

Notes to Financial Statements

For the year ended 31 December 2003

1. GENERAL

The Company is a public limited company incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The trading of the shares of the Company in the Stock Exchange was suspended with effect from 9:30 a.m. on 17 June 2004 pending the publication of an announcement in relation to price-sensitive information of the Company.

The Company is an investment holding company. During the year ended 31 December 2003, its subsidiaries were engaged in the following principal activities:

- property investment and development
- financial services
- trading of computer products and office equipment (discontinued operations – Note 6)
- provision of information technology training and software development services (discontinued operations – Note 6)

Its associates were principally engaged in the business of property development, securities broking, underwriting and placing services, and management and consultancy services during the year ended 31 December 2003. On 18 October 2004, one of its associates, Koffman Securities Limited ("Koffman Securities") ceased its securities broking, underwriting and placing services, and management and consultancy services due to the continuous decline in turnover for the previous years. Following the cessation of business of Koffman Securities, the directors resolved on 20 October 2004 to cease the securities broking services and investment operations of the Group (discontinuing operations – Note 6).

In the opinion of the directors, the Company's ultimate holding company is Kong Fa Holding Limited ("Kong Fa"), which is incorporated in the British Virgin Islands.

2. BASIS OF PRESENTATION

At 31 December 2003, the Group had net current liabilities of approximately HK\$38,997,000. For the years ended 31 December 2003 and 2002, the Group also incurred significant losses from operations of approximately HK\$315,684,000 and HK\$58,984,000 respectively. During the year ended 31 December 2003 and up to the date of approval of the financial statements, the Group has defaulted in respect of the repayments of certain bank and other borrowings. As a consequence, there are various lawsuits against the Group from a number of bankers for the repayment of the amounts due by the Group (Notes 36 and 42). Hence, bank and other borrowings of approximately HK\$39,611,000 (outstanding balance at 31 December 2003) are immediately due and payable and, accordingly, have been classified as current liabilities. Up to the date of the approval of the financial statements, no winding up proceedings against the Group have so far been taken.

The financial statements have been prepared on the assumption that the Group will continue to operate as a going concern notwithstanding the conditions prevailing at 31 December 2003 and subsequent thereto up to the date of approval of the financial statements. In order to improve the Group's financial position, immediate liquidity and cash flows, the following measures/arrangements have been implemented:

- (a) Pursuant to a settlement agreement dated 10 May 2004 entered into between Best Spot Investments Limited ("Best Spot"), a wholly owned subsidiary of the Company, and Beijing Tianheng Property Development Joint Stock Company Limited ("Beijing Tianheng") in connection with the disposal of 80.1% of the registered capital of Kong Sheng Property Development Limited ("Kong Sheng") (details of which are set out in Notes 24 and 27(a)), the Group anticipates to receive approximately HK\$18,691,000 in early 2005 and approximately HK\$52,336,000 by the end of 2005 from Beijing Tianheng. Moreover, an amount of approximately HK\$7,652,000 represents the balance of the proceeds on the disposal of 10% of the registered capital of Kong Sheng to Guoco Properties Limited ("Guoco Properties") (details of which are set out in Note 24) is withheld by Beijing Tianheng and shall be released by Beijing Tianheng and received by the Group by the end of 2005. Hence, the receipt of the abovementioned amounts enables the Group to have sufficient cash to meet all its obligations.

Notes to Financial Statements

For the year ended 31 December 2003

2. BASIS OF PRESENTATION (Continued)

- (b) Kong Sun Enterprise Sdn. Bhd. ("KSE") and Kong Fa, the Company's substantial shareholders, agreed to continue to provide financial support to the Group for its operations and to meet its obligations in the foreseeable future.
- (c) The Group has negotiated with its bankers and creditors to reschedule the repayment terms of borrowings/liabilities. Certain repayment schedule/agreements have been concurred by the bankers and creditors.
- (d) The Group is in the process of identifying/negotiating with potential investors for new equity or financing to the Group.
- (e) The Group has been taking ongoing action to tighten cost controls over various general and administrative expenses, and are also actively seeking for new investment and business opportunities aiming for profitable and positive cash flow operations.

In the opinion of the directors, in light of various measures/arrangements implemented to date, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial position and tight cash flows at 31 December 2003.

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

3. ADOPTION OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

The accounting policies used in the preparation of the financial statements are consistent with the previous years except that the Group has adopted the revised Statement of Standard Accounting Practice 12 "Income Taxes" ("SSAP 12 (Revised)") issued by the Hong Kong Institute of Certified Public Accountants which is effective for accounting periods commencing on or after 1 January 2003.

In previous 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 were 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), the Group adopted a new policy for deferred taxation as set out in Note 4(s). The adoption of SSAP 12 (Revised) has had no net effect on the results for the current year or prior accounting periods.

The deferred tax asset arising from tax losses recognised at 1 January 2002 amounted to approximately HK\$487,000. The asset has been offset by the deferred tax liability of the same amount and hence there was no net effect on the opening accumulated losses at 1 January 2002.

At 31 December 2003, there was deferred tax asset arising from tax losses amounted to approximately HK\$674,000 (2002: HK\$555,000). The asset has been offset by the deferred tax liability of the same amount and hence there was no net effect on the results for the years ended 31 December 2003 and 2002.

Notes to Financial Statements

For the year ended 31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong, accounting standards issued by the Hong Kong Institute of Certified Public Accountants and the requirements of the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain equity investments, as further explained below.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill which was not previously charged or recognised as income in the income statement and any related accumulated exchange fluctuation reserve.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

(b) Subsidiaries

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

The Company's interests in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for on the basis of dividends received and receivable.

(c) Joint venture companies

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

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

A joint venture company is treated as:

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

Notes to Financial Statements

For the year ended 31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets of the associates plus goodwill/(negative goodwill) arising on acquisition, less provision for impairment losses.

Equity accounting is discontinued when the carrying amount of the interest in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

(e) Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on a straight-line basis over its estimated useful life of five years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

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

(f) Negative goodwill

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

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

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

In the case of associates, any negative goodwill not yet recognised in the income statement is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised as income in the income statement and any relevant reserves as appropriate.

Notes to Financial Statements

For the year ended 31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fixed assets and depreciation

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

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

Leasehold land	Over the remaining lease terms
Buildings	4%
Leasehold improvements	Over the remaining lease terms or the estimated useful life, whichever is shorter
Office furniture and equipment	15% – 33 $\frac{1}{3}$ %
Motor vehicles	17% – 25%

The gain or loss on disposal or retirement of a fixed asset, other than investment properties, recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(h) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties with unexpired lease terms of more than 20 years are not depreciated and are stated at their open market value on the basis of annual professional valuations performed at the end of each financial year.

Changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the income statement.

(i) Impairment of assets

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

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

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

Notes to Financial Statements

For the year ended 31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Properties under development

Properties under development are stated at cost plus, in the case of pre-sold properties or portions thereof, any attributable profits received on the contracted sales, less any provision for impairment losses. Cost includes the cost of land, construction, financing and other related expenses.

Properties under development held for sale in respect of which occupation permits are expected to be granted within one year from the balance sheet date are included as developed properties held for sale in current assets at the lower of cost and net realisable value. Cost includes all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to the prevailing market prices on an individual property basis.

(k) Profit on sale of properties under development

When properties under development for sale have been pre-sold, the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit recognised on the pre-sold portion of the properties is calculated by reference to the stage of completion of the properties, limited to the extent of non-refundable progress payments received. No profit is recognised until the construction work has progressed to the stage where the eventual completion of the project, and the estimated profit thereon, can be determined with a reasonable degree of certainty.

(l) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the year in which they are incurred.

(m) Leased assets

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

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

Notes to Financial Statements

For the year ended 31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Long term investments

Long term investments are investments in equity securities intended to be held for identified long term purposes documented at the time of acquisition or change of purpose and are clearly identifiable for documented purpose, and are stated at cost less provision for impairment losses, on an individual investment basis. The carrying amounts of the long term investments are reviewed as at the balance sheet date in order to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to the fair values unless there is evidence that the decline is temporary. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to the income statement when the circumstances and events which led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Gains or losses on disposals of long term investments representing the difference between the net sales proceeds and the carrying amounts and are recognised in the income statement as they arise.

(o) Short term investments

Short term investments are investments in equity securities other than long term investments and are stated at their fair value. At each balance sheet date the net unrealised gains or losses arising from the changes in fair value of short term investments are recognised in the income statement.

Gains or losses on disposals of short term investments representing the difference between the net sales proceeds and the carrying amounts and are recognised in the income statement as they arise.

(p) Inventories

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

(q) Provision and contingent liabilities

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

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 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 is remote.

Notes to Financial Statements

For the year ended 31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) 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) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) from the pre-sale of properties under development, on the percentage of completion basis as explained under "profit on sale of properties under development";
- (iii) from the sale of listed investments, commission and brokerage for securities dealing and settlement income, on a transaction date basis;
- (iv) rental income, on a time proportion basis over the lease terms;
- (v) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (vi) management fees, consultancy service income, IT training and software development services income, when the related services are rendered; and
- (vii) dividend income, when the right to receive payment is established.

(s) Taxation

Income tax comprises current tax and movements in deferred tax assets and liabilities.

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

Deferred taxation is the taxation expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

Notes to Financial Statements

For the year ended 31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Foreign currencies

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

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

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

(u) Related parties

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

(v) Employee benefits

(i) Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

(ii) Employment Ordinance long service payments

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

A contingent liability is disclosed in respect of possible future long service payments to employees, as certain current employees have achieved the required number of years of service to the Group as at the balance sheet date, entitling them to long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Notes to Financial Statements

For the year ended 31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Employee benefits (Continued)

(iii) Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' relevant income and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China or Malaysia are required to participate in a central pension scheme operated by the respective local governments. These subsidiaries are required to contribute a specific percentage of its payroll costs to the central pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

(iv) Share option scheme

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

(w) Cash and cash equivalents

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

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

Notes to Financial Statements

For the year ended 31 December 2003

5. REVENUE AND TURNOVER

Turnover represents the gross rental income, proceeds from the pre-sale of properties (adjusted to reflect the stage of completion of construction to the extent that these were not previously recognised), interest income from loan receivables, brokerage commissions, profit on sale of short term investments and net invoiced value of goods sold and services rendered after allowances for returns and trade discounts.

An analysis of turnover and other revenue is as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Continuing operations		
Gross rental income *	10,924	16,520
Proceeds from pre-sale of properties	11,936	22,590
Interest income from loan receivables	11,266	7,670
Consultancy service income	–	1,166
	34,126	47,946
Discontinued/Discontinuing operations (Note 6)		
Sale of goods	89,412	207,464
IT training and software development services income	20	503
Brokerage commissions	–	2,138
Profit on sale of short term investments	–	58
	89,432	210,163
	123,558	258,109
Other revenue		
Management fees	886	222
Negative goodwill arising on acquisition of subsidiaries recognised as income	386	749
Bank interest income	59	102
Write back of accruals	2,000	–
Other income	1,029	1,733
	4,360	2,806
Total revenue	127,918	260,915

Comparative figures have been restated to segregate continuing and discontinued/discontinuing turnover to conform with the current year's presentation.

