

Notes To The Financial Statements

31 December 2002

1. GENERAL

The Company is a public limited company incorporated in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited ("the Stock Exchange").

The Company is principally engaged in investment holding. The principal activities of the Group are property investment, investment holding, investment in trading securities and provision of brokerage and financial services.

Pursuant to a reorganisation proposal involving a change of domicile of the Company by way of a scheme of arrangement effective on 3 January 2003 under section 99 of the Companies Act 1981 of Bermuda as detailed in note 42 (a) to the financial statements, the Company became a wholly-owned subsidiary of China United International Holdings Limited, a company incorporated in Hong Kong with its shares listed on the Stock Exchange by way of introduction on 6 January 2003. The listing of the Company's shares on the Stock Exchange was withdrawn on 3 January 2003.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND FUNDAMENTAL UNCERTAINTY IN RESPECT OF GOING CONCERN

At the balance sheet date, the Group has overdue principal instalments of bank loans of HK\$35,467,000 and other loans of HK\$74,678,000 with total outstanding principal instalments of HK\$203,937,000 and HK\$74,678,000 respectively. Although the Group has not received notices from the lenders to demand repayment of the bank loans and other loans in full immediately and the directors do not expect they will do so, the principal instalments of the bank loans and other loans totalling HK\$133,002,000 not yet due for repayment as at 31 December 2002 have been classified under current liabilities as events of default have occurred.

In March 2003, the Group defaulted in repayment of principal instalments and interests of HK\$6,024,000 for another two bank loans with total principal instalments of HK\$91,222,000.

As at 31 December 2002, the Group has net current assets of HK\$216,003,000. If the principal instalments of the two bank loans due after one year totalling HK\$71,685,000 are classified as current liabilities as a result of the default in repayment subsequent to the balance sheet date, the Group's net current assets would decrease to HK\$144,318,000.

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2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND FUNDAMENTAL UNCERTAINTY IN RESPECT OF GOING CONCERN *(Continued)*

In light of the above, the Group has taken or will take the following measures to enable it to have sufficient financial resources to satisfy its working capital and financing requirements for the foreseeable future.

- (i) As detailed in note 42 (c) to the financial statements, two subsidiaries have subsequently entered into sale and purchase agreements ("S & P Agreements") with third parties for disposals of certain investment properties and other properties for an aggregate consideration of HK\$125 million of which HK\$72.5 million will be received in cash. Pursuant to the S & P Agreements, deposits of HK\$12.5 million have already been received by the Group in February 2003 and the completion date is expected to be on or before 28 April 2003 or such other date the parties may agree. The Group intends to utilise the cash proceeds of HK\$72.5 million and its surplus cash of HK\$22.5 million to settle part of the outstanding bank loans totalling HK\$204 million owed to a bank. Thereafter, the Group will negotiate with the bank for a proposed restructuring of the remaining outstanding loan balance of HK\$109 million which would include rescheduling of the principal repayments and/or waiver of loans by the bank.

Based on the Group's discussions with the bank, the directors believe the bank will agree with the Group for the proposed loan restructuring to enable the Group to maintain and increase its financial stability.

- (ii) The Group is in the process of disposing an investment property for a cash consideration of HK\$12 million and utilises the sales proceeds to settle part of the outstanding bank loan of HK\$17.7 million which is secured by the said investment property. Thereafter, the Group will negotiate with the bank for rescheduling the repayment of the remaining loan balance of HK\$5.7 million. Based on the Group's discussions with the bank, the directors believe the bank will agree with the Group for the rescheduling of the loan repayment to enable the Group to maintain and increase its financial stability.
- (iii) The Group has outstanding loans of HK\$32.2 million obtained from a financial institution which have already been classified under current liabilities and the Group has not repaid any principal instalments since prior years. The Group is planning to hold discussions with the lender for rescheduling the loan repayments. The directors believe the lender will agree with the Group for the rescheduling of the loan repayments to enable the Group to maintain and increase its financial stability.

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2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND FUNDAMENTAL UNCERTAINTY IN RESPECT OF GOING CONCERN *(Continued)*

- (iv) As mentioned in note 42 (d) to the financial statements, Asia Standard International Group Limited ("Asia Standard") and Paul Y-ITC Construction Holdings Limited ("ITC") have given two corporate guarantees dated 11 August 1997 ("Corporate Guarantees") in favour of a bank for its loan granted to a subsidiary of the Company, East Champion Limited ("East Champion"). In this connection, East Champion was requested by Asia Standard and ITC to give two counter indemnities ("Counter Indemnities") on 11 August 1997. As East Champion defaulted in repayment of the bank loan since March 1998, Asia Standard and ITC have made payments to the bank pursuant to the Corporate Guarantees. Under the Counter Indemnities, East Champion has accounted for the payments made by Asia Standard and ITC as other loans from them. As such, the Company has paid HK\$75 million and its subsidiary, Large Investments Limited ("Large Investments") has paid HK\$32 million to Asia Standard and ITC for settlement of the loans and their related interests on behalf of East Champion. The loan from ITC has been repaid in full in previous year. Since July 2002, repayment of the principal instalments and related interests has not been made to Asia Standard in accordance with agreed repayment schedule. As at 31 December 2002, the outstanding loan from Asia Standard amounted to HK\$42.5 million.

Recently, after taking legal advice, the directors consider that the Counter Indemnities should be null and void as Asia Standard and ITC should not be entitled to demand or accept any security in respect of any liabilities or obligations due from East Champion to them. Such security should include the Counter Indemnities.

In view of the above, the directors consider that East Champion, at present, should not be liable to the loans from Asia Standard and ITC and pursuant to the Corporate Guarantees, all payments previously made to Asia Standard and ITC should be subordinated to the bank loan granted to East Champion. Accordingly, the directors consider it is in the best interest of the Group to cease repayment of the principal instalments and related interests for the bank loan of East Champion since March 2003 on the grounds that the payments of approximately HK\$107 million previously made by the Company and Large Investments to Asia Standard and ITC should have been applied for repayment of the bank loan. As at 31 December 2002 and up to the date of these financial statements, the outstanding bank loan amounted to HK\$73.6 million.

The Group is holding discussions with the bank and seeking further legal advice on the above matters. In the opinion of the directors, the Group or the bank should have the right to recover the payments previously made to Asia Standard and ITC which are more than the amount required for full settlement of the outstanding bank loan of HK\$73.6 million. Accordingly, the directors consider that the bank or Asia Standard will not demand the Group to repay their loans in full immediately.

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2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND FUNDAMENTAL UNCERTAINTY IN RESPECT OF GOING CONCERN *(Continued)*

The directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis, on the basis that the disposals of aforementioned investment properties and other properties will be completed, the proposed restructuring of bank loans, rescheduling of a bank loan and other loans will be successful and the right to recover the payments previously made by the Company and Large Investments to Asia Standard and ITC for settlement of the bank loan are legally valid. Accordingly, the directors consider that the Group will have sufficient working capital to finance its operation and debt servicing in the foreseeable future.

If the going concern basis were found not to be appropriate, adjustments would have to be made to restate the values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention except for investment properties and investments in securities which are measured at fair values. Fair value is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction, and is determined on the basis of existing use.

The financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The principal accounting policies adopted are set out below:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Goodwill

Goodwill arising on consolidation, which represents the excess of the purchase consideration over the fair value ascribed to the separable net assets at the date of acquisition of a subsidiary or an associate, is capitalised and amortised on a straight line basis over its estimated useful life or twenty years, whichever is shorter. Goodwill arising from acquisitions of interests in subsidiaries and associates engaging in internet and internet related business is amortised over five years.

Goodwill arising from acquisitions of subsidiaries and associates is included in intangible assets and within the carrying value of the associates respectively. Provision is made for impairment loss.

Negative goodwill represents the excess of the fair value ascribed to the separable net assets at the date of acquisition of a subsidiary or an associate over the purchase consideration.

Negative goodwill arising on acquisitions of subsidiaries and associates prior to 1 January 2001 continues to be held in reserves and is included in the carrying value of the associates respectively and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisitions of subsidiaries and associates after 1 January 2001 is presented as deduction from intangible assets and is included in the carrying value of associates respectively and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill not exceeding the fair values of the non-monetary assets acquired is recognised in the income statement over the weighted average life of those acquired depreciable/amortisable assets. The amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets acquired is recognised as income immediately.

Upon disposal of subsidiaries or associates, the relevant portion of attributable negative goodwill, or goodwill, net of amortisation and any impairment losses, is included in the determination of the profit or loss on disposal.

(c) Investments in subsidiaries

A subsidiary is an enterprise controlled by the Group. An enterprise is considered to be controlled if the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Investments in subsidiaries *(Continued)*

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

(d) Investments in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the investee.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting whereby the investments are initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associates plus premium paid less any discount on acquisition in so far as it has not already been amortised/ released to income, less impairment loss.

