

## 1. CORPORATE INFORMATION

The registered office of Oriental Explorer Holdings Limited is located at Clarendon House, Church Street, Hamilton HM11, Bermuda.

During the year, the Group was involved in the following principal activities:

- trading of steel; and
- manufacture and trading of electronic products

For the year ended 31 December 2001, the Group deconsolidated its two operating subsidiaries in the People's Republic of China (the "PRC") which engaged in the manufacture of steel products in prior years, thereby discontinuing this line of business, as further detailed in note 16 to the financial statements.

## 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- |                     |   |  |
|---------------------|---|--|
| • SSAP 1 (Revised)  | : | "Presentation of financial statements" |
| • SSAP 11 (Revised) | : | "Foreign currency translation"         |
| • SSAP 15 (Revised) | : | "Cash flow statements"                 |
| • SSAP 33           | : | "Discontinuing operations"             |
| • SSAP 34           | : | "Employee benefits"                    |

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs, are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 16 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and associates are now translated to Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change is included in the accounting policy for "Foreign currencies" in note 3 to the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes are included in the accounting policies for "Foreign currencies" in note 3 and in note 27(a) to the financial statements.

**2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)**  
*(continued)*

SSAP 33 replaces the existing disclosure requirements for discontinuing operations, which were previously included in SSAP 2. The SSAP defines a discontinuing operation and prescribes when an enterprise should commence including discontinuing operations disclosures in its financial statements and the disclosures required. The principal impact of the SSAP is that more extensive disclosures concerning the Group’s discontinued operations are now included in the consolidated profit and loss account, consolidated cash flow statement and note 16 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in the recognition of an accrual for long service payments for the Group’s employees as at the balance sheet date. In addition, disclosures are now required in respect of the Company’s share option scheme, as detailed in note 25 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain investments, as further explained below.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Certain subsidiaries previously consolidated by the Group in prior years were deconsolidated during the year ended 31 December 2001 as in the opinion of the directors, the Group is no longer able to exercise control or significant influence over the subsidiaries. Further details of the deconsolidated subsidiaries are set out in note 16 to the financial statements.

**Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company’s interests in subsidiaries are stated at cost less any impairment losses.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Associates**

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

**Negative goodwill**

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

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

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

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

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

**Related parties**

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Impairment of assets**

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

#### **Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation and any impairment loss. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 fixed asset, the expenditure is capitalised as an additional cost of that asset.

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

Buildings	4% or over the lease terms, if shorter
Leasehold land	Over the lease terms
Leasehold improvements	Over the lease terms
Plant and machinery	10% - 20%
Furniture, fixtures, office and computer equipment	20% - 33-1/3%
Motor vehicles	20% - 25%
Vessels	30%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

#### **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Long term investments**

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

The fair values of such listed securities are their quoted market prices at the balance sheet date. The fair values of such unlisted securities are as estimated by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities, or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

**Short term investments**

Short term investments in listed equity securities are stated at their fair values at the balance sheet date, on an individual investment basis. The fair values of such listed securities are their quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**Cash and cash equivalents**

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

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Provisions**

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

**Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

**Revenue recognition**

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable;
- (c) dividend income, when the shareholders' right to receive payment has been established; and
- (d) proceeds from the disposal of listed investments, when the relevant sale contract is entered into.

**Employee benefits**

*Employment Ordinance long service payments*

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

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

*Retirement benefits scheme*

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Employee benefits** *(continued)*

*Share options scheme*

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

**Foreign currencies**

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

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

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

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 has had no material effect on the amounts of the previously-reported cash flows of the prior year.

#### 4. SEGMENT INFORMATION

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

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

- (a) the steel trading segment is a supplier of steel products mainly for use in construction;
- (b) the steel manufacturing segment manufactured steel products for use in construction (these activities were discontinued during the year ended 31 December 2001, as detailed in note 16 to the financial statements);
- (c) the electronic products segment is a supplier of electronic components mainly for use in the manufacture of electronic products; and
- (d) the corporate and others segment includes investment holding and other businesses.