* During the year ended 31 December 2003, gross rental income from the property investment and development segment of approximately HK\$500,000 (2002: HK\$586,000) was derived from the geographical segment of Mainland China which has been regarded as discontinued operations (Note 6(c)).

Notes to Financial Statements

For the year ended 31 December 2003

6. DISCONTINUED/DISCONTINUING OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Impairment loss of goodwill (Notes (a) and (c))	6,417	–
Loss on disposal of a subsidiary relating to discontinuing operations (Note (c))	121,625	–
Impairment loss recognised in relation to an associate (Note (d))	3,402	–
Loss on discontinued/discontinuing operations	131,444	–

(a) Trading of computer products and office equipment operations

The directors resolved on 1 December 2003 that it would be beneficial for the Group to cease the trading of computer products and office equipment operations and to deploy its resources to other core businesses of the Group as the above operations had incurred substantial losses. The operations of the subsidiaries comprising this segment were terminated accordingly and have been reported as discontinued operations.

The turnover, other revenue, expenses, results, cash flows, total assets and total liabilities relating to the trading of computer products and office equipment operations as of and for the years ended 31 December 2003 and 2002 are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover	89,412	207,464
Other revenue	221	156
Cost of inventories sold	(88,082)	(200,672)
Staff costs	(832)	(2,006)
Depreciation and amortisation	(2,830)	(3,001)
Other operating expenses	(11,907)	(1,112)
Impairment loss of goodwill	(6,403)	–
Net loss on properties and investments	–	(1,822)
Loss from operations	(20,421)	(993)
Finance costs	(1,125)	(800)
Results attributable to an associate	(7,628)	–
Loss from ordinary activities before taxation	(29,174)	(1,793)
Taxation	–	(86)
Loss before minority interests	(29,174)	(1,879)

Notes to Financial Statements

For the year ended 31 December 2003

6. DISCONTINUED/DISCONTINUING OPERATIONS (Continued)

(a) Trading of computer products and office equipment operations (Continued)

	2003 HK\$'000	2002 HK\$'000
Net cash from/(used in) operating activities	4,644	(4,705)
Net cash used in investing activities	(2,069)	(356)
Net cash (used in)/from financing activities	(17,300)	8,566
Total net cash (outflow)/inflow	(14,725)	3,505
Total assets	–	41,089
Total liabilities	–	9,301

Note: Due to a revision of the Company's strategic plan, the directors of the Company is contemplating to revive the trading of computer products and office equipment operations in light of the recent upward wave of economic environment in Hong Kong.

(b) Information technology operations

On 1 December 2003, the directors determined to cease the information technology operations engaging in the provision of information technology training and software development services and to deploy its resources to other core businesses of the Group as the above operations had incurred substantial losses. The operations of the subsidiaries comprising this segment were terminated accordingly and have been reported as discontinued operations.

The turnover, other revenue, expenses, results, cash flows, total assets and total liabilities relating to the information technology operations as of and for the years ended 31 December 2003 and 2002 are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover	20	503
Other revenue	1	5
Cost of inventories sold	–	(279)
Staff costs	(90)	(451)
Depreciation	(114)	(164)
Other operating expenses	(604)	(634)
Loss before minority interests	(787)	(1,020)

Notes to Financial Statements

For the year ended 31 December 2003

6. DISCONTINUED/DISCONTINUING OPERATIONS (Continued)

(b) Information technology operations (Continued)

	2003 HK\$'000	2002 HK\$'000
Net cash used in operating activities	(7)	(47)
Net cash from investing activities	7	–
Total net cash outflow	–	(47)
Total assets	–	2,349
Total liabilities	–	116

(c) Geographical segment of Mainland China

During the year ended 31 December 2003, the Group disposed of 80.1% interest of the registered capital of a subsidiary, which was principally engaged in property development in Xicheng District, Beijing, details of which are set out in Note 24. The loss on disposal of a subsidiary relating to discontinuing operations of approximately HK\$121,625,000 has been charged to the income statement, details of which are set out in Note 41(b). There was no income tax arising from the disposal.

On 20 February 2004, the Group entered into certain sale and purchase agreements to dispose of all its investment properties in Shanghai at a total consideration, net of selling expenses, of approximately HK\$8,589,000. Part of the sale proceeds was used to repay all the related outstanding bank borrowings in Mainland China and the remaining balance was used as the Group's working capital.

As a consequence of the above, the geographical segment of Mainland China of the Group has been reported as discontinuing operations.

Notes to Financial Statements

For the year ended 31 December 2003

6. DISCONTINUED/DISCONTINUING OPERATIONS (Continued)

(c) Geographical segment of Mainland China (Continued)

The turnover, other revenue, expenses, results, cash flows, total assets and total liabilities relating to the abovementioned disposals as of and for the years ended 31 December 2003 (as to the property development in Xicheng District, Beijing, up to the date of disposal) and 2002 are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover	500	586
Other revenue	625	774
Staff costs	(575)	(1,400)
Depreciation and amortisation	(39)	(76)
Other operating expenses	(821)	(2,477)
Impairment loss of goodwill	(14)	–
Deficit on revaluation of investment properties	(12,069)	–
Loss before minority interests	(12,393)	(2,593)
Net cash used in operating activities	(777)	(2,181)
Net cash used in investing activities	(3,377)	(19,049)
Net cash used in financing activities	(2,858)	(11,321)
Total net cash outflow	(7,012)	(32,551)
Total assets	252,290	255,323
Total liabilities	111,124	103,344

Included in total assets are investment properties for which sale and purchase agreements have been entered into and were completed and settled in May 2004. The investment properties were written down to their net selling price of approximately HK\$8,589,000 and a deficit on revaluation of investment properties of approximately HK\$12,069,000 was charged to the income statement.

Notes to Financial Statements

For the year ended 31 December 2003

6. DISCONTINUED/DISCONTINUING OPERATIONS (Continued)

(d) Securities broking and investment operations

In the prior year, the Group acquired 20% interest in Koffman Securities as the consideration for the disposal of a subsidiary.

On 18 October 2004, Koffman Securities ceased its securities broking, underwriting and placing services, and management and consultancy services due to the continuous decline in turnover for the previous years. Following the cessation of business of Koffman Securities, the directors resolved on 20 October 2004 to cease the securities broking services and the trading in listed equity investments operations. An impairment loss of approximately HK\$3,402,000 was recognised against the Group's interest in Koffman Securities.

As a consequence of the above, the securities broking and investment operations of the Group have been reported as discontinuing operations.

The turnover, other revenue, expenses, results, cash flows and total assets relating to the securities broking and investment operations as of and for the years ended 31 December 2003 and 2002 are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover	–	2,196
Other revenue	–	187
Staff costs	–	(1,049)
Depreciation and amortisation	–	(319)
Other operating expenses	–	(1,823)
Impairment loss recognised in relation to an associate	(3,402)	–
Net loss on properties and investments	–	(18,030)
Loss from operations	(3,402)	(18,838)
Finance costs	–	(1)
Results attributable to an associate	(2,162)	(5,068)
Loss before minority interests	(5,564)	(23,907)
Net cash used in investing activities	–	(4,225)
Total assets	–	7,123

Notes to Financial Statements

For the year ended 31 December 2003

7. SEGMENT INFORMATION

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

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

Continuing operations:

- (a) the property investment and development segment invests in land and buildings for its rental income potential and engages in property development;
- (b) the financial services segment engages in the provision of loan finance and corporate finance consultancy services; and
- (c) the corporate and other segment comprises mainly corporate income and expenses items.

Discontinued/Discontinuing operations:

- (d) the trading of computer products and office equipment segment engages in the trading of computer products, related accessories and office equipment;
- (e) the information technology segment engages in the provision of information technology training and software development services; and
- (f) the securities broking and investment segment engages in the provision of securities broking services and the trading in listed equity investments.

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

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

Notes to Financial Statements

For the year ended 31 December 2003

7. SEGMENT INFORMATION (Continued)

Business segments

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

	Continuing operations				Discontinued/Discontinuing operations								Consolidated	
	Property investment and development		Financial services		Trading of computer products and office equipment		Information technology		Securities broking and investment		Eliminations			
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000		
Segment revenue:														
Sales to external customers	22,860	39,110	11,266	8,836	89,412	207,464	20	503	-	2,196	-	-	123,558	258,109
Intersegment sales	1,834	2,328	10,712	6,515	2	5	-	-	-	-	(12,548)	(8,848)	-	-
Other revenue	1,716	1,350	6	420	193	141	1	1	-	155	-	-	1,916	2,067
Total	26,410	42,788	21,984	15,771	89,607	207,610	21	504	-	2,351	(12,548)	(8,848)	125,474	260,176
Segment results	(52,828)	(10,994)	(50,932)	6,237	(14,199)	3,414	(2,214)	(1,592)	-	(1,810)	(12,548)	(8,848)	(132,721)	(13,593)
Bank interest income and unallocated gains													2,444	4,341
Unallocated and corporate													(185,407)	(49,732)
Loss from operations													(315,684)	(58,984)
Finance costs													(7,387)	(5,203)
Share of results of associates													(2,766)	(12,309)
Amortisation of goodwill arising on acquisition of associates													(8,037)	(8,537)
Impairment loss recognised in relation to associates													(7,362)	(45,407)
Impairment loss recognised in relation to goodwill arising on acquisition of associates													-	(1,229)
Negative goodwill arising on acquisition of associates recognised as income													439	907
Loss from ordinary activities before taxation													(340,797)	(130,762)
Taxation													(1,264)	(1,619)
Loss before minority interests													(342,061)	(132,381)
Minority interests													978	(1,475)
Net loss attributable to the shareholders													(341,083)	(133,856)

Notes to Financial Statements

For the year ended 31 December 2003

7. SEGMENT INFORMATION (Continued)

Business segments (Continued)