Where a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are immediately recognised in the income statement.

(e) Revenue recognition

Rental income, from properties let under operating leases, is recognised on a straight line basis over the term of the relevant lease.

Revenue from the sale of trading securities is recognised on a trade-date basis.

Brokerage fees and commission income are recognised when relevant services are provided.

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

Dividend income is recognised when the Group's right to receive payment has been established.

Revenue from provision of consultancy services and management service is recognised when relevant service is provided.

(f) Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investment properties (Continued)

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus arises subsequently, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of investment properties, the balance on the investment property revaluation reserve attributable to that property disposed of is credited to the income statement.

No depreciation is provided on investment properties which are held on leases with an unexpired term of more than 20 years.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to 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 the asset, the expenditure is capitalised as an additional cost of the asset.

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

Depreciation is provided to write off the cost of property, plant and equipment, other than investment properties, over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land/land use rights	Over the terms of leases/land use rights
Buildings	4%
Leasehold improvements	10% or over the terms of respective operating leases
Furniture and fixtures	10%-20%
Plant and machinery	10%-33 $\frac{1}{3}$ %
Office equipment	10%-33 $\frac{1}{3}$ %
Motor vehicles	25%

Assets held under finance leases are depreciated on the same basis as owned assets.

Notes To The Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Investments in securities

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

All securities other than held-to-maturity debt securities are measured at fair value at subsequent reporting dates. The Group has no held-to-maturity debt securities.

Where securities are held for trading purposes, unrealised gains and losses are included in the income statement for the year. For other securities, unrealised gains and losses are dealt with in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in the income statement for the year.

(i) Leases

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets to the Group. All other assets are classified as operating leases.

Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as obligations under finance leases. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payments/receipts under operating leases are charged to/recognised in the income statement on a straight line basis over the term of the relevant leases.

(j) Intangible assets

Intangible assets comprise goodwill which is accounted for in accordance with note 3(b) above and the Group's trading rights in the Stock Exchange and The Hong Kong Futures Exchange Limited ("HKFE"). The trading rights are stated at cost less amortisation. Amortisation is calculated on the straight line basis to write off the cost of the trading rights over their estimated economic useful lives as detailed in note 19 to the financial statements.

(k) Other long term assets

Other long term assets are stated at cost less provision for impairment loss.

Notes To The Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Expected future cash flows have been discounted in determining the recoverable amount.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised in prior years.

(m) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of past events which will probably result in an outflow of economic benefits that can be reasonably estimated.

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

(n) Employee benefits

(i) *Defined contribution pension plan*

The Group operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income. Contributions to the MPF Scheme are recognised as an expense in the income statement as incurred.

Notes To The Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Employee benefits (Continued)

(ii) Termination benefits

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

(iii) Equity compensation benefits

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

(iv) Employee entitlements

Employee entitlements to annual leave and statutory long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(o) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

(p) Foreign currencies

Transactions in foreign currencies are translated at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates ruling at the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the results of foreign subsidiaries and associates which are denominated in currencies other than Hong Kong dollars are translated at the average rates for the year. Balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves. On disposal of a foreign subsidiary/associate, the cumulative exchange differences attributable to that subsidiary/associate are included in the calculation of the gain or loss on disposal.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risks of changes in value, having been within three months of maturity at acquisition.

4. TURNOVER

	2002 HK\$'000	2001 HK\$'000
Proceeds from sale of trading securities (<i>Note</i>)	104,634	112,886
Interest income	54,604	57,803
Brokerage fees and commission income	13,459	16,031
Dividend income from listed securities	339	549
Rental income	7,646	7,096
	<u>180,682</u>	<u>194,365</u>

Note:

Proceeds from sale of trading securities for the year ended 31 December 2001 included an amount of HK\$30,431,000 in exchange for certain subsidiaries principally engaged in property investment acquired by the Group in 2001.

5. SEGMENT INFORMATION

Business segments

For management reporting purposes, business segment information is chosen as the primary reporting format. The principal business segments of the Group comprise the following:

Investment in trading securities	:	Purchase and sale of securities
Brokerage and financial services	:	Provide securities brokerage services, financial advisory services and loan financing
Property investment	:	Lease of properties for rentals
Internet and internet related services	:	Provide internet and internet related services
Investment holding	:	Hold investments for dividend income and capital appreciation

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5. SEGMENT INFORMATION (Continued)

Segment information about these businesses is presented below.

Year ended 31 December 2002

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Inter- segment eliminations HK\$'000	Unallocated HK\$'000	Consoli- dated total HK\$'000
Revenue							
Turnover							
External	104,973	68,063	7,646	-	-	-	180,682
Inter-segment	-	-	3,014	-	(3,014)	-	-
	104,973	68,063	10,660	-	(3,014)	-	180,682
Other revenue	-	7,087	24	-	-	2,475	9,586
	-	7,087	24	-	-	2,475	9,586
Total revenue	104,973	75,150	10,684	-	(3,014)	2,475	190,268

Inter-segment revenue are charged at terms comparable to those offered to independent third parties.

Results

Segment profit/(loss)	54,279	16,515	(40,945)	(14)	-	(38,997)	(9,162)
Impairment losses	-	-	(112,876)	-	-	(28,343)	(141,219)
Other finance costs	-	-	-	-	-	(27,069)	(27,069)
Loss before taxation							(177,450)
Taxation							(10,011)
Loss after taxation							(187,461)

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5. SEGMENT INFORMATION (Continued)

Assets and liabilities as at 31 December 2002

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Inter-segment eliminations HK\$'000	Consolidated total HK\$'000
Assets						
Segment assets	126,571	533,016	253,446	58,762	(5,405)	966,390
Interests in associates	–	–	1,485	–	–	1,485
Unallocated assets						60,736
Total assets						1,028,611
Liabilities						
Segment liabilities	–	141,338	5,312	–	(5,405)	141,245
Unallocated liabilities						517,590
Total liabilities						658,835

Assets and liabilities as at 31 December 2001

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Inter-segment eliminations HK\$'000	Consolidated total HK\$'000
Assets						
Segment assets	59,464	581,430	431,552	48,245	(3,321)	1,117,370
Interests in associates	–	–	22,285	–	–	22,285
Unallocated assets						75,323
Total assets						1,214,978
Liabilities						
Segment liabilities	–	137,331	13,212	–	(3,321)	147,222
Unallocated liabilities						603,238
Total liabilities						750,460

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5. SEGMENT INFORMATION (Continued)

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Inter- segment eliminations HK\$'000	Unallocated HK\$'000	Consoli- dated total HK\$'000
Other information for the year ended 31 December 2002							
Capital expenditure incurred during the year *	-	1,153	8,672	-	-	31,546	41,371
Depreciation and amortisation expenses	-	2,061	8,876	-	-	8,011	18,948
Provision for bad and doubtful debts	-	10,269	-	-	-	-	10,269

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Internet and internet related services HK\$'000	Investment holding HK\$'000	Inter- segment eliminations HK\$'000	Unallocated HK\$'000	Consoli- dated total HK\$'000
Other information for the year ended 31 December 2001								
Capital expenditure incurred during the year*	-	5,974	15,308	5,788	-	-	17,150	44,220
Depreciation and amortisation expenses	-	1,810	9,842	11,724	-	-	4,906	28,282
Provision for bad and doubtful debts	-	108,976	3,815	-	-	-	97	112,888

* including additions to property, plant and equipment and intangible assets

Geographical segments

The Group's operations and assets are substantially located in Hong Kong for both years. Accordingly, no geographical segment information has been presented.

6. OTHER REVENUE

	2002 HK\$'000	2001 HK\$'000
Administration fee	1,402	-
Consultancy fee	2,353	2,660
Guarantee fee	1,001	808
Bank interest	266	1,346
Recovery of bad debts	600	-
Security handling fees	2,438	2,865
Sundry	1,526	1,014
Write back of unclaimed dividends	-	136
Interest income on other loan receivable	-	75
Accounts payable written back	-	186
	9,586	9,090

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7. OTHER OPERATING EXPENSES

Included in other operating expenses are the following major (expenses)/income:

	2002 HK\$'000	2001 HK\$'000
Net unrealised gain on trading securities	58,181	4,295
Net provision for bad and doubtful debts	(10,269)	(112,888)
Provision for amount due from an associate	–	(6,602)
Net deficit arising on revaluation of investment properties (Note 17)	(38,890)	(25,343)

8. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

	2002 HK\$'000	2001 HK\$'000
Depreciation on:		
Owned assets	17,441	16,084
Assets held under finance leases	218	159
Amortisation of trading rights on the Stock Exchange and the HKFE	809	649
Amortisation of goodwill of subsidiaries	480	11,390
Total depreciation and amortisation expenses	18,948	28,282
Auditors' remuneration	1,310	1,033
Contributions to MPF Scheme	521	747
Loss on disposals of investment properties	1,258	2,520
Loss on disposals of property, plant and equipment	2,804	650
and after crediting:		
Rental income from investment properties	7,646	7,096
Less: Outgoings	(1,653)	(712)
	5,993	6,384
Release of negative goodwill to income	1,517	208

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9. NET GAIN ON DISPOSALS OF INTERESTS IN ASSOCIATES

During the year ended 31 December 2001, the Group no longer had control over Cupac Technology Limited ("Cupac"), which is principally engaged in the provision of internet and internet related services and investment in trading securities. Accordingly, Cupac was reclassified as an associate. The results of Cupac were consolidated up to 30 June 2001, when Cupac became an associate of the Group, and were equity accounted for thereafter until its eventual disposal on 14 August 2001. This had resulted in a gain on disposal of HK\$103,000.