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

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



# NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2002

## 4. SEGMENT INFORMATION (continued)

### (a) Business segments

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

Group	Steel trading		Steel manufacturing		Electronic products		Corporate and others		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:										
Sales to external customers	1,033,711	485,644	—	216,171	18,125	19,178	—	—	1,051,836	720,993
Segment results	7,258	757	3,741	(32,825)	3,107	3,036	(3,701)	21,389	10,405	(7,643)
Interest income									3,665	4,164
Gain on disposal of listed investments									6,919	6,556
Dividend income									17,477	2,302
Unrealised gains/(losses) on listed investments, net									(31,451)	4,367
Profit from operating activities									7,015	9,746
Finance costs									(2,070)	(5,015)
Share of profits and losses of associates									159	(145)
Negative goodwill recognised as income on acquisition of an associate									45	—
Profit before tax										
Continuing operations									5,149	40,875
Discontinued operations									—	(36,289)
									5,149	4,586
Tax										
Continuing operations									(1,281)	6,816
Discontinued operations									—	—
									(1,281)	6,816
Profit before minority interests									3,868	11,402
Minority interests									—	17,534
Net profit from ordinary activities attributable to shareholders									3,868	28,936

# NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2002

## 4. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

Group	Steel trading		Steel manufacturing		Electronic products		Corporate and Others		Eliminations		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment assets	122,749	169,052	—	—	7,467	21,081	168,275	191,136	(2,441)	(1,667)	296,050	379,602
Interest in an associate	—	—	—	—	—	—	45,242	242	—	—	45,242	242
Total assets	122,749	169,052	—	—	7,467	21,081	213,517	191,378	(2,441)	(1,667)	341,292	379,844
Total liabilities	63,327	115,444	—	—	4,854	4,794	7,094	8,329	(2,441)	(1,667)	72,834	126,900
Other segment information:												
Gain on deconsolidation of subsidiaries	—	—	—	—	—	—	—	28,762	—	—	—	28,762
Gain on disposal of an unconsolidated subsidiary	—	—	—	—	—	—	3,741	—	—	—	3,741	—
Depreciation	—	1	—	9,325	494	645	1,865	1,537	—	—	2,359	11,508
Other non-cash expenses	282	864	—	—	—	—	60	—	—	—	342	864
Capital expenditure	—	—	—	—	174	284	44,906	27,139	—	—	45,080	27,423

### (b) Geographical segments

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

Group	Hong Kong		Mainland China		Thailand		Corporate and Others		Eliminations		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:												
Sales to external customers	4,066	4,859	13,543	229,576	1,033,711	485,644	516	914	—	—	1,051,836	720,993
Other segment information:												
Segment assets	189,382	169,284	119,334	104,852	32,576	95,649	—	10,059	—	—	341,292	379,844
Segment liabilities	(12,307)	(10,916)	(1,276)	(1,902)	—	(18,291)	(59,251)	(95,791)	—	—	(72,834)	(126,900)
Capital expenditure	37	5,154	45,043	22,269	—	—	—	—	—	—	45,080	27,423

# NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2002

## 5. TURNOVER, REVENUE AND GAINS

Turnover represents the invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of turnover, other revenue and gains is as follows:

	Note	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover:			
Continuing operations		1,051,836	504,822
Discontinued operations		—	216,171
		<u>1,051,836</u>	<u>720,993</u>
Other revenue and gains:			
Interest income		3,665	4,164
Gain on disposal of listed investments		6,919	6,556
Gain on disposal of an unconsolidated subsidiary	16	3,741	—
Gain on disposal of fixed assets		—	34
Dividend income from listed investments		17,477	2,302
Sale of scrap and raw materials		—	7,672
		<u>31,802</u>	<u>20,728</u>
		<u><b>1,083,638</b></u>	<u><b>741,721</b></u>