	Continuing operations				Discontinued/Discontinuing operations								Consolidated			
	Property investment and development		Financial services		Trading of computer products and office equipment		Information technology		Securities broking and investment		Unallocated				Eliminations	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002			2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Segment assets	133,936	594,838	44,867	145,580	-	37,269	-	2,349	-	1,559	-	-	-	(662)	178,803	780,933
Interests in associates	100,299	-	-	-	-	-	-	-	-	*5,564	-	25,028	-	-	100,299	30,592
Unallocated assets and corporate	-	-	-	-	-	-	-	-	-	-	2,160	22,999	-	-	2,160	22,999
Bank overdrafts included in segment assets	-	-	-	-	-	3,820	-	-	-	-	-	-	-	-	-	3,820
Total assets	234,235	594,838	44,867	145,580	-	41,089	-	2,349	-	7,123	2,160	48,027	-	(662)	281,262	838,344
Segment liabilities	6,749	13,291	78	1,136	-	5,481	-	116	-	-	-	-	-	(662)	6,827	19,362
Unallocated liabilities and corporate	-	-	-	-	-	-	-	-	-	-	64,668	199,022	-	-	64,668	199,022
Bank overdrafts included in segment assets	-	-	-	-	-	3,820	-	-	-	-	-	-	-	-	-	3,820
Total liabilities	6,749	13,291	78	1,136	-	9,301	-	116	-	-	64,668	199,022	-	(662)	71,495	222,204
Other segment information:																
Depreciation	1,896	2,981	251	363	33	12	114	164	-	97	-	-	-	-	2,294	3,617
Amortisation																
- subsidiaries	56	729	-	220	2,797	2,989	-	-	-	222	-	-	-	-	2,853	4,160
- associates	2,913	-	-	-	-	-	-	-	-	-	5,124	8,537	-	-	8,037	8,537
	2,969	729	-	220	2,797	2,989	-	-	-	222	5,124	8,537	-	-	10,890	12,697
Deficit on revaluation of investment properties	21,295	-	-	-	-	-	-	-	-	-	-	-	-	-	21,295	-
Impairment loss																
- Fixed assets	295	-	-	-	65	-	-	-	-	-	-	-	-	-	360	-
- Goodwill arising on acquisition of subsidiaries	14	2,846	-	666	6,403	-	-	-	-	-	-	-	-	-	6,417	3,512
- Goodwill arising on acquisition of associates	-	-	-	-	-	-	-	-	-	-	-	1,229	-	-	-	1,229
- Associates	-	-	-	-	7,362	-	-	-	3,402	-	-	45,407	-	-	10,764	45,407
- Long term investments	-	-	-	-	-	-	-	-	-	18,030	-	-	-	-	-	18,030
	309	2,846	-	666	13,830	-	-	-	3,402	18,030	-	46,636	-	-	17,541	68,178
Provision for doubtful debts	1,227	232	66,561	560	10,788	-	-	-	-	-	3,500	-	-	-	82,076	792
Capital expenditure	35	733	45	522	127	7	-	-	-	258	-	-	-	-	207	1,520

* In the prior year, the Group acquired 20% interest in an associate as the consideration for the disposal of a subsidiary. Both of them were engaged in securities broking business. The Group's interest in the associate was not separately disclosed in the segment information as a separate business segment. In the current year, the directors consider that it is more appropriate to separately disclose the interest in the associate as a separate business segment to more fairly reflect its underlying nature. The comparative figures have been restated to conform with the current year's presentation.

Notes to Financial Statements

For the year ended 31 December 2003

7. SEGMENT INFORMATION (Continued)

Geographical segments

The Group's operations are principally located in the People's Republic of China (the "PRC") and Malaysia.

The following table presents revenue, and certain asset and expenditure information for the Group's geographical segments.

	PRC									
	Hong Kong		Mainland China		Malaysia		Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:										
Sales to external customers	102,964	211,457	500	10,024	20,094	36,628	–	–	123,558	258,109
Other segment information:										
Segment assets	143,506	403,282	19,101	262,408	118,655	173,316	–	(662)	281,262	838,344
Capital expenditure	206	760	–	716	1	44	–	–	207	1,520

In 2003, included in the geographical segment of Hong Kong are segment revenue from trading of computer products and office equipment operations; and information technology operations totalled approximately HK\$89,432,000 (2002: segment revenue from trading of computer products and office equipment operations; information technology operations; and securities broking and investment operations totalled approximately HK\$200,725,000) which have been shown under discontinued/discontinuing operations in business segments.

Following the disposals as set out in Note 6(c), the whole geographical segment of Mainland China has also been reported as discontinuing operations. In 2003, segment revenue from property investment and development operations of approximately HK\$500,000 (2002: segment revenue from property investment and development operations of approximately HK\$586,000) was derived from the geographical segment of Mainland China. In 2002, segment revenue from trading of computer products and office equipment operations; and information technology operations totalled approximately HK\$9,438,000 derived from the geographical segment of Mainland China have also been shown under discontinued operations in business segments.

8. NET LOSS ON PROPERTIES AND INVESTMENTS

	Note	2003 HK\$'000	2002 HK\$'000
Loss on disposal of investment properties		(4,771)	–
Deficit on revaluation of investment properties		(21,295)	–
Gain on disposal of subsidiaries	41(c)	6,099	–
Gain on partial disposal of an interest in an associate		–	3,569
Loss on deemed disposal of an interest in a subsidiary		–	(1,822)
Loss on disposal of associates		(19,148)	–
Impairment loss of a long term investment		–	(18,030)
		(39,115)	(16,283)

Notes to Financial Statements

For the year ended 31 December 2003

9. LOSS FROM OPERATIONS

Loss from operations is stated after charging/(crediting) the following:

	2003 HK\$'000	2002 HK\$'000
Auditors' remuneration		
– Current year	852	943
– Under-provision for previous year	430	–
	1,282	943
Depreciation		
– Owned fixed assets	2,259	3,554
– Leased fixed assets	35	63
	2,294	3,617
Loss/(Gain) on disposal of fixed assets, net	24,559	(33)
Impairment loss of fixed assets (included in other operating expenses)	360	–
Goodwill		
– Amortisation	2,853	3,938
– Impairment loss (shown on the face of the consolidated income statement)	–	3,512
– Impairment loss (included in “loss on discontinued/discontinuing operations” shown on the face of the consolidated income statement)	6,417	–
	9,270	7,450
Amortisation of trading rights	–	222
Provision for doubtful debts		
– Loan and interest receivables	66,561	–
– Trade receivables	10,591	232
– Other receivables	4,924	560
	82,076	792
Write off of amounts due from associates	84	3,847
Write down in values of properties held for sale	–	2,000
Minimum lease payments under operating leases for land and buildings	1,284	1,958
Staff costs (excluding directors' emoluments – Note 10)		
– Wages and salaries	6,745	13,128
– Pension scheme contributions *	215	408
	6,960	13,536
Foreign exchange losses, net	470	235
Rental income, net	(10,434)	(16,077)

* At the balance sheet date, the Group had no forfeited contributions (2002: Nil) available to reduce its future pension scheme contributions.

Notes to Financial Statements

For the year ended 31 December 2003

10. DIRECTORS' EMOLUMENTS

The emoluments of the directors are summarised as follows:

	2003 HK\$'000	2002 HK\$'000
Fees:		
Executive directors	–	466
Independent non-executive directors	120	120
	120	586
Other emoluments to executive directors:		
Salaries, allowances and benefits in kind	904	1,805
Pension scheme contributions	14	12
	918	1,817
	1,038	2,403

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

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

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

Notes to Financial Statements

For the year ended 31 December 2003

11. FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The five highest paid individuals in the Group during the year included one (2002: two) executive directors of the Company and details of whose emoluments are disclosed in Note 10 above. The emoluments of the remaining four (2002: three) non-director, highest paid individuals are summarised as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries, allowances and benefits in kind	1,721	3,021
Pension scheme contributions	32	27
Compensation for loss of office – Contractual payments	480	–
	2,233	3,048

The emoluments of the non-director, highest paid individuals fell within the following bands:

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

12. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on borrowings wholly repayable within five years – Bank loans and overdrafts	3,370	2,347
– Other loans	8,448	10,297
Interest on finance leases	11	11
Total interest	11,829	12,655
Less: Interest capitalised	(4,442)	(7,452)
	7,387	5,203

Notes to Financial Statements

For the year ended 31 December 2003

13. RESULTS ATTRIBUTABLE TO ASSOCIATES

	2003 HK\$'000	2002 HK\$'000
Results attributable to associates comprises:		
Share of results of associates	(2,766)	(12,309)
Amortisation of goodwill arising on acquisition of associates	(8,037)	(8,537)
Impairment loss recognised in relation to associates	(7,362)	(45,407)
Impairment loss recognised in relation to goodwill arising on acquisition of associates	–	(1,229)
Negative goodwill arising on acquisition of associates recognised as income	439	907
	(17,726)	(66,575)

In view of the keen competition in the computer software industry in the PRC, the directors reviewed the carrying value of Xswim Creative Digital Tech (Beijing) Limited ("Xswim Creative") and decided to recognise an impairment loss of approximately HK\$7,362,000 in the year ended 31 December 2003.

14. TAXATION

The amount of taxation charged to the income statement represents:

	2003 HK\$'000	2002 HK\$'000
Current year		
Hong Kong profits tax	48	89
Elsewhere	913	1,534
	961	1,623
Under-provision in previous year		
Elsewhere	45	–
Deferred taxation		
Current year	106	(4)
Under-provision for previous year	11	–
	117	(4)
Share of taxation attributable to associates	141	–
	1,264	1,619

Notes to Financial Statements

For the year ended 31 December 2003

14. TAXATION (Continued)

- (a) Hong Kong profits tax is provided at the rate of 17.5% (2002: 16%) based on the estimated assessable profits arising in Hong Kong during the year. In 2003 the Hong Kong government enacted a change in the profits tax rate from 16% to 17.5% for the year of assessment 2003/2004. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.
- (b) Reconciliation between tax expense and the Group's loss from ordinary activities before taxation at applicable tax rate is as follows:

	2003 HK\$'000	2002 HK\$'000
Loss from ordinary activities before taxation	(340,797)	(130,762)
Calculated at Hong Kong profits tax rate of 17.5% (2002: 16%)	(59,639)	(20,922)
Effect of different tax rates of subsidiaries and associates operating in other jurisdictions	(250)	463
Tax effect of non-taxable income	(1,612)	(1,122)
Tax effect of non-deductible expenses	53,894	21,806
Tax effect of temporary differences not recognised	3,426	128
Tax effect of tax losses not recognised	5,571	2,865
Tax effect of utilisation of tax losses not previously recognised	(182)	(1,599)
Underprovision in previous year	56	–
Taxation	1,264	1,619

15. NET LOSS ATTRIBUTABLE TO THE SHAREHOLDERS

The net loss attributable to the shareholders for the year ended 31 December 2003 includes a loss dealt with in the financial statements of the Company amounting to approximately HK\$334,961,000 (2002: HK\$98,103,000).

16. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's net loss attributable to the shareholders for the year of approximately HK\$341,083,000 (2002: HK\$133,856,000), and the weighted average number of approximately 2,561,167,000 (2002: 2,292,473,000) ordinary shares in issue during the year.

There were no dilutive potential shares during the year ended 31 December 2003, therefore, no diluted loss per share has been presented.

Diluted loss per share for the year ended 31 December 2002 has not been presented, as the share options and warrants outstanding during the year ended 31 December 2002 had an anti-dilutive effect on the basic loss per share for that year.

Notes to Financial Statements

For the year ended 31 December 2003

17. FIXED ASSETS

Group

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Office furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost					
At 1 January 2003	40,964	17,172	3,676	530	62,342
Exchange adjustments	–	–	(2)	–	(2)
Additions	–	80	127	–	207
Disposals	(40,164)	(3,204)	(382)	(380)	(44,130)
Disposal of subsidiaries	–	(13,922)	(906)	–	(14,828)
At 31 December 2003	800	126	2,513	150	3,589
Accumulated depreciation and impairment losses					
At 1 January 2003	6,263	9,281	2,240	129	17,913
Exchange adjustments	–	–	(2)	–	(2)
Charge for the year	566	1,270	389	69	2,294
Impairment loss for the year	295	–	65	–	360
Disposals	(6,774)	(2,995)	(305)	(95)	(10,169)
Disposal of subsidiaries	–	(7,464)	(223)	–	(7,687)
At 31 December 2003	350	92	2,164	103	2,709
Net book value					
At 31 December 2003	450	34	349	47	880
At 31 December 2002	34,701	7,891	1,436	401	44,429

The Group's land and buildings are held under medium term leases and are situated in Hong Kong.