The Group's loss before taxation for the year ended 31 December 2001 to the extent of HK\$21,591,000 was attributable to Cupac. Cupac did not have significant contribution to the Group's turnover for the year ended 31 December 2001.

10. NET GAIN ON DILUTION OF INTEREST IN A SUBSIDIARY

The net gain on dilution of interest in a subsidiary, Hennabun Management Inc. ("HMI"), totalling HK\$1,269,000 for the year ended 31 December 2001 resulted from an allotment of new shares of HMI to a third party pursuant to a subscription agreement dated 27 March 2001. Under the said agreement, the Company was required to make payment of HK\$50,000,000 to HMI to fulfil its warranties for HMI's financial performance in respect of year ended 31 December 2001. The portion attributable to the minority shareholders on the said payment amounted to HK\$9,460,000 and has been deducted in arriving at the net gain aforementioned.

11. OTHER FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on:		
Bank and other borrowings wholly repayable within five years	24,803	22,858
Bank and other borrowings wholly repayable over five years	8,895	22,018
Convertible notes	4,818	4,489
Obligations under finance leases	45	49
	<hr/>	<hr/>
	38,561	49,414
Less: Amount attributable to provision of financial services	(11,492)	(11,748)
	<hr/>	<hr/>
	27,069	37,666

Notes To The Financial Statements

31 December 2002

12. DIRECTORS' EMOLUMENTS

	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	—	—
	<u>—</u>	<u>—</u>
Other emoluments:		
Executive directors	9,267	9,214
Independent non-executive directors	309	120
	<u>9,576</u>	<u>9,334</u>
Other emoluments comprises:		
Salaries and other benefits	9,504	9,262
Contributions to MPF Scheme	72	72
	<u>9,576</u>	<u>9,334</u>

Emoluments of the directors were within the following bands:

	2002 Number of directors	2001 Number of directors
Nil to HK\$1,000,000	6	5
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$4,500,001 to HK\$5,000,000	1	1
	<u>8</u>	<u>7</u>

In both years, no emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no directors have waived any emoluments in both years.

Notes To The Financial Statements

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13. EMPLOYEES' EMOLUMENTS

The five highest paid employees of the Group during the year included four (2001: four) directors, details of whose emoluments are set out in note 12 above. The emolument of the remaining employee (2001: one) is as follows:

	2002 HK\$'000	2001 HK\$'000
Other emoluments	1,800	1,800

The remuneration of the employees falls within the band of HK\$1,500,001 to HK\$2,000,000 for both years.

14. TAXATION

The tax (charge)/credit comprises:

	2002 HK\$'000	2001 HK\$'000
Hong Kong Profits Tax		
Current year	(571)	(1,395)
Over provision in prior years	560	1,481
	(11)	86
Deferred taxation (<i>Note 40</i>)	(10,000)	—
Share of tax on results of associates	—	—
	(10,011)	86

Provision for Hong Kong Profits Tax has been calculated at 16% (2001: 16%) on the estimated assessable profits for the year.

Details of provided and unprovided deferred taxation are set out in note 40 to the financial statements.

Notes To The Financial Statements

31 December 2002

15. LOSS FOR THE YEAR

Of the Group's loss for the year of HK\$199,369,000 (2001: HK\$331,560,000), a loss of HK\$202,793,000 (2001: HK\$180,600,000) has been dealt with in the financial statements of the Company.

16. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the year of HK\$199,369,000 (2001: HK\$331,560,000) and on the weighted average number of 3,086,218,597 shares (2001: 723,436,022 shares) in issue during the year. The weighted average number of shares in issue used in the basic loss per share calculation for the year ended 31 December 2001 has been adjusted to reflect the effect of the rights issue and share consolidation during the current year.

No diluted loss per share is presented for the both years as exercise of the Company's outstanding share options and conversion of the Company's outstanding convertible notes have an anti-dilutive effect.

Notes To The Financial Statements

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17. INVESTMENT PROPERTIES

	HK\$'000
At 1 January 2002	218,000
Acquisition of a subsidiary	5,000
Disposals	(26,640)
Deficit arising on revaluation	(38,890)
At 31 December 2002	157,470

The net book value of investment properties shown above comprises:

	2002 HK\$'000	2001 HK\$'000
Long term leasehold properties situated in Hong Kong	124,910	154,560
Medium term leasehold properties situated in		
– Hong Kong	32,560	36,800
– elsewhere in the People's Republic of China	–	26,640
	157,470	218,000

The Group's investment properties situated in Hong Kong amounting to HK\$123,470,000 are revalued at 31 December 2002 by a firm of independent professional valuers, Centaline Surveyors Limited, on an open market value existing use basis. Investment properties of HK\$34,000,000 situated in Hong Kong as at 31 December 2002 are stated at its subsequent selling price.

The Group's rental income from future minimum lease payments under non-cancellable operating leases is as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	4,681	3,665
After one year but within five years	2,817	1,353
	7,498	5,018

Notes To The Financial Statements

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18. PROPERTY, PLANT AND EQUIPMENT

The Group	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Plant and machinery HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost							
At 1 January 2002	395,623	9,348	9,144	6,169	–	8,464	428,748
Acquisition of subsidiaries	2,959	1,373	1,303	304	–	–	5,939
Additions	–	1,135	665	668	–	–	2,468
Disposals	–	(1,803)	(1,485)	(232)	–	(999)	(4,519)
Reclassification	–	–	–	(6,909)	6,909	–	–
At 31 December 2002	398,582	10,053	9,627	–	6,909	7,465	432,636
Depreciation and impairment							
At 1 January 2002	155,885	3,480	6,222	3,089	–	4,161	172,837
Acquisition of subsidiaries	–	84	623	152	–	–	859
Charge for the year	9,812	3,105	1,301	1,911	–	1,530	17,659
Impairment losses	110,803	2,018	–	55	–	–	112,876
Eliminated on disposals	–	(84)	(582)	(106)	–	(493)	(1,265)
Reclassification	–	–	–	(5,101)	5,101	–	–
At 31 December 2002	276,500	8,603	7,564	–	5,101	5,198	302,966
Net book value							
At 31 December 2002	122,082	1,450	2,063	–	1,808	2,267	129,670
At 31 December 2001	239,738	5,868	2,922	3,080	–	4,303	255,911

The net book value of property, plant and equipment includes an amount of HK\$35,000 (2001: HK\$253,000) in respect of assets held under finance leases.

The net book value of properties comprises HK\$91,000,000 (2001: HK\$207,665,000) and HK\$31,082,000 (2001: HK\$32,073,000) in respect of long term leasehold properties and medium term leasehold properties situated in Hong Kong respectively.

Notes To The Financial Statements

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19. INTANGIBLE ASSETS

	Goodwill	Negative goodwill	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note (i)	Note (i)	Note (ii)	
Cost				
At 1 January 2002	5,314	(4,159)	7,600	8,755
Arising from acquisition of interests in subsidiaries (Note iii)	28,823	—	—	28,823
Arising from increase in additional interest in a subsidiary	—	(24,491)	—	(24,491)
At 31 December 2002	34,137	(28,650)	7,600	13,087
Amortisation and impairment				
At 1 January 2002	5,314	(208)	649	5,755
Amortisation for the year	480	(1,517)	809	(228)
Impairment loss (Note iii)	28,343	—	—	28,343
At 31 December 2002	34,137	(1,725)	1,458	33,870
Net book value				
At 31 December 2002	—	(26,925)	6,142	(20,783)
At 31 December 2001	—	(3,951)	6,951	3,000

Notes:

- (i) Goodwill is amortised in accordance with note 3(b) to the financial statements. Negative goodwill is recognised in the income statement on a straight line basis over ten years.
- (ii) Others represent trading rights in the Stock Exchange and the HKFE which are amortised over the following periods:
- Trading rights in the Stock Exchange: Remaining useful life of 111 months commencing from 1 January 2001
- Trading right in HKFE: Ten years
- (iii) The goodwill of HK\$28,823,000 arose from the acquisition of 100% equity interest in Trade Sea Assets Limited in August 2002. Trade Sea Assets Limited and its subsidiaries are principally engaged in property investment, trading of motor cars and operation of a restaurant and bar. The operation of restaurant and bar ceased on 31 December 2002 and impairment loss on the unamortised goodwill of HK\$28,343,000 is recognised at that date accordingly. The details are set out in note 33 to the financial statements.