# NOTES TO FINANCIAL STATEMENTS (CONT'D)

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## 6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Note	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold *		993,261	719,923
Depreciation of fixed assets	13	2,359	11,508
Loss on disposal of fixed assets		77	—
Minimum lease payments under operating leases for land and buildings		2,403	2,604
Auditors' remuneration		473	500
Staff costs, including directors' remuneration (note 8)			
Salaries and allowances		7,966	12,133
Pension scheme contributions		159	152
Exchange (gains)/losses, net		163	(526)
Other operating expenses/(gains):			
Provision for doubtful debts		342	—
Unrealised (gains)/losses on listed investments, net		31,451	(4,367)
		<b>31,793</b>	<b>(4,367)</b>

\* For the year ended 31 December 2001, cost of inventories sold included depreciation of approximately HK\$6,525,000 and staff costs of HK\$3,220,000, which were also included in the respective total amounts as disclosed above for each of these types of expenses.

## 7. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	2	3,495
Interest on discounted bills	2,068	1,520
	<b>2,070</b>	<b>5,015</b>

## 8. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Fees	<b>120</b>	120
Other emoluments	<b>2,405</b>	2,770
	<b>2,525</b>	2,890

Fees include HK\$120,000 (2001: HK\$120,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

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

	<b>Number of directors</b>	
	<b>2002</b>	2001
Nil to HK\$1,000,000	<b>5</b>	5
HK\$1,000,001 to HK\$1,500,000	—	—
HK\$1,500,001 to HK\$2,000,000	<b>1</b>	1
	<b>6</b>	6

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

Further details of share options granted to the directors in respect of their services to the Group are set out in note 25 to the financial statements.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2001: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2001: two) non-directors, highest paid employees are as follows:

	<b>Group</b>	
	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	<b>1,375</b>	936

The remuneration of each of these three highest paid employees fell within the band of nil to HK\$1,000,000.

## 10. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Group:		
Hong Kong and the PRC:		
Provision for the year	<b>1,318</b>	650
Overprovision in prior years	<b>(94)</b>	(7,466)
	<b>1,224</b>	(6,816)
Share of tax attributable to associates	<b>57</b>	—
Tax charge/(credit) for the year	<b>1,281</b>	(6,816)

Deferred tax has not been provided as there were no significant timing differences at the balance sheet date (2001: Nil).

## 11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company, is HK\$62,851,000 (2001: HK\$3,852,000).

## 12. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$3,868,000 (2001: HK\$28,936,000), and the weighted average number of 1,570,150,685 ordinary shares (2001: 1,467,739,726 ordinary shares) in issue during the year.

Diluted earnings per share, reflecting the exercise of subscription rights under the share options granted pursuant to the Company's share option scheme, is not presented because the impact of the share options was anti-dilutive for both the years ended 31 December 2002 and 2001.

# NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2002

## 13. FIXED ASSETS

### Group

	Land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures, office and computer equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Vessels <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:							
At beginning of year	1,315	2,857	37,764	5,189	1,305	4,863	53,293
Additions	—	69	68	44	—	30	211
Disposals	—	—	—	(24)	(572)	—	(596)
<b>At 31 December 2002</b>	<b>1,315</b>	<b>2,926</b>	<b>37,832</b>	<b>5,209</b>	<b>733</b>	<b>4,893</b>	<b>52,908</b>
Accumulated depreciation:							
At beginning of year	394	2,847	36,498	4,864	662	972	46,237
Provided during the year	66	21	464	193	148	1,467	2,359
Disposals	—	—	—	(24)	(206)	—	(230)
<b>At 31 December 2002</b>	<b>460</b>	<b>2,868</b>	<b>36,962</b>	<b>5,033</b>	<b>604</b>	<b>2,439</b>	<b>48,366</b>
Net book value:							
<b>At 31 December 2002</b>	<b>855</b>	<b>58</b>	<b>870</b>	<b>176</b>	<b>129</b>	<b>2,454</b>	<b>4,542</b>
At 31 December 2001	921	10	1,266	325	643	3,891	7,056

All of the fixed assets are held by the Company's subsidiaries.