The net book value of the Group's fixed assets held under finance leases included in the total amount of office furniture and equipment at 31 December 2003 amounted to approximately HK\$41,000 (2002: included in the total amount of motor vehicle of approximately HK\$285,000).

Particulars of the Group's land and buildings are set out on page 90.

Notes to Financial Statements

For the year ended 31 December 2003

17. FIXED ASSETS (Continued)

Company

Office furniture
and equipment
HK\$'000

Cost

At 1 January 2003 and 31 December 2003

15

Accumulated depreciation

At 1 January 2003

11

Charge for the year

3

At 31 December 2003

14

Net book value

At 31 December 2003

1

At 31 December 2002

4

Notes to Financial Statements

For the year ended 31 December 2003

18. INVESTMENT PROPERTIES

Valuation	Group	
	2003 HK\$'000	2002 HK\$'000
At 1 January	206,598	200,010
Exchange adjustments	195	27
Additions	–	20,740
Disposals	(12,400)	–
Disposal of a subsidiary	(149,760)	–
Deficit on revaluation	(17,516)	(14,179)
At 31 December	27,117	206,598

The Group's investment properties were revalued on 31 December 2003 by Chung, Chan & Associates, independent professional qualified valuers, on an open market value basis. However, for the investment properties with carrying value of approximately HK\$39,427,000 that the Group had entered into sale and purchase agreements to dispose of subsequent to the balance sheet date, were valued based on their subsequent selling prices of approximately HK\$21,969,000. In the opinion of the directors, these subsequent selling prices approximated the open market value at the balance sheet date. Deficit arising on revaluation of investment properties of approximately HK\$17,516,000 has been charged to the income statement.

The carrying amounts of investment properties of the Group held for use in operating leases were approximately HK\$26,939,000 (2002: HK\$206,598,000), further summary details of which are included in Note 43(a).

Certain of the Group's investment properties with a value of approximately HK\$26,939,000 (2002: HK\$206,423,000) are pledged to secure banking and other loans facilities granted to the Group.

The Group's investment properties, situated in Hong Kong and Mainland China, are held under the following lease terms:

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Long term leases	11,500	–	11,500
Medium term leases	7,028	8,589	15,617
	18,528	8,589	27,117

Particulars of the Group's investment properties are set out on page 90 to the financial statements.

Notes to Financial Statements

For the year ended 31 December 2003

19. PROPERTIES UNDER DEVELOPMENT

	Group	
	2003 HK\$'000	2002 HK\$'000
At 1 January	233,999	211,513
Exchange adjustments	–	(3,365)
Additions	3,377	18,399
Interest capitalised	4,442	7,452
Disposal of a subsidiary	(241,818)	–
At 31 December	–	233,999

20. GOODWILL AND NEGATIVE GOODWILL

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

	Group	
	Goodwill HK\$'000	Negative goodwill HK\$'000
Gross amounts		
At 1 January 2003	24,020	(3,442)
Deconsolidation of a subsidiary	(5,440)	–
Disposal of a subsidiary	–	3,442
At 31 December 2003	18,580	–
Accumulated amortisation and impairment losses/ (Recognition as income)		
At 1 January 2003	9,310	(889)
Amortisation provided/(Recognised as income) during the year	2,853	(386)
Impairment loss during the year	6,417	–
Disposal of a subsidiary	–	1,275
At 31 December 2003	18,580	–
Net book value		
At 31 December 2003	–	–
At 31 December 2002	14,710	(2,553)

In connection with the discontinuance of the Group's trading of computer products and office equipment operations and the disposal of all the Group's investment properties in Shanghai subsequent to the balance sheet date, the carrying value of goodwill on acquisition of the subsidiaries comprising the above operations is re-evaluated by reference to the value in use of the operations. An impairment loss of goodwill of approximately HK\$6,417,000 has been recognised in the year ended 31 December 2003. This impairment loss of goodwill is included in loss on discontinued/discontinuing operations (Note 6).

Notes to Financial Statements

For the year ended 31 December 2003

21. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted investments, at cost	5,000	5,000
Amounts due from subsidiaries	544,646	569,246
Loans to subsidiaries	224,127	160,833
Amounts due to subsidiaries	(7,904)	(4,705)
	765,869	730,374
Less: Provision for impairment losses	(517,944)	(206,742)
	247,925	523,632

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

The loans to subsidiaries, of which approximately HK\$202,256,000 bear interest ranging from Hong Kong prime rate per annum to Hong Kong prime rate plus 3% per annum, are unsecured and are not repayable within one year from the balance sheet date.

Particulars of the principal subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Bakeland Company Limited	Hong Kong	HK\$1,512,000	–	94.45	Property holding
Best Spot Investments Limited	Hong Kong	HK\$2	–	100	Investment holding
Colour Choice Investments Limited	British Virgin Islands/ Hong Kong	US\$1	100	–	Investment holding
Count Wealth Investments Limited	British Virgin Islands/ Hong Kong	US\$1	100	–	Investment holding

Notes to Financial Statements

For the year ended 31 December 2003

21. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries at the balance sheet date are as follows (Continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Dual Aim Sdn. Bhd.	Malaysia	MYR250,000	–	100	Property development
Freedom Call Assets Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Genesis Strategic (Holdings) Limited	British Virgin Islands/ Hong Kong	US\$400	–	100	Investment holding
Healthy Profit Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
High Increase International Limited	British Virgin Islands/ Hong Kong	US\$1	100	–	Investment holding
Hua Chiao Development Limited ("Hua Chiao")	Hong Kong	HK\$650,000	–	100	Investment holding
Jiang Sun Group Pte. Limited *	Singapore	S\$2	–	100	Property holding
Kong Sun (China) Investment Limited	British Virgin Islands/ Hong Kong	US\$1	100	–	Investment holding
Kong Sun Industrial Limited	Hong Kong	HK\$2	–	100	Property holding
Kong Sun Resources Limited ("Kong Sun Resources")	Hong Kong	HK\$2	–	100	Property holding
Kong Sun Technology Limited	Hong Kong	HK\$2	–	100	Investment holding and the provision of information technology training services
Kong Sun Telecoms Limited	Hong Kong	HK\$2	–	100	Property holding

Notes to Financial Statements

For the year ended 31 December 2003

21. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries at the balance sheet date are as follows (Continued):

Name	Place of incorporation/ registration/ and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Pacpo Hong Kong Company Limited	Hong Kong	HK\$2	100	–	Property holding and investment holding
Pacpo Investments Limited ("Pacpo Investments")	Hong Kong	US\$2	100	–	Provision of loan finance services
Peace Hill Securities Company Limited	Hong Kong	HK\$5,000,000	100	–	Investment holding
Profitsun International Limited *	Hong Kong	HK\$2	–	100	Property investment
Techseek Limited	British Virgin Islands/ Hong Kong	US\$1	100	–	Investment holding
Win Johnson Investment Limited	Hong Kong	HK\$2	100	–	Provision of loan finance services
Xswim Digital Limited	Hong Kong	HK\$2	–	54	Investment holding and trading of office equipment
Xswim (Holding) Limited ("Xswim Holding")	British Virgin Islands/ Hong Kong	US\$1,111	–	54	Investment holding
Xswim Technology Limited ("Xswim Technology")	Hong Kong	HK\$2	–	54	Trading of computer products

* Not audited by RSM Nelson Wheeler or other RSM International member firms.

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

Notes to Financial Statements

For the year ended 31 December 2003

22. INTERESTS IN ASSOCIATES

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	81,360	6,619
Goodwill (Note)	18,939	24,412
Negative goodwill (Note)	–	(439)
	100,299	30,592
Note:		
	Goodwill HK\$'000	Negative goodwill HK\$'000
Gross amounts		
At 1 January 2003	36,417	(1,419)
Arising on acquisition of associates	21,852	–
Disposal of associates	(34,799)	–
At 31 December 2003	23,470	(1,419)
Accumulated amortisation and impairment losses/ (Recognition as income)		
At 1 January 2003	12,005	(980)
Amortisation provided/(Recognised as income) during the year	8,037	(439)
Disposal of associates	(15,511)	–
At 31 December 2003	4,531	(1,419)
Net book value		
At 31 December 2003	18,939	–
At 31 December 2002	24,412	(439)

Notes to Financial Statements

For the year ended 31 December 2003

22. INTERESTS IN ASSOCIATES (Continued)

Particulars of the Group's principal associates (not audited by RSM Nelson Wheeler or other RSM International member firms) at 31 December 2003 are as follows:

Name	Business structure	Place of incorporation/ operations	Nominal value of issued ordinary share capital	Percentage of ownership interest attributable to the Group	Principal activities
Aset Nusantara Development Sdn. Bhd. ("Aset Nusantara")	Corporate	Malaysia	MYR250,000	21	Property development
Koffman Securities	Corporate	Hong Kong	HK\$62,765,066	20	Securities broking, underwriting and placing services, and management and consultancy services
United Victoria Sdn. Bhd. ("United Victoria")	Corporate	Malaysia	MYR800,000	50 (Note (b))	Investment holding
Xswim Creative	Corporate	PRC	RMB2,500,000	54 (Note (c))	Trading of computer products

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

- (a) All of the above associates are indirectly held by the Company.
- (b) In prior year, the Group held 13% equity interest in United Victoria at cost of approximately HK\$21,982,000 and had deposits of approximately HK\$71,484,000 paid for the acquisition of additional 37% equity interest in United Victoria. The acquisition of the additional 37% equity interest in United Victoria was completed on 29 April 2003. Consequently, the Group's interest in United Victoria was increased from 13% to 50%. United Victoria is an investment holding company. The main asset of United Victoria is a direct investment in an associate, Aset Nusantara, which is principally engaged in property development in Malaysia.

Notes to Financial Statements

For the year ended 31 December 2003

22. INTERESTS IN ASSOCIATES (Continued)

- (c) The Group had previously accounted for the investment in Xswim Creative as a subsidiary, and the financial statements of Xswim Creative were consolidated in the Group's financial statements for the year ended 31 December 2002. Throughout the year, the Group had been unable to exercise its rights as a controlling shareholder of Xswim Creative, which significantly impairs the Group's control over Xswim Creative's assets and operations for the foreseeable future. On this basis, the financial statements of Xswim Creative were deconsolidated from the Group's financial statements and Xswim Creative was accounted for in accordance with the Group's accounting policy as an associate with effect from 1 January 2003.

The directors, to their best knowledge, are satisfied that the Group has no material obligations or commitments in respect of Xswim Creative that require either adjustments to or disclosure in the financial statements.

- (d) During the year, the Group disposal of 33% equity interest in Super Yield Management Company Limited, 30% equity interest in HOL Advisory Services Limited and 30% equity interest in Human Online.com Limited ("HOL Group"). The unamortised goodwill arising on the acquisition of HOL Group of approximately HK\$19,288,000 was released to the income statement.