Notes To The Financial Statements

31 December 2002

20. INTERESTS IN SUBSIDIARIES

	The Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	399,637	399,637
Amounts due from subsidiaries	2,824,381	3,490,280
	3,224,018	3,889,917
Less: Impairment losses	(399,636)	(399,636)
Provision for doubtful debts	(2,267,128)	(2,067,128)
	557,254	1,423,153

Included in amounts due from subsidiaries are amounts of approximately HK\$125,430,000 (2001: HK\$484,000,000) which bear interest at rates ranging from prime rate per annum to prime rate plus 2% per annum or at average rate of 11% per annum. The remaining amounts due from subsidiaries are interest-free. All the amounts due from subsidiaries are unsecured and have no fixed repayment terms.

The following table lists the Company's subsidiaries at 31 December 2002 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 subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of subsidiary	Place of incorporation and operations	Issued share capital (Note)	Percentage of equity interest held by		Principal activities
			Company	Subsidiary	
Action Plus Investments Limited	British Virgin Islands	US\$1	–	100	Investment holding
All Majestic Group Limited	British Virgin Islands	US\$1	–	100	Investment holding
Auto Standard Limited*	Hong Kong	HK\$100	–	100	Trading of motor cars and provision of car care services
Bestford Properties Limited	Hong Kong	HK\$2	–	100	Property holding
Bestford Development Limited	Hong Kong	HK\$2	–	100	Property investment

Notes To The Financial Statements

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20. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation and operations	Issued share capital (Note)	Percentage of equity interest held by		Principal activities
			Company	Subsidiary	
Best Million Limited	British Virgin Islands	US\$50,000	–	100	Investment holding
Bonus Profit Group Limited	British Virgin Islands	US\$1	–	100	Investment holding
Butterville Associates Limited	British Virgin Islands	US\$1	–	100	Investment holding
China United Finance Limited	Hong Kong	HK\$285,000,002	–	100	Money lending
China United Financial Services Limited	Hong Kong	HK\$2	100	–	Investment holding
China United Securities Services Limited	British Virgin Islands	US\$50,000	–	100	Investment holding
Chung Nam Commodities Limited	Hong Kong	HK\$15,000,000	–	100	Commodities dealer
Chung Nam Finance Limited	Hong Kong	HK\$10,000,000	–	100	Securities financing and money lending
Chung Nam Holdings Limited	Hong Kong	HK\$17,200,000	–	100	Investment holding
Chung Nam Nominees Limited	Hong Kong	HK\$10,000	–	100	Nominees
Chung Nam Securities Limited	Hong Kong	HK\$180,000,000	–	100	Securities brokerage and financial services
Cepora Inc.	British Virgin Islands	US\$100	–	100	Investment holding
Colias Inc.	British Virgin Islands	US\$100	–	100	Securities investment

Notes To The Financial Statements

31 December 2002

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation and operations	Issued share capital (Note)	Percentage of equity interest held by		Principal activities
			Company	Subsidiary	
Cliffview Profits Limited	British Virgin Islands	US\$1	–	100	Investment holding
CU Corporate Finance Limited	Hong Kong	HK\$10,000,000	–	100	Investment advisor
CU Investment Management Limited	Hong Kong	HK\$1,000,000	–	100	Investment advisor
CU Investments (Holdings) Limited	Hong Kong	Ordinary shares of HK\$2 Non-voting shares of HK\$2	–	100	Investment holding
CU Nominee Limited	Hong Kong	HK\$2	–	100	Nominees
Cuve Asset Management Limited	British Virgin Islands	US\$26,000	–	100	Investment holding
East Champion Limited	Hong Kong	HK\$2	–	100	Property investment
Embrace Assets Limited	British Virgin Islands	US\$1	–	100	Investment holding
E-Garden Properties Limited	British Virgin Islands	US\$1	–	100	Investment holding
Fei Wang Incorporated	British Virgin Islands	US\$1	–	100	Investment holding
First Asia (China) Limited	Hong Kong	HK\$41,942,945	100	–	Investment holding
First Asia Financial Services Limited	Hong Kong	HK\$5,000,000	–	100	Property investment
First Asia Properties Limited	British Virgin Islands/ Hong Kong	US\$2	–	100	Investment holding

Notes To The Financial Statements

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20. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation and operations	Issued share capital (Note)	Percentage of equity interest held by		Principal activities
			Company	Subsidiary	
Fortune Gold Investment Limited*	Hong Kong	HK\$2	–	100	Property investment
Great Gains International Limited	Hong Kong	HK\$100	–	100	Property investment
Greatly Fareast Limited	Hong Kong	HK\$2	–	100	Property investment
Golden Clip Limited	British Virgin Islands	US\$1	–	100	Investment holding
Hennabun Capital Management Inc.	British Virgin Islands	US\$1	–	100	Investment holding and securities investment
Hennabun Investments Limited	British Virgin Islands	US\$1	–	100	Investment holding
Hennabun Management Inc.	British Virgin Islands	US\$15,813,333	–	93.04	Investment holding
i-Automobile Inc.*	British Virgin Islands	US\$794,872	–	100	Trading of motor cars and provision of car care services
International Stamps & Coins Exchange Gallery Limited	Hong Kong	HK\$20,200	–	100	Property investment
Joint Bright Development Limited*	Hong Kong	HK\$5,000,000	–	100	Operation of restaurant & bar
Kam Kwong Company Limited	Hong Kong	HK\$19,050,000	–	100	Securities brokerage and financial services
Kam Kwong Investments Limited	Hong Kong	HK\$10,000	–	100	Investment holding

Notes To The Financial Statements

31 December 2002

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation and operations	Issued share capital (Note)	Percentage of equity interest held by		Principal activities
			Company	Subsidiary	
Large Investments Limited	British Virgin Islands	US\$1	–	100	Investment holding
Lockrealm Holdings Limited	British Virgin Islands	US\$1	–	100	Investment holding
Long Bloom Enterprises Limited	Hong Kong	HK\$5,300,000	–	100	Provision of administrative service
Million Regal Investment Limited	Hong Kong	HK\$1,000	–	100	Property investment
Modern View Holdings Limited*	British Virgin Islands	US\$2	–	100	Investment holding
Newick Group Limited*	British Virgin Islands	US\$1	–	100	Property investment
Pacific Kingdom Investments Limited	Hong Kong	HK\$2	–	100	Property investment
Parco Development Limited*	British Virgin Islands	US\$1	–	100	Investment holding
Quali-Trade Investments Limited	British Virgin Islands	US\$4,980,000	–	100	Investment holding
Radford Portfolio Management Limited	Hong Kong	HK\$10,000	–	100	Property holding
Righteam Limited	Hong Kong	HK\$2	100	–	Provision of corporate services
Ronford Properties Limited	Hong Kong	HK\$2	–	100	Property investment
Selway Limited	Hong Kong	HK\$2	–	100	Property investment

Notes To The Financial Statements

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20. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation and operations	Issued share capital (Note)	Percentage of equity interest held by		Principal activities
			Company	Subsidiary	
Simply Best Limited	British Virgin Islands	US\$1	–	100	Investment holding
Skill Cheer Limited	Cayman Islands	HK\$8	–	100	Investment holding
Sky Coast Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Spread Success Limited	Cayman Islands	HK\$210,000,008	–	100	Investment holding
Trade Sea Assets Limited*	British Virgin Islands	US\$1	–	100	Investment holding
Ultimate United Developments Limited	British Virgin Islands	US\$1	100	–	Investment holding
Wellhand Limited	Hong Kong	HK\$2	–	100	Property investment
Winners Assets Limited	British Virgin Islands	US\$1	–	100	Investment holding
Winport Limited	British Virgin Islands	US\$1	–	100	Investment holding
Winning Point Limited	British Virgin Islands	US\$1	–	100	Securities investment

Notes:

Unless otherwise specified, all shares are ordinary shares. No loan capital has been issued by any of the subsidiaries.

* Companies not audited by BDO International. The results, assets and liabilities of the subsidiaries not audited by BDO International are insignificant to the Group.

Notes To The Financial Statements

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21. INTERESTS IN ASSOCIATES

	2002 HK\$'000	2001 HK\$'000
Share of net assets	1,485	1,733
Amounts due from associates	44,021	64,573
Less: Provision for doubtful debts	(44,021)	(44,021)
	—	20,552
	1,485	22,285

In 2001, the Group agreed with a lender whereby certain properties distributed by an associate to the Group for repayment of its shareholder's loan made to the associate was assigned to a lender for settlement of part of the loan granted to the Group together with related accrued interest at a total agreed amount of HK\$20,800,000 ("Agreed Amount"). The Group will compensate the lender if the total net proceeds received from sales of the properties (after deduction of half of the excess of sale proceeds over respective agreed amounts of the properties payable to the Group) is less than the Agreed Amount.