The Group's land and buildings at the balance sheet date was located outside Hong Kong and are held under long term leases.

As at 31 December 2001, the land and buildings were pledged to secure a bank loan of HK\$84,000 as set out in note 23 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2002

## 14. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	136,380	136,380
Provision for impairment	(88,480)	(88,480)
	<u>47,900</u>	<u>47,900</u>
Due from subsidiaries	564,857	554,973
Provision against amounts due from subsidiaries	(441,716)	(379,990)
	<u>123,141</u>	<u>174,983</u>
	<u>171,041</u>	<u>222,883</u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ registration and principal operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct %	Indirect %	
Linkful (Holdings) Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred HK\$20,000,000	—	100	Investment holding
Linkful Material Supply Limited	Hong Kong	HK\$1,000,000	—	100	Dormant
Linkful Metals Trading Limited	British Virgin Islands/ Thailand	US\$1	—	100	Metal trading
Linkful Worldwide (Holdings) Limited	British Virgin Islands	US\$100	100	—	Investment holding
Linkful Worldwide Investment Limited	British Virgin Islands	US\$1	—	100	Investment holding
Linkful (PRC) Investments Limited	Hong Kong	HK\$2	—	100	Investment holding



# NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2002

## 14. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration and principal operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct %	Indirect %	
Linkful Investment (Holdings) Limited	British Virgin Islands	US\$1	100	—	Investment holding
Katarti Navigation Company Limited	Cyprus	£100	—	100	Vessel holding
Linkful Management Consultancy Limited	British Virgin Islands	US\$1	100	—	Investment holding
Linkful Management Services Limited	Hong Kong	HK\$2	—	100	Provision of management services
Linkful Secretarial Services Limited	Hong Kong	HK\$10,000	—	100	Provision of consultancy services
Linkful Strategic Investment Limited	British Virgin Islands	US\$1	100	—	Investment holding
Linkful Properties Company Limited	Hong Kong	HK\$2	—	100	Investment and property holding
Linkful (PRC) Holdings Limited	British Virgin Islands	US\$1	100	—	Investment holding
Inter China Limited	British Virgin Islands	US\$100	—	57	Investment holding
East Winner Limited	British Virgin Islands	US\$1	100	—	Investment holding
Linkful Electronics Limited	British Virgin Islands	US\$1	100	—	Investment holding
Alphatronics Limited	Hong Kong	HK\$6,000,000	—	75	Trading of electronic products

# NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2002

## 14. INTERESTS IN SUBSIDIARIES *(continued)*

Company	Place of incorporation/ registration and principal operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct %	Indirect %	
Alphatronics Electronic (Shenzhen) Co., Ltd.	People's Republic Republic of China	US\$3,310,000	—	75	Manufacture of electronic components
Snowdon Worldwide Limited	British Virgin Islands	US\$1	—	100	Investment holding

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

## 15. INTERESTS IN ASSOCIATES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets/(liabilities)	45,989	(428)
Loans to associates	32,124	670
	<u>78,113</u>	<u>242</u>
Negative goodwill on acquisition	(32,916)	—
Negative goodwill amortisation recognised as income during the year	45	—
	<u>(32,871)</u>	<u>—</u>
	<u>45,242</u>	<u>242</u>

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

# NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2002

## 15. INTERESTS IN ASSOCIATES (continued)

Particulars of associates are as follows:

Company	Business structure	Place of incorporation	Percentage of ownership interest attributable to the Group		Principal activities
			2002	2001	
Prince Properties Limited	Corporate	Hong Kong	50	50	Investment holding
Call Rich Investments Limited *	Corporate	British Virgin Islands	25.04	—	Investment holding

The shareholding in associates' equity shares is held through the wholly-owned subsidiaries.