Summarised financial information of the Group's significant associates is as follows:

Aset Nusantara

The following summary of the financial information of Aset Nusantara, prepared based on the audited financial statements of Aset Nusantara, after making such adjustments as appropriate (including adjustments mainly for the fair value of properties under development held for sale as at the dates of acquisition based on the valuation performed by certain independent professional qualified valuers).

	2003 HK\$'000
Non-current assets	91
Current assets	742,122
Current liabilities	(126,224)
Non-current liabilities	(170,845)
Net assets	445,144
Turnover	53,862
Profit from ordinary activities before taxation	7,503

Notes to Financial Statements

For the year ended 31 December 2003

22. INTERESTS IN ASSOCIATES (Continued)

Koffman Securities

The following summary of the financial information of Koffman Securities, prepared based on the audited financial statements of Koffman Securities.

	2003 HK\$'000	2002 HK\$'000
Non-current assets	2,517	6,592
Current assets	22,568	40,711
Current liabilities	(8,041)	(17,312)
Non-current liabilities	(36)	(50)
Net assets	17,008	29,941
Turnover	12,308	15,200
Loss from ordinary activities before taxation	(12,933)	(16,877)

On 18 October 2004, Koffman Securities ceased operations due to the continuous decline in turnover (Note 6(d)).

23. LONG TERM INVESTMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted equity investment, at cost	6,537	21,982
Equity investment listed in Hong Kong, at cost	–	19,589
Less: Provision for impairment	–	(18,030)
	–	1,559
	6,537	23,541

At 31 December 2003, the long term investments represented the Group's investment in 5% equity interest in Pioneer Heritage Sdn. Bhd. ("Pioneer Heritage"), a company incorporated in Malaysia with issued share capital of approximately MYR50,000,000, which was principally engaged in property holding in Malaysia. The Group had previously accounted for the investment in Pioneer Heritage as a subsidiary, and the financial statements of Pioneer Heritage were consolidated in the financial statements of the Company for the year ended 31 December 2002 as the Group held 70% of the equity interest in Pioneer Heritage at 31 December 2002. On 28 February 2003, Hua Chiao, a wholly owned subsidiary of the Company, entered into an agreement (the "Principal Agreement") with United Merit Sdn. Bhd. ("United Merit") to dispose of 65% equity interest in Pioneer Heritage at a consideration of approximately HK\$85,280,000. The disposal of 65% equity interest in Pioneer Heritage was completed on 28 July 2003 and had given rise to a gain of approximately HK\$5,063,000. Consequently, the Group's interest in Pioneer Heritage was reduced from 70% at 1 January 2003 to 5% at 31 December 2003. The Group's investment in Pioneer Heritage has been accounted for in accordance with the Group's accounting policy as long term investments. The carrying amount of the Group's residual interest in Pioneer Heritage of approximately HK\$6,537,000 has been regarded as cost for the purposes of the reclassification.

The directors considered that the carrying amount of the Group's interest in Pioneer Heritage would not materially differ from its fair value as at 31 December 2003.

Notes to Financial Statements

For the year ended 31 December 2003

24. SHORT TERM INVESTMENT

	Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted equity investment, at cost	10,507	–

At 31 December 2003, the short term investment represented the Group's investment in 10% of the registered capital of RMB120,000,000 of Kong Sheng, a sino-foreign equity joint venture enterprise established in the PRC, which was principally engaged in property development in Xicheng District, Beijing. The Group had previously accounted for the investment in Kong Sheng as a subsidiary, and the financial statements of Kong Sheng were consolidated in the financial statements of the Company for the year ended 31 December 2002 as the Group held 90.1% of the registered capital of Kong Sheng at 31 December 2002. During the year ended 31 December 2003, the Group's interest in Kong Sheng was gradually reduced from 90.1% at 1 January 2003 to 10% at 31 December 2003 following two transfers of interest of the registered capital of Kong Sheng as set out below:

On 16 January 2003, Best Spot, a wholly owned subsidiary of the Company, entered into an agreement (the "First Transfer Agreement") with a joint venture partner of Kong Sheng, Beijing Xicheng Housing Construction Development Company ("Beijing Xicheng") whereby Best Spot agreed to transfer 20.1% of the registered capital of Kong Sheng to Beijing Xicheng at a consideration of approximately HK\$22,429,000 (the "First Transfer"). Best Spot was given an option to repurchase the said 20.1% interest of the registered capital of Kong Sheng at a consideration of approximately HK\$25,121,000 within one year from the date of the First Transfer Agreement. The First Transfer was approved by Beijing Municipal Bureau of Commerce on 29 January 2003. The then registered capital of Kong Sheng was owned, as to 70% by Best Spot and as to 30% by Beijing Xicheng.

On 22 April 2003, Best Spot entered into an agreement (the "Second Transfer Agreement") with Beijing Tianheng whereby Best Spot agreed to transfer 60% of the registered capital of Kong Sheng to Beijing Tianheng at a consideration of approximately HK\$67,290,000 (the "Second Transfer"). Best Spot was given an option to repurchase the said 60% interest of the registered capital of Kong Sheng at a consideration of approximately HK\$75,364,000 within one year from the date of the Second Transfer Agreement. The Second Transfer (together with a transfer of 30% of the registered capital of Kong Sheng owned by Beijing Xicheng to Beijing Tianheng) was subsequently approved by Beijing Municipal Bureau of Commerce on 16 June 2003. The then registered capital of Kong Sheng was owned, as to 10% by Best Spot and as to 90% by Beijing Tianheng.

Following the First and Second Transfers, the disposal of 80.1% interest in Kong Sheng had resulted in a loss of HK\$121,625,000. The Group's investment in Kong Sheng has been accounted for in accordance with the Group's accounting policy as short term investment. The carrying amount of the Group's residual interest in Kong Sheng of approximately HK\$10,507,000 has been regarded as cost for the purposes of the reclassification.

On 10 March 2004, Best Spot issued a confirmation to Beijing Tianheng informing Beijing Tianheng that Best Spot would not exercise the option to repurchase the 20.1% interest and 60% interest in the registered capital of Kong Sheng. In addition, Best Spot gave its authorisation to Beijing Tianheng to enter into a conditional agreement dated 20 April 2004 (the "Guoco Properties Agreement") on its behalf with Guoco Properties to dispose of the remaining 10% of the registered capital of Kong Sheng for a cash consideration of HK\$11,215,000 (the "Third Transfer"). The Guoco Properties Agreement comes into effect upon the Third Transfer approved by Beijing Municipal Bureau of Commerce on 29 September 2004.

The directors considered that the carrying amount of the Group's interest in Kong Sheng would not materially differ from their fair value as at 31 December 2003.

Notes to Financial Statements

For the year ended 31 December 2003

25. DEPOSITS AND ADVANCES

At 31 December 2003, the deposits and advances of the Group represented (a) the deposits paid to the vendors of approximately HK\$7,557,000 in relation to the acquisition of the entire issued share capital of Crystal Summit (M) Sdn. Bhd. ("Crystal Summit"), a company incorporated in Malaysia, engaged in property development; and (b) advances made on behalf of Crystal Summit totalled approximately HK\$15,714,000. However, the abovementioned proposed acquisition was cancelled. Hence, the deposits and advances should be repaid to the Group. On the other hand, pursuant to a letter of guarantee dated 11 June 2003, KSE, a substantial shareholder of the Company, has given indemnity in favour of the Group in respect of the repayment of the entire amount of the deposits and advances in full upon demand in return for assignment of all the Group's rights for refund of the deposits and advances to KSE. In addition, pursuant to several settlement agreements between Pacpo Investments, a wholly owned subsidiary of the Company, and the parties concerned dated 15 December 2004, the repayment of the outstanding deposits and advances was further extended to the end of 2005. KSE extended its guarantee on 20 December 2004 to cover the aforesaid settlement agreements. Notwithstanding the above, the directors still consider that it is appropriate, at this stage, to write off the deposits and advances of approximately HK\$23,271,000 in full.

26. LOAN AND INTEREST RECEIVABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Loan receivables				
– Secured	48,510	38,297	–	–
– Unsecured	59,153	79,653	–	49,400
Gross loan receivables	107,663	117,950	–	49,400
Less: Provision	(65,820)	(4,253)	–	–
	41,843	113,697	–	49,400
Interest receivables	7,237	5,039	–	–
Less: Provision	(4,994)	–	–	–
	2,243	5,039	–	–
	44,086	118,736	–	49,400
Amount shown under non-current assets (Note (a))	41,303	49,400	–	49,400
Amount shown under current assets (Note (b))	2,783	69,336	–	–
	44,086	118,736	–	49,400

- (a) At 31 December 2003, the amount represented loan receivable of approximately HK\$39,510,000 and loan interest receivable of approximately HK\$1,793,000 due from a shareholder of the Group's associate, United Victoria (the "Borrower"). Pursuant to the loan agreement, interest of the loan is chargeable at 4% over prime rate per annum. The loan is secured by a pledge of the 20% equity interest in United Victoria owned by the Borrower. The loan was originally due for repayment in 2003. The repayment date of the loan together with interest thereon was extended to June 2005. Accordingly, the loan and interest receivables are classified as non-current assets.

Notes to Financial Statements

For the year ended 31 December 2003

26. LOAN AND INTEREST RECEIVABLES (Continued)

- (b) At 31 December 2003, the Group had a loan receivable of HK\$9,000,000 and a loan interest receivable of approximately HK\$450,000 due from an independent third party. Pursuant to the loan agreement, the loan was secured by a pledge of 36% equity interest in an unlisted company owned by the independent third party and interest bearing at 10% per annum due in 2004. Subsequent to the balance sheet date, approximately HK\$2,783,000 was repaid. The pledged shares were disposed of by the independent third party with the consent of the Group. However, no further repayment was made to the Group. In view of the uncertainty of the recovery of the outstanding amount, the directors consider that it is appropriate, at this stage, to make a full provision on the remaining balance of approximately HK\$6,667,000.

27. CONSIDERATION RECEIVABLES ON DISPOSAL OF SUBSIDIARIES

	Group	
	2003 HK\$'000	2002 HK\$'000
The amounts represent net proceeds on disposal of subsidiaries	84,571	–
Amount due for settlement within one year (Note (a)(i) and shown under current assets)	5,935	–
Amount due for settlement after one year (Notes (a)(ii), (a)(iii) and (b) and shown under non-current assets)	78,636	–
	84,571	–

- (a) Included above is an amount of approximately HK\$76,962,000 due from Beijing Tianheng, representing the net consideration receivable on disposal of 80.1% interest of the registered capital of Kong Sheng (Note 24). Pursuant to a settlement agreement dated 10 May 2004 (the "Settlement Agreement") entered between Best Spot and Beijing Tianheng, Beijing Tianheng has agreed to pay an aggregate amount of approximately HK\$89,719,000 to Best Spot in respect of the First and Second Transfers and refund an aggregate amount of approximately HK\$93,458,000 to Best Spot in respect of the total advance development costs paid by Best Spot under a property development contract. On the other hand, Best Spot would compensate Beijing Tianheng an aggregate amount of approximately HK\$106,215,000 in respect of losses incurred by Beijing Tianheng as a result of Best Spot's defaults in paying the predetermined advance development costs under several property development contracts. The repayment terms of the net balance of approximately HK\$76,962,000 are as follows:

- (i) HK\$5,935,000 within 60 days after the Guoco Properties Agreement coming into effect;
- (ii) HK\$18,691,000 within three months from the date the Guoco Properties Agreement is being approved by the original approving authority in the PRC and the new business licence of Kong Sheng showing that Beijing Tianheng and Guoco Properties are the joint venture parties is being issued; and
- (iii) HK\$52,336,000 within 30 working days from the date on which Beijing Tianheng has completed the "seven connected and one levelling (七通一平)" and all the demolition work in respect of the property development project held by Kong Sheng as referred to in the Settlement Agreement.