Details of the associates as at 31 December 2002 are as follows:

Name of associate	Form of business structure	Place of incorporation and operations	Class of shares held	Percentage of equity interest held by the Group	Principal activities
Bai Hui Group Company Limited	Incorporated	Hong Kong	Ordinary	30	Investment holding
Bai Hui Real Estate Company Limited	Incorporated	Hong Kong/ People's Republic of China	Ordinary	34	Investment holding and property management
Pure Fair Investment Limited	Incorporated	Hong Kong	Ordinary	45	Property investment
Weitang International Limited	Incorporated	British Virgin Islands	Ordinary	35.77	Investment holding
Wise Decision Investments Limited	Incorporated	British Virgin Islands	Ordinary	45	Investment holding

Notes To The Financial Statements

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22. INVESTMENTS IN SECURITIES

The Group

	Other securities (Non-current investments)		Trading securities (Current investments)	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Equity				
Listed investments (note i)	–	–	126,571	56,458
Unlisted investment (note ii)	3,899	3,899	–	–
Unlisted investment fund	50,941	40,447	–	–
	<u>54,840</u>	<u>44,346</u>	<u>126,571</u>	<u>56,458</u>
Unlisted debt securities	3,899	3,899	–	–
	<u>58,739</u>	<u>48,245</u>	<u>126,571</u>	<u>56,458</u>
Equity securities at market value listed				
– in Hong Kong (note i)	–	–	123,959	55,882
– overseas	–	–	2,612	576
	<u>–</u>	<u>–</u>	<u>126,571</u>	<u>56,458</u>

Notes:

- (i) Included in trading securities is the Group's investment in 290,000,000 shares with carrying amount of HK\$114,840,000 in a company, Radford Capital Investment Limited ("Radford Capital"), a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Stock Exchange. Radford Capital is principally engaged in investments in listed and unlisted enterprises established and/or conducting business in Hong Kong and/or the People's Republic of China. Although the Group's investment in Radford Capital accounts for 28.4% issued ordinary shares of Radford Capital, the Group does not regard Radford Capital as an associate because it intends to hold the investment in Radford Capital for trading purpose.

Since the shares of Radford Capital are thinly traded and the percentage of issued shares of Radford Capital held by the Group is substantial, the directors consider, to the best of their estimate and knowledge, that a discount of 20% on the quoted market price of Radford Capital as at 31 December 2002 is the fair value of the Group's investment in Radford Capital. Accordingly, the investment in Radford Capital is stated at HK\$114,840,000 after taking 20% discount on the closing market price quoted on the Stock Exchange on the last trading day in December 2002. This resulted in a recognition of a net unrealised holding gain of HK\$52,640,000 after deducting an estimated attributable tax of HK\$10,000,000, in the income statement for the current year.

- (ii) Unlisted investment represents the following investee company.

Name of investee company	Place of incorporation	Class of shares held	Percentage of equity interest held by the Group
Ronin Capital Management LLC	U.S.A.	Paid up capital	25

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22. INVESTMENTS IN SECURITIES *(Continued)*

The Company

	Trading securities (Current investments)	
	2002 HK\$'000	2001 HK\$'000
Equity		
Listed investments	8,215	25,656
Equity securities at market value listed		
– in Hong Kong	6,191	25,261
– overseas	2,024	395
	8,215	25,656

23. OTHER LONG TERM ASSETS

	2002 HK\$'000	2001 HK\$'000
Deposits with HKFE Clearing Corporation Limited	1,500	1,500
Fidelity Fund	100	100
Deposits with the Stock Exchange	253	276
Contribution to Central Clearing and Settlement System Guarantee Fund	100	94
Admission fee paid to Hong Kong Securities Clearing Company Limited	100	100
	2,053	2,070

Notes To The Financial Statements

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24. LOANS RECEIVABLE

Loans granted to borrowers are repayable by instalments or according to set maturity dates. The balance comprises loans receivable from:

	Notes	2002 HK\$'000	2001 HK\$'000
Third parties		308,192	497,470
Related companies	41(b)	46,987	—
Directors of the Company	41(c)	1,361	1,556
		<u>356,540</u>	<u>499,026</u>
Provision for bad and doubtful debts		(128,687)	(128,687)
		<u>227,853</u>	<u>370,339</u>
Less: Balances due within one year included in current assets		(226,484)	(349,995)
		<u>1,369</u>	<u>20,344</u>

An aging analysis of loans receivable (before provision for bad and doubtful debts) as at the balance sheet date is set out below:

	2002 HK\$'000	2001 HK\$'000
Within maturity dates	275,036	260,811
Balances over due for repayment		
— 1 – 3 months	40,692	197,456
— 4 – 6 months	11,621	1,970
— 7 – 12 months	266	17,439
Over 12 months	28,925	21,350
	<u>356,540</u>	<u>499,026</u>

Notes To The Financial Statements

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25. TRADE AND OTHER RECEIVABLES

The Group maintains a credit policy. The trade and other receivables comprises the following:

	Notes	2002 HK\$'000	2001 HK\$'000
Third parties		273,779	196,172
A substantial shareholder of the Company	41(d)	47,906	26,811
A related company	41(d)	15,171	—
A director of certain non wholly-owned subsidiaries	41(d)	3,657	—
Directors of the Company	41(d)	1,706	2,077
		<u>342,219</u>	<u>225,060</u>
Provision for bad and doubtful debts		(51,262)	(40,993)
		<u>290,957</u>	<u>184,067</u>
Trade receivables (after provision)		290,957	184,067
Other receivables		9,869	5,148
		<u>300,826</u>	<u>189,215</u>

An aging analysis of trade receivables (after provision for bad and doubtful debts) as at the balance sheet date is as follows:

	2002 HK\$'000	2001 HK\$'000
Current	290,866	184,067
1 – 3 months	91	—
	<u>290,957</u>	<u>184,067</u>

26. TRADE AND OTHER PAYABLES

The trade and other payables of the Group include trade payables of HK\$12,985,000 (2001: HK\$6,394,000) all of which are current.

Notes To The Financial Statements

31 December 2002

27. OBLIGATIONS UNDER FINANCE LEASES

Obligations payable under finance leases of the Group are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	189	176	136	127
More than one year, but not exceeding two years	68	176	47	127
More than two years, but not exceeding five years	—	67	—	47
	257	419	183	301
Less: Future finance charges	(74)	(118)		
Present value of finance lease obligations	183	301		
Less: Balances due within one year included in current liabilities			(136)	(127)
			47	174

Notes To The Financial Statements

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28. BANK AND OTHER BORROWINGS

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank loans and overdrafts:				
Secured	422,803	365,032	119,786	121,612
Unsecured	18,943	18,609	18,609	18,609
	<u>441,746</u>	<u>383,641</u>	<u>138,395</u>	<u>140,221</u>
Other loans:				
Secured	67,276	81,420	—	—
Unsecured	16,901	165,401	7,401	87,401
	<u>84,177</u>	<u>246,821</u>	<u>7,401</u>	<u>87,401</u>
	<u>525,923</u>	<u>630,462</u>	<u>145,796</u>	<u>227,622</u>

The bank and other borrowings are repayable as follows:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	423,580	356,795	145,796	112,990
More than one year, but not exceeding two years	22,001	52,740	—	25,521
More than two years, but not exceeding five years	54,602	153,615	—	71,289
More than five years	25,740	67,312	—	17,822
	<u>525,923</u>	<u>630,462</u>	<u>145,796</u>	<u>227,622</u>
Less: Balances due within one year included in current liabilities	<u>(423,580)</u>	<u>(356,795)</u>	<u>(145,796)</u>	<u>(112,990)</u>
Balances due after one year	<u>102,343</u>	<u>273,667</u>	<u>—</u>	<u>114,632</u>

Notes To The Financial Statements

31 December 2002

28. BANK AND OTHER BORROWINGS (Continued)

Other loans bear interest at prevailing market rates.

Included in HK\$423,580,000 (2001: HK\$356,795,000) as at 31 December 2002 were principal instalments of HK\$133,002,000 (2001: HK\$16,415,000) which were originally due for repayment after more than one year. As event of default had arisen under certain loan agreements as detailed in note 2 to the financial statements, the principal instalments due after one year are classified as current liabilities.

29. CONVERTIBLE NOTES

	The Group and the Company	
	2002 HK\$'000	2001 HK\$'000
Notes issued by the Company	63,840	63,840

On 5 July 2001, the Company issued convertible notes (the "Notes") with a total principal amount of HK\$75,600,000 to certain third parties. The Notes, which will mature three years from the date of issue, bear interest at 7.5% per annum and can be converted into shares of the Company in the amounts or integral multiples of HK\$168,000 at any time from the date of issue of the Notes up to 14 days before (and excluding) the maturity date. The conversion price is subject to adjustment.