\* On 19 November 2002, the Group increased its equity interest in Call Rich Investments Limited ("Call Rich") to 25.04% (2001: 15.18%) by acquiring an additional 9.86% equity interest from a shareholder of Call Rich. Call Rich was previously held by the Group as long term investments (see note 17).

A summary of the financial information of Call Rich Investments Limited and its subsidiaries, based on its consolidated management account for the year ended 31 December 2002, is as follows:

	(Unaudited) HK\$'000
Operating results for the year ended 31 December 2002:	
Turnover	27,974
Net profit attributable to shareholders	10,740
Financial position as at 31 December 2002:	
Fixed assets	538
Investment properties	417,000
Current assets	337,699
Current liabilities	(144,501)
Non-current liabilities	(301,110)
Minority interests	(123,768)
Net assets	185,858

16. INTERESTS IN DECONSOLIDATED SUBSIDIARIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	—	—
Advances receivable	3,415	21,646
	<b>3,415</b>	<b>21,646</b>

In prior years, Jiangyin Bofeng Steel Company Limited ("Jiangyin Bofeng") and Wuxi Xifeng Iron & Steel Company Limited ("Wuxi Xifeng") were 51.3% and 51% subsidiaries of the Group, respectively. During the year ended 31 December 2001, the management of the Group entered into agreements with independent third parties for the disposal of the whole of the Group's equity interest in Jiangyin Bofeng and Wuxi Xifeng at a cash consideration of RMB6,000,000 and RMB4,100,000, respectively. Pursuant to the two agreements, the purchasers also agreed that Jiangyin Bofeng and Wuxi Xifeng owed the Group RMB44,000,000 and RMB12,700,000.

Pursuant to the two agreements entered into by the Group, the Chinese joint venture partners of Jiangyin Bofeng and Wuxi Xifeng and the respective purchasers, and due to the cessation of the Group's control over the financial and operating policies of Jiangyin Bofeng and Wuxi Xifeng, these two subsidiaries were accounted for as unconsolidated subsidiaries of the Group with effect from 1 July 2001 and 1 January 2001, respectively. The deconsolidation of Jiangyin Bofeng and Wuxi Xifeng resulted in a gain on deconsolidation of HK\$28,762,000 for the year ended 31 December 2001, being the excess of the Group's share of the accumulated losses over the costs of its investments in Jiangyin Bofeng and Wuxi Xifeng.

As Jiangyin Bofeng and Wuxi Xifeng had been deconsolidated by the Group with effect from 1 July 2001 and 1 January 2001, respectively, except for the advances receivable of HK\$3,415,000 (2001: HK\$21,646,000) due from these deconsolidated subsidiaries, there were no other assets nor liabilities related to these deconsolidated subsidiaries consolidated into the consolidated balance sheet at 31 December 2001 and 2002.

During the year, the disposal of 51% equity interest in Wuxi Xifeng was completed which resulted in a gain of HK\$3,741,000.

# NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2002

## 17. INVESTMENTS

Long term investments:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unlisted equity investments, at cost	24,336	32,824	330	330
Loan to investee companies	39,260	40,920	—	—
Provision for impairment	(10,007)	(10,007)	—	—
	53,589	63,737	330	330
Listed equity investments in Hong Kong, at market value	116	120	—	—
Total long term investments	53,705	63,857	330	330

Except for the loan to an investee company of HK\$36,260,000 (2001: HK\$21,852,000) which bears interest at 10% (2001: 10%) per annum, the loan to investee companies are unsecured, interest free and have no fixed repayment terms.

Particulars of long term investments at the balance sheet date were as follows:

Company	Place of incorporation	Nominal value of issued ordinary share capital	Percentage of equity interest attributable to the Group		Principal activities
			2002	2001	
Rich Returns Company Limited	British Virgin Islands	US\$100	12	12	Investment holding
Head Wonder International Limited	British Virgin Islands	US\$10,000	5	—	Investment holding
Call Rich Investments Limited *	British Virgin Islands	US\$50,000	—	15.18*	Investment holding

\* During the year, the Group increased its equity interest in Call Rich to 25.04% (2001: 15.18%) by acquiring an additional 9.86% equity interest from a shareholder of Call Rich. As a result, Call Rich was accounted for as an associate of the Group thereafter (see note 15).

# NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2002

## 17. INVESTMENTS (continued)

Short term investments:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Listed equity investments in Hong Kong, at market value	<u>61,135</u>	<u>67,505</u>	<u>1,198</u>	<u>2,009</u>

## 18. INVENTORIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	2,296	2,125
Work in progress	14	26
Finished goods	<u>579</u>	<u>556</u>
	<u>2,889</u>	<u>2,707</u>

As at 31 December 2002, no inventories were carried at net realisable value or pledged as security for any liability of the Group (2001: Nil).

## 19. TRADE RECEIVABLES

	Group	
	2002 HK\$'000	2001 HK\$'000
Trade receivables	34,490	97,617
Less: Provision for doubtful debts	<u>(466)</u>	<u>(124)</u>
	<u>34,024</u>	<u>97,493</u>

An aged analysis of trade receivables is as follows:

	2002 HK\$'000	2001 HK\$'000
Aged:		
Within three months	25,672	97,180
Three to six months	8,352	—
Six months to one year	<u>—</u>	<u>313</u>
	<u>34,024</u>	<u>97,493</u>

The Group's trading terms with customers are mainly on credit. Invoices are normally payable within two months of issuance, except for certain well established customers, where the terms are extended to three to six months in some cases, subject to the approval of senior management. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management.

# NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2002

## 20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	98,537	48,145	2	2
Time deposits	15,890	45,666	—	—
	<u>114,427</u>	<u>93,811</u>	<u>2</u>	<u>2</u>
Pledged deposits	7,800	7,800	—	—
	<u>122,227</u>	<u>101,611</u>	<u>2</u>	<u>2</u>

The time deposits of HK\$7,800,000 (2001: HK\$7,800,000) were pledged as security for banking facilities granted.

## 21. TRADE AND BILLS PAYABLES

	Group	
	2002 HK\$'000	2001 HK\$'000
Trade payables	26,011	62,666
Bills payables	33,371	33,149
	<u>59,382</u>	<u>95,815</u>

An aged analysis of trade payables is as follows:

	2002 HK\$'000	2001 HK\$'000
Aged:		
Within three months	24,125	62,176
Three to six months	1,886	—
Six months to one year	—	490
	<u>26,011</u>	<u>62,666</u>

An aged analysis of bills payables is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Aged:		
Within three months	33,371	33,149

# NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2002

## 22. OTHER PAYABLES

	Group	
	2002 HK\$'000	2001 HK\$'000
Accruals and other liabilities	8,404	26,935
Due to a minority shareholder	591	833
	<u>8,995</u>	<u>27,768</u>

The amount due to the minority shareholder is unsecured, interest-free and has no fixed terms of repayment.

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, an accrual of HK\$230,000 (2001: Nil) is now made at the balance sheet date for the expected cost for long service payments for the employees who are eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment.

## 23. INTEREST-BEARING BANK LOANS

	Group	
	2002 HK\$'000	2001 HK\$'000
Bank loans:		
Secured and repayable within one year	—	84

As at 31 December 2001, the Group's interest-bearing bank loan of HK\$84,000 was secured by the Group's land and buildings (see note 13).

## 24. SHARE CAPITAL

### Shares

	2002 HK\$'000	2001 HK\$'000
<i>Authorised:</i>		
20,000,000,000 (2001: 20,000,000,000) ordinary shares of HK\$0.01 each	<u>200,000</u>	<u>200,000</u>
<i>Issued and fully paid:</i>		
1,800,000,000 (2001: 1,565,000,000) ordinary shares of HK\$0.01 each	<u>18,000</u>	<u>15,650</u>

On 23 December 2002, the Company placed 235,000,000 shares of HK\$0.01 each at HK\$0.045 per share for an aggregate cash consideration of approximately HK\$10,575,000, less share issue expenses of HK\$221,000.



# NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2002

## 24. SHARE CAPITAL (continued)

### Shares (continued)

A summary of transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of Shares in issue	Par value HK\$	Total HK\$'000	Share Premium HK\$'000	Total HK\$'000
At 1 January 2001	1,315,000,000	0.01	13,150	398,175	411,325
New issue on 8 May 2001	250,000,000	0.01	2,500	12,500	15,000
	1,565,000,000		15,650	410,675	426,325
Share issue expenses	—		—	(168)	(168)
At 31 December 2001 and 1 January 2002	1,565,000,000	0.01	15,650	410,507	426,157
New issue on 23 December 2002	235,000,000	0.01	2,350	8,225	10,575
	1,800,000,000		18,000	418,732	436,732
Share issue expenses	—		—	(221)	(221)
<b>At 31 December 2002</b>	<b>1,800,000,000</b>	<b>0.01</b>	<b>18,000</b>	<b>418,511</b>	<b>436,511</b>

### Shares options

Detail of the Company's share options scheme and the share options issued under the scheme are included in note 25 to the financial statements.

## 25. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors and other employees of the Group. The Scheme became effective on 8 March 1993 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares over which options may be granted may not exceed 10% of the ordinary share capital in issue from time to time, excluding those shares which have been issued under the Scheme. At 31 December 2002, the number of shares issuable under share options granted under the Scheme was 58,500,000, which represented approximately 7.5% of the Company's shares in issue as at that date.

**25. SHARE OPTION SCHEME** *(continued)*

Under the Scheme, the directors may, at their discretion, at any time during the 10 years from the date of approval of the Scheme, grant to directors and employees of the Group options to subscribe for shares in the share capital of the Company. The share subscription price of any options granted under the Scheme will be the higher of 80% of the average of the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date on which an option is granted and the nominal value of the shares. The maximum number of shares over which options may be granted may not exceed 10% of the ordinary share capital in issue from time to time, excluding those shares which have been issued under the Scheme.

Pursuant to a directors' resolution passed on 7 February 1998, options to subscribe for an aggregate of 58,500,000 shares in the Company within 10 years from the date of grant, at a subscription price of HK\$0.112 per share, were granted by the Company. None of these share options has since been exercised by the grantees.

The following share options were outstanding under the Scheme during the year:

Name of director	Date of grant	Exercise price of share options HK\$	Number of share options					At 31 December 2002
			At 1 January 2002	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	
Lau Chi Yung, Kenneth	7 February 1998	0.112	19,500,000	—	—	—	—	19,500,000
Tsang Pak Chung, Eddy	7 February 1998	0.112	19,500,000	—	—	—	—	19,500,000
Leung Wei San, Saskia	7 February 1998	0.112	19,500,000	—	—	—	—	19,500,000
			<u>58,500,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>58,500,000</u>

No share options were granted, exercised, lapsed or cancelled during the year. At the balance sheet date, the Company had 58,500,000 share options outstanding under the Scheme. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 58,500,000 additional ordinary shares of the Company and additional share capital of HK\$585,000 and share premium of HK\$5,967,000 (before issue expenses).

# NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2002

## 26. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 16 of the financial statements.

### (b) Company

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 31 December 2000 and 1 January 2001	398,175	546	88,380	(286,349)	200,752
Arising on allotment of share capital	12,500	—	—	—	12,500
Share issue expenses	(168)	—	—	—	(168)
Loss for the year	—	—	—	(3,852)	(3,852)
At 31 December 2001 and 1 January 2002	410,507	546	88,380	(290,201)	209,232
Arising on allotment of share capital	8,225	—	—	—	8,225
Share issue expenses	(221)	—	—	—	(221)
Loss for the year	—	—	—	(62,851)	(62,851)
<b>At 31 December 2002</b>	<b>418,511</b>	<b>546</b>	<b>88,380</b>	<b>(353,052)</b>	<b>154,385</b>

The Company's contributed surplus represents the difference arising between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the value of the net assets of the subsidiaries acquired at the time of the Group's reorganisation in a prior year. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances prescribed by Section 54 thereof, which the Company is currently unable to satisfy.