Notes to Financial Statements

For the year ended 31 December 2003

27. CONSIDERATION RECEIVABLES ON DISPOSAL OF SUBSIDIARIES (Continued)

As at the date of this report, the sum of approximately HK\$5,935,000, representing the first payment of the consideration receivable, has been received and there have been no settlements in respect of the remaining balance of the consideration receivable of approximately HK\$71,027,000.

Pursuant to a Deed of Assignment entered between Best Spot and Asia Commercial Bank Limited ("ACB") dated 20 November 2004, the Group agreed to assign approximately HK\$5,607,000 from its right, title and interest in the aforesaid net balance of approximately HK\$76,962,000 to ACB as settlement of the outstanding bank loans together with the interest thereon and the litigation expenses owed to ACB under the final judgement made by the High Court of Hong Kong (details of which are set out in Note 42(d)).

- (b) Included above is amount of approximately HK\$7,609,000 due from Pioneer Heritage, an investee company, representing the net consideration receivable on disposal of 65% equity interest in Pioneer Heritage pursuant to the Principal Agreement as mentioned in Note 23. During the year ended 31 December 2003, the consideration of approximately HK\$85,280,000 was partially settled by cash of approximately HK\$8,484,000. Pursuant to a supplemental agreement entered between Hua Chiao and United Merit and a consent released by Pioneer Heritage both dated 28 July 2003, the balance of the consideration approximately HK\$69,187,000 was satisfied by setting off against the indebtedness due by the Group to Pioneer Heritage. The remaining balance of the consideration approximately HK\$7,609,000 was taken over by Pioneer Heritage. The aforesaid balance due from Pioneer Heritage is unsecured, interest free and has no fixed terms of repayment. In the opinion of the directors, the Group will not demand for payment in the next twelve months. Accordingly, the amount is shown as non-current assets.

28. INVENTORIES/PROPERTIES HELD FOR SALE

	Group	
	2003 HK\$'000	2002 HK\$'000
Inventories – Finished goods	–	28
Properties held for sale	2,278	14,900
	2,278	14,928

The Group's properties held for sale are stated at net realisable value.

Notes to Financial Statements

For the year ended 31 December 2003

29. TRADE RECEIVABLES

The Group allows a credit period normally ranging from 14 to 90 days to its trade customers.

An aged analysis of trade receivables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current	423	17,204
1 – 3 months	397	4,767
4 – 6 months	253	142
7 – 12 months	10,056	221
Over 1 year	3,735	3,807
	14,864	26,141
Less: Provision	(14,325)	(3,734)
Total, net of provision	539	22,407

Included in trade receivables of the Group is an amount of approximately HK\$911,000 (2002: HK\$334,000) representing rental receivable from an associate, Koffman Securities. The directors are of the opinion that full provision should be made as the recoverability is in doubt.

30. OTHER RECEIVABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Other debtors	2,266	25,942	1,189	21,700
Prepayments and deposits	499	1,470	40	1,127
Tax recoverable	62	61	–	–
	2,827	27,473	1,229	22,827

Notes to Financial Statements

For the year ended 31 December 2003

31. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	857	1,997	104	163
Time deposits	764	4,732	–	–
	1,621	6,729	104	163
Less: Pledged time deposits	(764)	(4,732)	–	–
Cash and cash equivalents	857	1,997	104	163

At 31 December 2003, the Group's time deposits amounting to approximately HK\$764,000 (2002: HK\$4,732,000) were pledged to secure the Group's banking facilities.

32. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables at the balance sheet date, based on payment due date, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current	1,500	10,568
Over 6 months	3,721	–
	5,221	10,568

33. OTHER PAYABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Accruals	7,658	16,111	5,451	7,296
Deposits received	248	481	–	–
Amount due to a substantial shareholder, KSE – Note 34	485	–	–	–
Amounts due to related companies – Note 34	70	–	–	–
Amounts due to directors – Note 34	1,173	1,130	–	–
	9,634	17,722	5,451	7,296

Included in accruals of the Group are amounts of approximately HK\$870,000 (2002: HK\$75,000) representing accrued salaries due to the Company's directors, Mr. Kong Look Sen (deceased), Mr. Kong Li Jer, Mr. Ku Suen Fai and Mr. Fai Cheong Hau.

Notes to Financial Statements

For the year ended 31 December 2003

34. AMOUNTS DUE TO A SUBSTANTIAL SHAREHOLDER/RELATED COMPANIES/ DIRECTORS

The amounts due to a substantial shareholder/related companies/directors are unsecured, interest free and have no fixed terms of repayment.

35. FINANCE LEASE PAYABLES

Group	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable:				
Within one year	229	106	204	95
In the second year	7	106	6	95
In the third to fifth years, inclusive	20	107	15	95
	256	319	225	285
Less: future finance charges	(31)	(34)		
Total net finance lease payables	225	285		
Amounts due for settlement within one year (shown under current liabilities)	(204)	(95)		
Amounts due for settlement after one year (shown under non-current liabilities)	21	190		

Notes to Financial Statements

For the year ended 31 December 2003

36. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank overdrafts	5,301	11,513	5,094	7,693
Trust receipt loans	–	7,878	–	–
Invoice financing loans	5,989	14,286	–	–
Bank loans	31,364	48,997	23,627	40,189
Other loans	13,700	108,500	13,700	4,500
	56,354	191,174	42,421	52,382
Amounts due for settlement within one year (shown under current liabilities)	(50,367)	(154,659)	(36,434)	(23,510)
Amounts due for settlement after one year (shown under non-current liabilities)	5,987	36,515	5,987	28,872
Secured	49,721	178,796	41,982	47,882
Unsecured	6,633	12,378	439	4,500
	56,354	191,174	42,421	52,382
Bank loans repayable:				
On demand or within one year	25,377	12,482	17,640	11,317
In the second year	2,080	11,851	2,080	10,645
In the third to fifth years, inclusive	3,907	17,812	3,907	11,375
After five years	–	6,852	–	6,852
	31,364	48,997	23,627	40,189
Other loans repayable:				
On demand or within one year	13,700	108,500	13,700	4,500

(a) At 31 December 2003, the Group's bank borrowings are secured by the following:

- (i) mortgages over the Group's investment properties situated in Hong Kong and Mainland China, which had an aggregate carrying value at the balance sheet date of approximately HK\$26,939,000;
- (ii) assignment of rentals over certain of the Group's investment properties situated in Hong Kong;
- (iii) pledge of approximately 596,052,000 ordinary shares of HK\$0.10 each of the Company owned by Kong Fa; and
- (iv) a personal guarantee executed by the Company's director, Mr. Kong Li Szu.

(b) During the year ended 31 December 2003, the Group has defaulted in the repayments of the above invoice financing loans amounted to approximately HK\$5,989,000 due to ACB. As a consequence, on 11 February 2004, an action was commenced by ACB for an immediate full repayment of the invoice financing loans. Hence, the invoice financing loans have been classified as current liabilities. Details of the litigation are mentioned in Note 42(d). Pursuant to the Deed of Assignment as referred to in Note 27(a), the Group agreed to assign part of its right in consideration receivable on disposal of a subsidiary to ACB to settle the amounts due to ACB.

Notes to Financial Statements

For the year ended 31 December 2003

36. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

- (c) During the year ended 31 December 2003, the Group has defaulted in the repayments of a fixed term loan due to Industrial and Commercial International Capital Limited ("ICIC"). Since the shares of the Company was suspended trading with effect from 9:30 a.m. on 17 June 2004, the directors are not able to determine whether the Group are in compliance with the minimum requirement under the agreement of a loan facility granted to the Group in respect of the fair value of the pledged securities (see (a)(iii) above). Nevertheless, in view of the defaults in the repayments, on 20 July 2004, an action was commenced by ICIC for an immediate full repayment of the fixed term loan. Details of the litigation are mentioned in Note 42(e). At 31 December 2003, the fixed term loan due to ICIC amounted to approximately HK\$7,090,000. Hence, the fixed term loan has been classified as current liabilities. The Group is negotiating with ICIC to reschedule the repayment of the fixed term loan for a further period of time.
- (d) During the year ended 31 December 2003, the Group has defaulted in the repayments of certain bank overdrafts and loans of approximately HK\$12,832,000 in aggregate. Hence, the said bank overdrafts and loans are considered as due and immediately payable and are therefore classified as current liabilities. However, as at the date of approval of the financial statements, no further action has been taken by the bank in respect of the non-compliance.
- (e) At 31 December 2003, the Group's other loans of HK\$13,700,000 due to a financial institution are secured by the following:
- (i) personal guarantees from the Company's directors, Mr. Kong Look Sen (deceased), Mr. Kong Li Jer and Mr. Kong Li Szu;
 - (ii) corporate guarantee executed by Best Spot; and
 - (iii) charge over all the issued share capital in Best Spot. Best Spot is the holding company of Kong Sheng. During the year ended 31 December 2003, the Group disposed of 80.1% interest of the registered capital of Kong Sheng, details of which are set out in Note 24.

The Group failed to meet the repayment schedule of the other loans. As the repayment schedule as stipulated in the loan agreement has not been complied with, the other loans should be due for immediate repayment in full. Hence, the other loans have been classified as current liabilities. In addition, according to the loan agreement, the Group should obtain prior written consent from the financial institution for the disposal of Kong Sheng. However, no such prior written consent was obtained in respect of the disposal. However, up to the date of approval of the financial statements, no action has been taken by the financial institution in respect of the non-compliance.

Notes to Financial Statements

For the year ended 31 December 2003

37. DEFERRED TAXATION

- (a) The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting years:

Group

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2002			
– as previously reported	501	–	501
– adjustment on adoption of SSAP12 (Revised)	487	(487)	–
– as restated	988	(487)	501
Charged/(Credited) to the income statement	64	(68)	(4)
At 31 December 2002	1,052	(555)	497
At 1 January 2003			
– as previously reported	497	–	497
– adjustment on adoption of SSAP12 (Revised)	555	(555)	–
– as restated	1,052	(555)	497
Effect of change in tax rate	52	(52)	–
Charged/(Credited) to the income statement	184	(67)	117
Disposal of a subsidiary	(614)	–	(614)
At 31 December 2003	674	(674)	–

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in SSAP 12 (Revised).