The Company may redeem in whole or in part the Notes in denominations of HK\$168,000 at 105% of the outstanding principal amount of the Notes from the date of issue of the Notes until a date 14 days prior to (and excluding) the maturity date together with all accrued interest thereon. No Notes were redeemed by the Company during the year.

During the year ended 31 December 2001, Notes with an aggregate principal amount of HK\$11,760,000 were converted into 1,176,000,000 shares of HK\$0.01 each of the Company at a conversion price of HK\$0.01 each. No Notes were converted into shares of the Company during the year.

As a result of the capital reduction, share consolidation and rights issue in August 2002 as detailed in note 30 to the financial statements, the conversion prices upon the exercise of the outstanding Notes have been adjusted in accordance with the terms of the deeds of convertible notes as follows:

Conversion price	Period
HK\$0.0764	7 August 2002 to 4 July 2003
HK\$0.0891	5 July 2003 to 14 days before (and excluding) the maturity date on 4 July 2004

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30. SHARE CAPITAL

	Notes	Number of ordinary shares	Nominal value HK\$'000
Authorised:			
Share of HK\$0.01 each at 1 January 2001, 31 December 2001 and 31 December 2002		200,000,000,000	2,000,000
Issued and fully paid:			
Shares of HK\$0.01 each at 1 January 2001		9,973,894,622	99,739
New share placements to private and institutional investors	(i)	15,611,500,000	156,115
Exercise of share options	(ii)	1,163,000,000	11,630
Conversion of convertible notes into shares	29	1,176,000,000	11,760
Shares of HK\$0.01 each at 31 December 2001 and 1 January 2002		27,924,394,622	279,244
Reduction of nominal value of issued shares from HK\$0.01 each to HK\$0.0002 each and consolidation of every fifty shares of HK\$0.0002 each into one share of HK\$0.01 each on 11 July 2002	(iii)	(27,365,906,730)	(273,659)
		558,487,892	5,585
Rights issue on 7 August 2002	(iv)	5,584,878,920	55,849
Share of HK\$0.01 each at 31 December 2002		6,143,366,812	61,434

Notes To The Financial Statements

31 December 2002

30. SHARE CAPITAL (Continued)

Notes:

- (i) During the year ended 31 December 2001, the Company made the following share placements to private and institutional investors at the following subscription prices for ordinary shares of HK\$0.01 each in the Company.

Date of allotment	Number of shares allotted	Subscription price per share HK\$	Total proceeds HK\$'000
2 January 2001	1,994,000,000	0.017	33,898
21 February 2001	2,393,500,000	0.014	33,509
28 May 2001	2,960,000,000	0.01	29,600
10 August 2001	3,610,000,000	0.01	36,100
21 September 2001	4,654,000,000	0.01	46,540
	<u>15,611,500,000</u>		<u>179,647</u>

The net proceeds from placement of shares have been used as working capital of the Group, utilised to repay its borrowings and to partly finance subscription for the new shares issued by a non wholly-owned subsidiary.

- (ii) During the year ended 31 December 2001, 1,163,000,000 share options were granted at nominal consideration with the exercise price of the share options ranging from HK\$0.01 to HK\$0.01104 per share and had been fully exercised in 2001.
- (iii) Pursuant to a special resolution passed on 10 July 2002, the Company adjusted the nominal value of all the issued shares of HK\$0.01 each in the Company by reducing the nominal value of all of the issued shares from HK\$0.01 each to HK\$0.0002 each by cancelling HK\$0.0098 of the paid up capital of each issued share by way of a reduction of share capital amounting to approximately HK\$273,659,000 in accordance with Section 46 of the Companies Act 1981 of Bermuda and every fifty adjusted issued shares of HK\$0.0002 each were consolidated into one consolidated share of HK\$0.01 each.
- (iv) On 7 August 2002, the Company issued 5,584,878,920 rights shares of HK\$0.01 each at a subscription price of HK\$0.02 per rights share in the proportion of ten rights shares for every one consolidated share then held by qualifying shareholders. The net proceeds from the rights issue were used to finance the subscription of the 100 million shares in a non wholly-owned subsidiary, Hennabun Management Inc. at a consideration of HK\$130,000,000.

All new shares issued as a result of the placement of shares, exercise of share options, conversion of convertible notes and rights issue rank pari passu with the then existing shares in all respects.

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31. SHARE OPTION SCHEMES**(i) Executive share option scheme**

Pursuant to the executive share option scheme which became effective on 15 December 1995 and which will expire in ten years after that date, the directors of the Company may, at their discretion, grant options to any director or employee of the Company, or any of its subsidiaries, to subscribe for shares in the Company at a price neither less than the par value of the shares nor at a discount of more than 20% of the average closing price of the shares on the Stock Exchange on the five dealing days immediately preceding the date of the grant of the options. The maximum number of share options granted should not be more than 10% of the issued share capital of the Company from time to time. A share option may be exercised at any time no later than ten years from the date of grant of the share option.

During the year ended 31 December 2001, 1,163,000,000 share options were granted at nominal consideration with the exercise price of the share options ranging from HK\$0.01 to HK\$0.01104 per share and had been fully exercised in that year.

As a result of the capital reduction, share consolidation and rights issue during the year ended 31 December 2002, the following outstanding share options as at 31 December 2001 to subscribe for the Company's ordinary shares have been adjusted as follows:

Number of share options outstanding as at 31 December 2001		Exercise price per share		Exercise period
(Before adjustment)	(After adjustment)	(Before adjustment) HK\$	(After adjustment) HK\$	
Director – Chuang Yueheng, Henry				
6,000,000	1,320,000	1.693	43.6540	9 October 1997 – 8 October 2007
Employees				
2,400,000	528,000	0.02048	0.5281	25 August 2000 – 24 August 2010
8,400,000	1,848,000			

Notes To The Financial Statements

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31. SHARE OPTION SCHEMES *(Continued)*

(i) Executive share option scheme *(Continued)*

On 27 August 2002, the Company has obtained in principle consents from the holders of the outstanding share options to give up their rights under the share options. Accordingly, the above options were cancelled on the same date. The Company has not paid or committed to pay any compensation to the holders of these share options.

(ii) New share option scheme

Pursuant to a resolution passed on 30 May 2002, the Company's executive share option scheme was cancelled and a new share option scheme ("New Share Option Scheme") was adopted. The New Share Option Scheme is valid and effective for a period of ten years commencing on the date of its adoption. The board of directors of the Company may grant options to eligible employees including directors of the Company and its subsidiaries and any other persons including consultants, advisors, agents, customers, suppliers, etc. to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the New Share Option Scheme is not permitted to exceed 30% of the shares of the Company in issue from time to time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any 12 month period is not permitted to exceed 1% of the shares of the Company in issue from time to time, without prior approval from the Company's shareholders. Options granted to any director, chief executive or substantial shareholder of the Company or any of their respective associates in excess of 0.1% of the Company's share capital in issue and having an aggregate value in excess of HK\$5 million must be subject to prior approval by the Company's shareholders.

An amount of HK\$1 is payable on the grant of an option. Options may be exercised no later than ten years from the date of grant of the share option. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the shares on the date of grant.

No options have been granted since the date of adoption of the New Share Option Scheme.

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32. RESERVES

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Investment revaluation deficit HK\$'000	Contributed surplus HK\$'000	Deficit HK\$'000	Total HK\$'000
The Group								
At 1 January 2001	1,543,346	99	33,455	19,330	(33,921)	842,136	(1,960,554)	443,891
Issue of new shares, net of expenses	23,008	-	-	-	-	-	-	23,008
Realised on disposal of other securities	-	-	-	-	9,627	-	-	9,627
Surplus on revaluation of other securities	-	-	-	-	4,144	-	-	4,144
Loss for the year	-	-	-	-	-	-	(331,560)	(331,560)
At 31 December 2001 and at 1 January 2002	1,566,354	99	33,455	19,330	(20,150)	842,136	(2,292,114)	149,110
Issue of new shares, net of expenses	50,867	-	-	-	-	-	-	50,867
Arising from cancellation and reduction of share capital (Note 30)	-	-	-	-	-	273,659	-	273,659
Surplus on revaluation of other securities	-	-	-	-	9,809	-	-	9,809
Loss for the year	-	-	-	-	-	-	(199,369)	(199,369)
At 31 December 2002	1,617,221	99	33,455	19,330	(10,341)	1,115,795	(2,491,483)	284,076

Included in reserves of the Group as at 31 December 2002 are accumulated losses of associated companies attributable to the Group amounting to HK\$46,476,000 (2001: HK\$46,228,000).

Notes To The Financial Statements

31 December 2002

32. RESERVES (Continued)

The special reserve represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's share issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1989.

