Indirect holding.*

This subsidiary is 100% owned by Sun Stone New Media Limited in which the Company has 51% direct interest.

^ *This subsidiary is 96% owned by Beijing Stone Computer in which the Company has 51% indirect interest.*

(Expressed in Hong Kong dollars)

43 ASSOCIATES

Details of the principal associates, which materially affected the results or assets of the Group at 31 December 2003, are as follows:

Name of company	Place of establishment and operation	Registered capital	Attributable interest	Principal activities
Beijing GOT Business Computer Systems Co., Ltd.*	PRC	US$5,000,000	20%	Manufacture of electronic cash registers
Beijing Stone Zhi Neng Construction System Company*	PRC	Rmb15,000,000	40%	Installation of intelligent system for housing estates and commercial buildings
Beijing Stone Digital Technology Co., Ltd.*	PRC	Rmb50,000,000	30%	Provision of electronic commerce service
Renesas Stone Semiconductor (Beijing) Co., Ltd.	PRC	US$40,370,000	21.7%	Package and testing of Mitsubishi's semiconductor chips
Beijing East.net Information Technology Co., Ltd*	PRC	Rmb8,276,800	49%	Provision of internet related services
Dalian Free-trading Zone Hua Qing International Engineering & Trading Co., Ltd	PRC	Rmb24,000,000	51%	Provision of e-commerce and logistic management
Censoft Company Limited*	PRC	Rmb30,000,000	30%	Development and distribution of application software

* *Indirect holding.*