Notes to Financial Statements

For the year ended 31 December 2003

37. DEFERRED TAXATION (Continued)

- (b) At the balance sheet date, the following unused tax losses and deductible temporary differences have not been recognised as deferred tax assets:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unused tax losses	114,262	83,095	40,904	34,941
Deductible temporary differences	45	2	3	2
	114,307	83,097	40,907	34,943

Deferred tax assets have not been recognised in respect of the above items because it is not probable that future taxable profits will be available against which the Group and the Company can utilise the benefits.

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

38. SHARE CAPITAL

	2003 HK\$'000	2002 HK\$'000
Authorised: 4,000,000,000 (2002: 4,000,000,000) ordinary shares of HK\$0.10 each	400,000	400,000
Issued and fully paid: 2,561,166,921 (2002: 2,561,166,921) ordinary shares of HK\$0.10 each	256,116	256,116

Notes to Financial Statements

For the year ended 31 December 2003

38. SHARE CAPITAL (Continued)

There were no movements in the authorised and issued share capital during the year. Details of the movements in the issued share capital of the Company during the prior year are as follows:

	Notes	Number of shares in issue '000	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2002		2,055,185	205,518	235,318	440,836
Issue of subscription shares	(a)	381,900	38,190	75,009	113,199
Issue of consideration shares	(b)	56,000	5,600	14,280	19,880
Exercise of share options	(c)	68,282	6,828	5,452	12,280
Repurchase of shares	(d)	(200)	(20)	(14)	(34)
Share issue expenses		–	–	(996)	(996)
At 31 December 2002, 1 January 2003 and 31 December 2003		2,561,167	256,116	329,049	585,165

- (a) Pursuant to the subscription agreements dated 4 February 2002 and 22 October 2002, 300,000,000 and 81,900,000 fully paid ordinary shares of HK\$0.10 each of the Company were issued at subscription prices of HK\$0.32 and HK\$0.21 per ordinary share, respectively, for an aggregate cash consideration of approximately HK\$113,199,000.
- (b) Pursuant to a sale and purchase agreement dated 29 April 2002, the Company allotted and issued 56,000,000 ordinary shares of HK\$0.10 each of the Company at HK\$0.355 per ordinary share, amounting to HK\$19,880,000, as the consideration for the acquisition of investment properties in Hong Kong.
- (c) The subscription rights attaching to 68,282,085 share options were exercised at the subscription price of HK\$0.17984 per share, resulting in the issue of 68,282,085 ordinary shares of HK\$0.10 each for a total cash consideration, before expenses, of approximately HK\$12,280,000.
- (d) On 4 December 2002, the Company repurchased 200,000 of its ordinary shares of HK\$0.10 each on the Stock Exchange, the summary details of which are as follows:

Month	Number of shares repurchased	Price per share		Total price paid HK\$'000
		Highest HK\$	Lowest HK\$	
December 2002	200,000	0.1690	0.1670	34

The repurchased shares were cancelled during the prior year and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares, of HK\$14,000, has been charged to the share premium account. An amount equivalent to the par value of the shares cancelled has been transferred from the accumulated profits of the Company to the capital redemption reserve.

Notes to Financial Statements

For the year ended 31 December 2003

39. SHARE OPTIONS

The Company's share option scheme which was adopted on 31 May 2001 was terminated and replaced by a new share option scheme adopted by the shareholders of the Company on 30 June 2003 (the "New Share Option Scheme"). Pursuant to the New Share Option Scheme, the board of directors (the "Board") of the Company may for a consideration of HK\$10 offer to selected eligible persons to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board provided always that it shall be at least the higher of the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange for the date of offer of grant (which is deemed to be the date of grant if the offer for the grant of an option is accepted by the selected eligible person), which must be a business day; and the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of grant (which is deemed to be the date of grant if the offer for the grant of an option is accepted by the selected eligible person), (as subsequently adjusted pursuant to the terms of the New Share Option Scheme, if relevant), provided that the option price per share shall in no event be less than the nominal amount of one share.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time.

The New Share Option Scheme became effective for a period of ten years commencing on 30 June 2003.

No options under the New Share Option Scheme have been granted to any person since its adoption.

40. RESERVES

(a) Group

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

(b) Company

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Accumulated profits/ (losses) HK\$'000	Total HK\$'000
At 1 January 2002	235,318	–	49,286	284,604
Issue of shares	89,289	–	–	89,289
Exercise of share options	5,452	–	–	5,452
Repurchase of shares	(14)	20	(20)	(14)
Share issue expenses	(996)	–	–	(996)
Net loss for the year	–	–	(98,103)	(98,103)
At 31 December 2002 and 1 January 2003	329,049	20	(48,837)	280,232
Net loss for the year	–	–	(334,961)	(334,961)
At 31 December 2003	329,049	20	(383,798)	(54,729)

At 31 December 2003 and 2002, the Company had no reserves available for distribution.

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

Notes to Financial Statements

For the year ended 31 December 2003

41. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Other receivables	–	458
Cash and bank balances	–	25
Trade payables	–	(23)
Minority interests	–	(212)
	–	248
Goodwill arising on acquisition	–	5,440
	–	5,688
Satisfied by:		
An interest in a subsidiary	–	5,688

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2003 HK\$'000	2002 HK\$'000
Cash and bank balances acquired	–	25

The subsidiary acquired in the prior year had no significant impact on the Group's turnover or loss before minority interests for the year ended 31 December 2002.

Notes to Financial Statements

For the year ended 31 December 2003

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

(b) Disposal of a subsidiary relating to discontinuing operations

	Note	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:			
Fixed assets		580	–
Properties under development		241,818	–
Other receivables		392	–
Cash and bank balances		911	–
Other payables		(62)	–
Amount due to the Group		(111,062)	–
Minority interests		(37,910)	–
		94,667	–
Exchange fluctuation reserve realised		3,365	–
Refund of advance development costs paid for a subsidiary		93,458	–
Amounts due to the Group written off		17,604	–
Loss on disposal of a subsidiary relating to discontinuing operations		(121,625)	–
		87,469	–
Satisfied by:			
Reclassification to short term investment	24	10,507	–
Cash consideration receivable		89,719	–
Refund of advance development costs paid for a subsidiary		93,458	–
Expenses incurred in connection with the disposal of a subsidiary and compensation to minority shareholder		(106,215)	–
		87,469	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary relating to discontinuing operations is as follows:

	2003 HK\$'000	2002 HK\$'000
Cash and bank balances disposed of	(911)	–

The subsidiary disposed of during the year had no significant impact on the Group's turnover and contributed approximately HK\$521,000 to the Group's loss before minority interests for the year ended 31 December 2003.

Notes to Financial Statements

For the year ended 31 December 2003

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

(c) Disposal of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Fixed assets	6,561	561
Investment properties	149,760	–
Intangible assets	–	2,575
Short term investment	–	11
Inventories	–	988
Trade receivables	1,202	10,757
Other receivables	21,836	7,249
Amount due from the Group	69,187	–
Tax recoverable	–	257
Cash held on behalf of securities clients	–	58
Cash and bank balances	102	4,544
Trade and bills payables	–	(1,661)
Other payables	(8,448)	(1,546)
Amounts due to the Group	(2,585)	–
Tax payable	(2,841)	–
Short term borrowing	(104,000)	–
Deferred taxation	(614)	–
Minority interests	(39,678)	(7,498)
	90,482	16,295
Exchange fluctuation reserve realised	(870)	–
Investment property revaluation reserve realised	(4,262)	–
Amounts due to the Group written off	2,585	–
Negative goodwill on acquisition of an associate	–	439
Negative goodwill disposed of	(2,167)	–
	85,768	16,734
Gain on disposal of subsidiaries	6,099	–
	91,867	16,734

Notes to Financial Statements

For the year ended 31 December 2003

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

(c) Disposal of subsidiaries (Continued)

	Note	2003 HK\$'000	2002 HK\$'000
Satisfied by:			
An interest in a subsidiary		–	5,688
Share of net assets of an associate acquired		–	11,046
Long term investments	23	6,537	–
Cash consideration receivable		7,609	–
Cash consideration received		8,534	–
Set off against the amount due by the Group		69,187	–
		91,867	16,734

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2003 HK\$'000	2002 HK\$'000
Cash consideration received	8,534	–
Cash and bank balances disposed of	(102)	(4,544)
	8,432	(4,544)

The subsidiaries disposed of during the year contributed HK\$8,158,000 to the Group's turnover and a profit of approximately HK\$1,146,000 to the Group's loss before minority interests for the year ended 31 December 2003.

The subsidiaries disposed of in the prior year contributed approximately HK\$11,774,000 to the Group's turnover and a profit of approximately HK\$2,138,000 to the Group's loss before minority interests for the year ended 31 December 2002.

Notes to Financial Statements

For the year ended 31 December 2003

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

(d) Deconsolidation of a subsidiary

	2003 HK\$'000	2002 HK\$'000
Net assets deconsolidated:		
Other receivables	458	–
Cash and bank balances	25	–
Trade payables	(23)	–
Minority interests	(212)	–
	248	–
Goodwill released upon deconsolidation of a subsidiary	5,440	–
	5,688	–
Reclassified as:		
Interest in an associate	5,688	–

An analysis of the net outflow of cash and cash equivalents in respect of the deconsolidation of a subsidiary is as follows:

	2003 HK\$'000	2002 HK\$'000
Cash and bank balances deconsolidated	(25)	–

The subsidiary deconsolidated during the year had no significant impact on the Group's turnover or loss before minority interests for the year ended 31 December 2003.

(e) Major non-cash transactions

- (i) During the year ended 31 December 2003, the Group entered into the Principal Agreement with United Merit for the disposal of 65% equity interest in Pioneer Heritage at a consideration of approximately HK\$85,280,000 of which approximately HK\$69,187,000 was satisfied by setting off against the indebtedness due by the Group to Pioneer Heritage. Details of the transactions are set out in Notes 23 and 27(b).
- (ii) During the year ended 31 December 2003, repayment of a term loan together with accrued interest thereon totalled approximately HK\$1,553,000 was satisfied by the same amount of consideration receivable on disposal of long term investments under a Deed of Assignment dated 13 May 2003.

Notes to Financial Statements

For the year ended 31 December 2003

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

(f) Restricted cash and cash equivalent balances

All of the Group's time deposits are pledged to secure the Group's banking facilities as further explained in Note 31.