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation deficit HK\$'000	Contributed surplus HK\$'000	Deficit HK\$'000	Total HK\$'000
The Company						
At 1 January 2001	1,543,346	99	(9,627)	1,233,284	(2,505,116)	261,986
Issue of new shares, net of expenses	23,008	–	–	–	–	23,008
Realised on disposal of other securities	–	–	9,627	–	–	9,627
Loss for the year	–	–	–	–	(180,600)	(180,600)
At 31 December 2001 and at 1 January 2002	1,566,354	99	–	1,233,284	(2,685,716)	114,021
Issue of new shares, net of expenses	50,867	–	–	–	–	50,867
Arising from cancellation and reduction of share capital (Note 30)	–	–	–	273,659	–	273,659
Loss for the year	–	–	–	–	(202,793)	(202,793)
At 31 December 2002	1,617,221	99	–	1,506,943	(2,888,509)	235,754

The contributed surplus to the extent of HK\$391,148,000 represents the difference between the consolidated net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1989. The remaining balance of HK\$1,115,795,000 (2001: HK\$842,136,000) is transferred from share capital pursuant to the capital reduction made during the year ended 31 December 2002 and the period ended 31 December 2000.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if:

- it is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At the balance sheet date, the Company has no reserves available for distribution to the shareholders.

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33. PURCHASE OF INTERESTS IN SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Investment properties	5,000	14,963
Property, plant and equipment	5,080	15,659
Trade and other receivables	1,508	938
Tax prepaid	92	—
Bank balances and cash	3,475	271
Trade and other payables	(6,861)	(1,400)
Bank overdraft	(2,886)	—
Bank loan	(4,231)	—
	1,177	30,431
Goodwill on acquisition	28,823	—
	<u>30,000</u>	<u>30,431</u>
Satisfied by:		
Cash consideration	30,000	—
Trading securities	—	57,299
	30,000	57,299
Loss on disposal of trading securities	—	(26,868)
Total consideration	<u>30,000</u>	<u>30,431</u>

Notes To The Financial Statements

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33. PURCHASE OF INTERESTS IN SUBSIDIARIES *(Continued)*

Analysis of the net (outflow)/inflow of cash and cash equivalents in respect of the purchase of interests in subsidiaries:

	2002 HK\$'000	2001 HK\$'000
Cash consideration	(30,000)	—
Bank balance and cash acquired	3,475	271
Net (outflow)/inflow of cash and cash equivalents in respect of the purchase of interests in subsidiaries	(26,525)	271

The subsidiaries acquired during the both years did not have significant contribution to the Group's turnover, results and cash flows for those years.

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34. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital (including overdrafts and premium) HK\$'000	Bank loans, other loans HK\$'000 (restated)	Convertible notes HK\$'000	Obligations under finance leases HK\$'000
Balance at 1 January 2001	1,643,085	593,746	53,000	491
Issue of shares for cash	191,734	—	—	—
Expenses incurred on issue of shares	(981)	—	—	—
Issue of convertible notes	—	—	75,600	—
Conversion of convertible notes into shares	11,760	—	(11,760)	—
New loans obtained	—	134,008	—	—
Repayment of loans and obligations under finance leases	—	(93,951)	—	(190)
Repayment of shareholder's loan by an associate assigned to set off other loan	—	(11,398)	—	—
Increase in bank overdrafts	—	40,065	—	—
Elimination on reclassification of a subsidiary as an associate	—	(32,008)	(53,000)	—
Balance at 31 December 2001 and at 1 January 2002	1,845,598	630,462	63,840	301
Issue of shares for cash	111,698	—	—	—
Expenses incurred on issue of shares	(4,982)	—	—	—
Reduction of share capital	(273,659)	—	—	—
Increase in bank overdrafts	—	66,347	—	—
New loans obtained	—	259,500	—	—
Repayment of loans and obligations under finance leases	—	(425,954)	—	(118)
Purchase of subsidiaries	—	7,117	—	—
Repayment of shareholder's loan by an associate assigned to set off other loan	—	(11,549)	—	—
Balance at 31 December 2002	1,678,655	525,923	63,840	183

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35. CASH AND CASH EQUIVALENTS

	2002 HK\$'000	2001 HK\$'000
Analysis of balance of cash and cash equivalents:		
Cash and cash equivalents as previously reported	26,554	(86,401)
Reclassification of bank overdrafts	—	42,602
Reclassification of other loans with maturity within three months	—	78,000
Bank balances and cash shown as cash and cash equivalents as restated in the cash flow statement	26,554	34,201

36. MAJOR NON-CASH TRANSACTIONS

- (a) During the year, the repayment of shareholder's loan by an associate to the Group had been assigned to a lender to set off against other loan of HK\$11,549,000 (2001: HK\$11,398,000) and related accrued interest of HK\$9,251,000 (2001: Nil).
- (b) In 2001, a subsidiary had been reclassified as an associate as the Group no longer had control over the subsidiary. In this connection, the then assets and liabilities of the subsidiary as detailed below had been reclassified to interest in an associate.

	2002 HK\$'000	2001 HK\$'000
Net assets:		
Property, plant and equipment	—	3,408
Goodwill	—	81,836
Investment in securities	—	33,000
Trade and other receivables	—	7,891
Trading securities	—	19,021
Bank balances and cash	—	11,447
Trade and other payables	—	(26,287)
Other loans	—	(32,008)
Convertible note	—	(53,000)
Provision for taxation	—	(100)
Amounts due to minority shareholders	—	(2,949)
Minority interests	—	(48,197)
Amounts due from the Group	—	57,542
	—	51,604

Notes To The Financial Statements

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37. COMMITMENTS**(a) Capital commitments**

Capital commitments contracted for by the Group but not provided in the financial statements are as follows:

	2002 HK\$'000	2001 HK\$'000
Capital injection to an associate	4,680	4,680

At the balance sheet date, the Company had no capital commitments.

(b) Operating lease commitments

Minimum lease payments made by the Group under operating leases during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Office premises	1,069	1,145
Equipment	26	26
	1,095	1,171

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and equipment fall due as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	263	182
In the second to fifth year inclusive	159	196
	422	378

At the balance sheet date, the Company had no operating lease commitments.

Notes To The Financial Statements

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38. CONTINGENT LIABILITIES

At the balance sheet date, the Company had given corporate guarantees to banks and financial institutions in respect of credit facilities utilised by subsidiaries to the extent of HK\$320,713,000 (2001: HK\$250,544,000).

In addition, the Company had executed a guarantee for the due observance and performance of a former subsidiary under a shareholders' agreement entered into among the Company, the former subsidiary and other third parties.

39. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group with the following carrying values have been pledged to banks and other financial institutions to secure credit facilities granted to the Group:

	2002 HK\$'000	2001 HK\$'000
Land and buildings	120,782	239,738
Investment properties	157,190	191,360
Trading securities	114,840	—
Bank deposits	18,173	15,254
	<u>410,985</u>	<u>446,352</u>

At the balance sheet date, the entire issued share capital of a subsidiary of the Company, Million Regal Investment Limited, was pledged to a financial institution to secure loan facility of HK\$25 million (2001: HK\$25 million) granted to the subsidiary.

The Group's interests in two associates, Bai Hui Group Company Limited and Bai Hui Real Estate Company Limited, together with the shareholders' loans of approximately totalling HK\$1.5 million (2001: HK\$21 million) were pledged to secure a loan and interest repayments of HK\$43 million (2001: HK\$65 million) payable to a lender.

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40. DEFERRED TAXATION

During the year and at the balance sheet date, the Group has deferred tax liability of HK\$10,000,000 (2001: Nil) in respect of unrealised gain on trading securities recognised in the income statement.

At the balance sheet date, the major components of the unprovided deferred tax asset/(liabilities) are as follows:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to:				
Excess of tax allowances over depreciation	(9,182)	(9,155)	—	—
General provisions	28,694	24,576	—	—
Benefits of tax losses	132,315	113,622	13,411	10,544
Others	—	—	289	—
	<u>151,827</u>	<u>129,043</u>	<u>13,700</u>	<u>10,544</u>

The amount of the unprovided deferred tax credit/(charge) for the year is as follows:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to:				
Shortfall/(excess) of tax allowances over depreciation	101	(3,207)	—	—
General provisions	2,582	17,847	—	—
Benefits of tax losses				
– current year	9,601	5,815	(563)	5,679
– (over)/under stated in prior years	(75)	4,863	2,771	(394)
Acquisition of subsidiaries	2,510	945	—	—
Eliminated on reclassification of a subsidiary as an associate	—	(3,656)	—	—
Others	—	—	289	—
Effect on change in tax rate	8,065	—	659	—
	<u>22,784</u>	<u>22,607</u>	<u>3,156</u>	<u>5,285</u>

Notes To The Financial Statements

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40. DEFERRED TAXATION (Continued)

A deferred tax asset in respect of tax losses available to set off future taxable profits has not been recognised in the financial statements as it is uncertain whether the tax benefit will be crystallised in the foreseeable future.

Deferred tax has not been provided in respect of the revaluation deficit or surplus arising on the revaluation of land and buildings in Hong Kong and other securities as losses or gains arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

41. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

- (a) A property of the Group with net book value of HK\$17,864,000 (2001: HK\$18,794,000) is occupied by a brother of a director of the Company rent free. The director's brother is a director of certain non wholly-owned subsidiaries of the Company.
- (b) The Group has granted unsecured loans to two related companies of which a director is also a director of certain non wholly-owned subsidiaries of the Company. At the balance sheet date, the outstanding loans amounting to HK\$46,987,000 (2001: Nil) carry interest at prime rate plus 3% per annum.
- (c) The Group has granted unsecured loans to executive directors of the Company as follows:

Name of director	Balance at 31/12/2002 HK\$'000	Balance at 01/01/2002 HK\$'000	Maximum amount outstanding during the year HK\$'000	Maturity	Interest rate per annum
Chung, Wilson	939	1,086	1,086	25 October 2006	Prime rate +2.5%
Wong Siu Bun	342	398	398	Repayable on demand	9.5%- 11.5%
Wong Siu Bun	–	72	72	29 June 2002	15%
Wong Ying Seung, Asiong	80	–	80	19 April 2003	12%
	<u>1,361</u>	<u>1,556</u>			

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41. RELATED PARTY TRANSACTIONS (Continued)

There was neither any interest due but unpaid nor any provision made against these loans at 31 December 2002.

- (d) The Group has granted securities margin loans to a substantial shareholder, a related company, a director of certain non wholly-owned subsidiaries and directors of the Company as disclosed in note 25 to the financial statements. The loans carry interest at prime rate plus 3% per annum and are repayable on demand. A director of certain non wholly-owned subsidiaries is a director of the said related company.

The details of the said securities margin loans granted to directors of the Company are as follows:

Name of director	Balance at 31/12/2002 HK\$'000	Balance at 01/01/2002 HK\$'000	Maximum amount outstanding during the year HK\$'000	Interest rate per annum
Chuang Yueheng, Henry	461	438	542	Prime rate
Chung, Wilson	—	487	773	Prime rate +3%
Lo Kan Sun	377	441	535	Prime rate
Wong Ying Seung, Asiong	137	709	858	Prime rate +3%
Wong Siu Bun	68	2	68	Prime rate
Ong, Peter	663	—	1,535	Prime rate +3% or 15%
	<u>1,706</u>	<u>2,077</u>		

- (e) The Group has borrowed a short term loan of HK\$80,000,000 (2001: HK\$80,000,000) from a minority shareholder of a non wholly-owned subsidiary of the Company, which was fully repaid in January 2002. The loan was unsecured and carried interest at prime rate plus 1% per annum. The interest paid on the loan amounted to HK\$309,000 (2001: HK\$2,037,000) in respect of the year.
- (f) The Group's credit facilities to the extent of HK\$60,000,000 (2001: HK\$65,000,000) are guaranteed by a director of certain non wholly-owned subsidiaries.
- (g) A substantial shareholder has received underwriting commission of approximately HK\$576,000 (2001: Nil) from the Company in connection with its rights issue partly underwritten by the substantial shareholder in August 2002.

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42. POST BALANCE SHEET EVENTS

- (a) Subsequent to the balance sheet date, pursuant to a reorganisation proposal involving a change of domicile of the Company by way of a scheme of arrangement (the "Scheme") under Section 99 of the Companies Act 1981 of Bermuda, and share option scheme and convertible notes proposals dated 26 November 2002, the Company became a wholly-owned subsidiary of China United International Holdings Limited ("CU International"), a company incorporated in Hong Kong.

Following the Scheme which became effective on 3 January 2003, the listing of the shares in the Company on the Stock Exchange was withdrawn on the same date and the shares in CU International are listed on the Stock Exchange by way of introduction on 6 January 2003.

To facilitate the Scheme, the New Share Option Scheme as mentioned in note 31(ii) has been cancelled and an another new share option scheme has been adopted and new convertible notes are issued on 3 January 2003 by CU International in replacement of the convertible notes of the Company with outstanding principal amount of HK\$63,840,000 as mentioned in note 29. The share capital of the Company is reduced by cancelling and extinguishing all its then 6,143,366,812 issued shares. The entire credit of HK\$61,433,668 arising from the above is credited to the contributed surplus account of the Company save that an amount of HK\$100,000 is applied in paying up in full at par the 10,000,000 new shares in the Company to be allotted and issued as fully paid to CU International on 3 January 2003.

- (b) On 14 January 2003, the directors declared that a special dividend of Hong Kong 0.28 cents per then existing share of the Company (equivalent to Hong Kong 7 cents per new share in the new holding company of the Company) amounting to HK\$17,201,427 is to be paid to those persons registered as shareholders of the Company on 2 January 2003.
- (c) Two subsidiaries have subsequently entered into sale and purchase agreements ("S&P Agreements") with third parties for disposals of their investment properties and other properties for an aggregate consideration of HK\$125 million. The consideration comprises HK\$72.5 million in cash, 100 million shares of HK\$0.2 each of Heritage International Holdings Limited ("Heritage") totalling HK\$20 million and convertible notes of Heritage with total principal amount of HK\$32.5 million which can be convertible into 162.5 million shares of HK\$0.2 each of Heritage. Heritage is the holding company of the purchasers. Pursuant to the S & P Agreements, deposits of HK\$12.5 million have already been received by the subsidiaries in February 2003 and the completion date is expected to be on or before 28 April 2003 or such other date the parties may agree.

Further details on the above disposals are set out in CU International's circular to its shareholders dated 17 February 2003.

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42. POST BALANCE SHEET EVENTS (Continued)

- (d) On 19 March 2003, the Company and its subsidiary, Large Investments Limited ("Large Investments") issued a writ of summons against a firm of solicitors (the "Solicitors") for their negligence in providing advice to the Group in connection with two counter indemnities ("Counter Indemnities") given by a subsidiary of the Company, East Champion Limited ("East Champion") to two lenders, Asia Standard International Group Limited ("Asia Standard") and Paul Y-ITC Construction Holdings Limited ("ITC") on 11 August 1997. Under the Counter Indemnities, the Company and Large Investments have paid approximately HK\$107 million to Asia Standard and ITC which have made payments of approximately HK\$119 million to a bank pursuant to two corporate guarantees dated 11 August 1997 ("Corporate Guarantees") given by them in favour of the bank for its loan granted to East Champion as a result of its default in repayment of the bank loan in previous years.

The directors have taken legal advice and consider that the Counter Indemnities should be null and void as Asia Standard and ITC should not be entitled to demand or accept any security in respect of any liabilities or obligations due from East Champion to them. Such security should include the Counter Indemnities under certain clauses of the Corporate Guarantees.

By reasons of the above matters, the Company and Large Investments claim against the Solicitors for the losses and damages which include the sum of approximately HK\$107 million paid by the Company and Large Investments to Asia Standard and ITC together with the professional fees of HK\$105,800 paid to the Solicitors.

- (e) In March 2003, the Group defaulted in repayment of principal instalments and interests of another two bank loans totalling HK\$6,024,000 with total principal amounts of HK\$91,222,000 comprising a bank loan of HK\$73,563,000 granted to East Champion as mentioned in note 42(d) above and a bank loan of HK\$17,659,000 secured by an investment property held by a subsidiary. The directors consider it is in the best interests of the Group to cease repayment of the principal instalments and interests for the bank loan of East Champion prior to recovery of the payments previously made to Asia Standard and ITC and/or receipt of further legal advice from solicitors although it will constitute an event of default.

Notes To The Financial Statements

31 December 2002

43. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants as follows:

SSAP 1 (Revised in December 2001)	Presentation of financial statements
SSAP 11 (Revised in November 2001)	Foreign currency translation
SSAP 15 (Revised in November 2001)	Cash flow statements
SSAP 34 (Issued in August 2002)	Employee benefits

The adoption of these standards has resulted in the following changes in the presentation of financial statements or accounting policies:

SSAP 1 (Revised) "Presentation of Financial Statements" has introduced a new format of presentation in reporting changes in equity. The presentation in the prior year's financial statements has been restated in order to achieve a consistent presentation.

SSAP 11 (Revised) "Foreign Currency Translation" requires the income statements of foreign subsidiaries or associates to be translated at average exchange rates instead of year end closing rates as previously adopted by the Group. This change in accounting policy does not have any material effect on the results for current or prior periods.

SSAP 15 (Revised) "Cash Flow Statements" has changed the classifications of cash flows in the cash flow statement and the definition of cash equivalents. The presentation in the consolidated cash flow statement for the year ended 31 December 2001 has been restated in accordance with the new format.

SSAP 34 "Employee Benefits" has introduced a formal framework for the recognition of liabilities and expenses in respect of employee benefits. The adoption of this new accounting standard has not resulted in any material effects on the financial statements of the current or prior periods.

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 16 April 2003.