42. CONTINGENT LIABILITIES

- (a) Pursuant to an exclusive franchisee agreement dated 1 January 2003 ("the Agreement") entered into between Xswim Technology, a 54% owned subsidiary of the Company, and Champ Capital Limited (the "franchisee"), Xswim Technology agreed to buy back the underlying franchise licence at HK\$15,000,000 upon termination of the Agreement, both in the case of normal or early termination, and guarantees to spend HK\$1,000,000 as merchandising assistance in form of advertising and promotion. As the franchisee had breached the Agreement, Xswim Technology had terminated the Agreement with effect from 28 November 2003. No action has been taken by the franchisee in respect of the abovementioned clause. Based on the legal advice obtained, the directors strongly believe that the franchisee would not be able to exercise the option to resell the underlying franchise licence to the Group. Hence, no provision has been made in the financial statements.
- (b) On 3 November 2003, an action was commenced by Mr. Cheung Yik Wang ("CYW"), who claims himself as an investor of Easternet Limited which owns 46% of Xswim Holding (a 54% owned subsidiary of the Company), against Mr. Kong Li Szu (as 1st defendant), the Company's director, and the Company (as 2nd defendant) for recovering a sum of HK\$11,600,000 together with the interest and costs in connection with a cheque issued by the Company which was dishonoured upon presentation of payment. It was alleged that the cheque was issued by the Company as a guarantee for payment of a cheque issued by Mr. Kong Li Szu. A defence was filed by the Company on 19 January 2004. CYW had also filed a reply to defence on 17 February 2004. Up to the date of approval of the financial statements, this action is still in progress and no hearing date has been fixed. Based on the legal advice obtained, the directors are of the opinion that the above did not constitute a connected transaction and they also strongly believe that the Group has reasonable good chances of successfully defending this action. Hence, no provision has been made in the financial statements.
- (c) On 19 November 2003, the Group commenced legal proceedings against Koffman Securities for approximately HK\$629,000 being rent arrears due to the Group together with mesne profits, interest, cost and/or other relief; and for recovering possession of the leased properties. This case was heard by the High Court of Hong Kong on 3 August 2004 and judgement was issued in favour of the Group. Koffman Securities was required to deliver vacant possession of the leased properties and to pay the outstanding rent together with mesne profits, interest and cost to the Group.

Despite of the fact that Koffman Securities has, on 4 August 2004, lodged a notice of appeal against the judgement and the appeal shall be heard on 7 March 2005, in the opinion of the directors, the above legal action would not have any significant impact on the financial position of the Group. Hence, no provision for claims has been made in the financial statements.

- (d) During the year ended 31 December 2003, Xswim Technology has defaulted in the repayments of certain invoice financing loans due to ACB. ACB has formally demanded Xswim Technology for an immediate repayment of the invoice financing loans in full together with accrued interest thereon. However, Xswim Technology was not able to make full repayment to ACB. As a consequence, on 11 February 2004, an action was commenced by ACB against Xswim Technology (as 1st defendant) for an immediate full repayment of certain invoice financing loans of approximately US\$725,000 together with interest, cost and/or other relief. The action was also made against the Company (as 2nd defendant) and the Company's director, Mr. Kong Li Szu (as 3rd defendant) under guarantees given by the Company and the director in favour of ACB in respect of the invoice financing loans granted to Xswim Technology. This case was heard by the High Court of Hong Kong on 31 May 2004 and final judgement was issued in favour of ACB. Xswim Technology was required to repay the said bank loans in full together with the interest thereon and to bear the litigation expenses.

Notes to Financial Statements

For the year ended 31 December 2003

42. CONTINGENT LIABILITIES (Continued)

On 15 June 2004, the Group received a statutory demand from the solicitors for ACB, demanding for the payment of the then outstanding amounts together with interest thereon within 21 days from 15 June 2004. Up to the date of the approval of the financial statements, the said 21 day period has already expired but no winding up proceedings have been commenced by ACB. In the opinion of the directors, the whole amount of the outstanding bank loans together with the interest in arrears and other relevant expenses have been recorded in the financial statements and no further provision should be made. They are also of the opinion that all the outstanding amounts together with interest in arrears and other relevant expenses will be settled upon the completion of several measures as referred to in Note 2. A Deed of Assignment was entered between ACB and Best Spot on 20 November 2004 (details of which are set out in Note 27(a)).

- (e) During the year ended 31 December 2003, the Company has defaulted in the repayments of a fixed term loan due to ICIC. ICIC has formally demanded the Company for an immediate repayment of the fixed term loan in full together with accrued interest thereon. However, the Company was not able to make full repayment to ICIC. As a consequence, on 20 July 2004, an action was commenced by ICIC against the Company (as 1st defendant) for an immediate full repayment of the fixed term loan of approximately HK\$6,499,000 together with interest, cost and/or other relief. The action was also made against the Company's director, Mr. Kong Li Szu (as 2nd defendant) under a guarantee given by the director in favour of ICIC in respect of the fixed term loan granted to the Company. This case was heard by the High Court of Hong Kong on 8 November 2004 and judgement was issued in favour of ICIC. The Company was required to repay the said bank loan in full together with the interest thereon and to bear the litigation expenses.

The Group is in negotiation with ICIC to reschedule the repayment terms of the outstanding amounts. In the opinion of the directors, the whole amount of the outstanding bank loan and interest in arrears and other relevant expenses have been recorded in the financial statements and no further provision is considered necessary. They are also of the opinion that all the outstanding amounts together with interest in arrears and other relevant expenses will be settled upon the completion of several measures as referred to in Note 2.

- (f) On 13 May 2004, an action was commenced by Koffman Securities against Kong Sun Resources (as 1st defendant), a wholly owned subsidiary of the Company, and the Company's director, Mr. Kong Li Szu (as 2nd defendant) for specific performance of an option to repurchase certain investment properties of the Group (previously sold to the Group satisfied by the issuance of 56,000,000 ordinary shares of the Company (the "Consideration Shares")) at a consideration of HK\$21,000,000; the sum of approximately HK\$12,889,000 being the total amount of outstanding differences in the price of the Consideration Shares disposed of and the oral guarantee amount of HK\$0.375 per Consideration Share together with damages, interest, cost and/or other relief. Up to the date of approval of the financial statements, this action is still in progress, no defence has yet been filed by the Group and no hearing date has been fixed. Based on the legal advice obtained, the directors strongly believe that the Group has reasonable good chances of successfully defending this action as the alleged option relied mainly oral agreement by the director which was denied. Hence, no provision has been made in the financial statements.
- (g) At the balance sheet date, the Group had a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of approximately HK\$238,000 at 31 December 2003 (2002: HK\$270,000), as further explained under the heading "Employee benefits" in Note 4(v)(ii). The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.
- (h) The Company issued corporate guarantees to the extent of approximately HK\$36,800,000 (2002: HK\$36,800,000) to banks for the general banking facilities granted to certain subsidiaries. The total facilities utilised by the subsidiaries at 31 December 2003 amounted to approximately HK\$13,727,000 (2002: HK\$30,973,000).

Notes to Financial Statements

For the year ended 31 December 2003

43. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its investment properties (Note 18) under operating lease arrangements, with leases negotiated for terms ranging from one to two years.

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

	2003 HK\$'000	2002 HK\$'000
Within one year	433	5,968
In the second to fifth years, inclusive	159	3,409
	592	9,377

Pursuant to a lease dated 10 May 2002 ("the Lease"), the Group agreed to rent out certain investment properties to Koffman Securities, for a term of five years commencing from 10 May 2002 to 9 May 2007. The Group has on 19 November 2003 commenced legal proceedings against Koffman Securities for the recovery of rent arrears due from Koffman Securities. Details of the litigation is mentioned in Note 42(c). As Koffman Securities had breached the terms of the Lease, in the opinion of the directors, the Group should be able to repossess the leased properties and the Lease should be absolutely terminated. Accordingly, at the balance sheet date, the Group had no future minimum lease receivables in respect of the Lease.

(b) As lessee

The Group leases its office properties under an operating lease arrangement. The lease for properties is negotiated for a term of one year.

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

	2003 HK\$'000	2002 HK\$'000
Within one year	474	1,232
In the second to fifth years, inclusive	–	110
	474	1,342

Notes to Financial Statements

For the year ended 31 December 2003

44. RELATED PARTY TRANSACTIONS

In addition to those related party transactions disclosed in Notes 25, 29, 33 and 34, the Group entered into the following significant related party transactions during the year:

	Notes	2003 HK\$'000	2002 HK\$'000
Rental income from a related company, Alpine Century	(i)	146	300
Rental income from an associate, Koffman Securities	(ii)	1,025	334
Administrative fee income	(iii)	363	507
Management service fee to KSE	(iv)	146	249
Rental expense to a related party, Ms. Soo Lee Eng	(v)	130	193
Consultancy fee paid to an associate, HOL Advisory Services Limited ("HOL")	(vi)	519	4,250
Proceeds received from Kong Fa for subscription of shares	(vii)	–	113,199

Notes:

- (i) The rental income received from Alpine Century was charged at a mutually agreed rent. The director, Mr. Kong Look Sen (deceased) was a director and shareholder of Alpine Century. The director, Mr. Kong Li Jer is a director and shareholder of Alpine Century.
- (ii) The rental income related to the lease of certain investment properties to Koffman Securities was charged at a monthly rent of HK\$83,400.
- (iii) This related to management services provided by the Group to KSE, a substantial shareholder of the Company. In the prior year, the management services were provided by the Group to Equal Gain Sdn. Bhd. in which KSE has a controlling equity interest. The management fee was charged based on the costs incurred by the Group plus a mark-up.
- (iv) A monthly management service fee of approximately HK\$20,800 was paid to KSE for marketing and management services provided to the Group.
- (v) Ms. Soo Lee Eng is a close relative of the directors, Mr. Kong Look Sen (deceased), Mr. Kong Li Jer and Mr. Kong Li Szu.
- (vi) This related to investment consultancy services provided by HOL to the Group charged at a monthly basis of HK\$208,333.

Notes to Financial Statements

For the year ended 31 December 2003

44. RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

- (vii) On 4 February 2002, the Company entered into a placing and subscription agreement with Kong Fa, the ultimate holding company of the Company, pursuant to which Kong Fa placed 100,000,000 existing ordinary shares of the Company to an investor company at a price of HK\$0.32 per share. On 29 May 2002, the Company issued and allotted 300,000,000 new ordinary shares to Kong Fa at the same placing price. The transaction was completed on 29 May 2002.

Furthermore, on 22 October 2002, the Company entered into another placing and subscription agreement with Kong Fa, pursuant to which Kong Fa placed 81,900,000 existing ordinary shares of the Company to independent professional and institutional investors at a price of HK\$0.21 per share. On 28 October 2002, the Company issued and allotted 81,900,000 new ordinary shares to Kong Fa at the same placing price. The transaction was completed on 28 October 2002.

- (viii) As further detailed in Notes 36(a) and 36(e), the directors of the Company have provided personal guarantees for certain bank and other borrowings granted to the Group of approximately HK\$26,779,000 (2002: HK\$23,650,000) at 31 December 2003.
- (ix) As further detailed in Note 36(a), Kong Fa has pledged certain shares of the Company to secure a bank loan granted to the Group of approximately HK\$7,090,000 (2002: HK\$19,150,000).

45. EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed in Notes 6(c), 6(d), 18, 24 and 27(a), the Group did not have any other significant events took place subsequent to the balance sheet date.

46. COMPARATIVE FIGURES

- (a) Certain comparative figures have been restated (i) to conform with change in accounting policy in respect of the adoption of SSAP 12 (Revised), details of which are set out in Note 3; and (ii) to segregate continuing and discontinued/discontinuing operations, details of which are set out in Note 6 to conform with the current year's presentation.
- (b) The comparative figures were audited by another firm of Certified Public Accountants in Hong Kong. Certain comparative figures have been reclassified to conform with the current year's presentation.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 January 2005.