**27. NOTES TO THE CASH FLOW STATEMENT**

- (a) SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the cash flow statement. The cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are interest and dividends received are now included in cash flows from investing activities and interests paid are now included in cash flows from financing activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout.
- (b) Major non-cash transactions
- (i) As at 31 December 2001, the Group held 15.18% equity interest in Call Rich at investment cost of HK\$8,492,402 and shareholder's loan of HK\$19,067,598, was advanced to Call Rich. During the year, the Group increased its equity interest in Call Rich by acquiring an additional 9.86% equity interest in Call Rich and accordingly, Call Rich was accounted for as an associate of the Group since then. The investment cost and shareholder's loan totalling HK\$27,560,000 was transferred from long term investment to interests in associates. In addition, a revaluation reserve of HK\$1,292,000 was resulted upon the completion of the aforesaid acquisition which increased the carrying value of interests in associates by HK\$1,292,000.
- (ii) The disposal of 51% equity interest in Wuxi Xifeng was completed during the current year which resulted in a gain of HK\$3,741,000. Further details is set out in note 16 to the financial statements. The first two installments of the consideration for disposal of equity interest of HK\$2,710,000 had already been received by the Group in which HK\$1,355,000 and HK\$1,355,000 were received on 27 December 2001 and 15 January 2002, respectively, which were recorded in the consolidated balance sheet under "Other payables" prior to the completion of the disposal. The last installment of the consideration for disposal of equity interest of HK\$1,031,000 was received by the Group subsequent to the year end date, on 15 January 2003 which was recorded in the consolidated balance sheet under "Prepayments, deposits and other receivables" as at 31 December 2002.

## 28. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

- (a) The Group received rental income in the amount of HK\$115,000 (2001: HK\$115,000) from Alpha Japan Limited ("Alpha Japan"), the minority shareholder of a subsidiary of the Group. The rental income was charged based on open market rental.
- (b) The Group paid rental expenses in the amount of HK\$1,500,000 (2001: HK\$1,800,000) to Verywell Properties Limited, a wholly-owned subsidiary of Multifield International Holdings Limited ("MIHL"), a company controlled by Mr. Lau Chi Yung, Kenneth, a director and a substantial shareholder of the Company. The terms of the office rental were on a monthly renewal basis and were arrived at after negotiations between both parties with reference to the prevailing market rents.

The independent non-executive directors of the Company have reviewed the details of the tenancy and confirmed that the transaction has been entered into on normal commercial terms that are fair and reasonable so far as the shareholders of the Company are concerned.

- (c) The Group paid management fees in the amount of HK\$960,000 (2001: HK\$960,000) to Multifield (Holdings) Limited, a wholly-owned subsidiary of MIHL for accountancy services provided during the year. The management fees were based on the direct costs incurred.
- (d) A subsidiary sold finished goods of HK\$3,405,000 (2001: HK\$3,339,000) to and purchased equipment parts of HK\$77,000 (2001: HK\$115,000) from Alpha Japan. These transactions were based on published prices and conditions normally offered by the Group to third party customers in the ordinary course of business of the Group (in respect of the sales), or offered by Alpha Japan to its third party customers (in respect of the purchases).

## 29. OPERATING LEASE COMMITMENTS

The Group and the Company had no significant commitments under non-cancellable operating leases at the balance sheet date (2001: Nil).

## 30. CONTINGENT LIABILITIES

As at 31 December 2002, the amount of guarantees given to banks in connection with facilities granted to subsidiaries by the Company was HK\$156,000,000 (2001: HK\$320,000,000).

**31. CAPITAL COMMITMENT AND POST BALANCE SHEET EVENTS**

On 3 October 2002, the Group entered into an agreement to acquire an additional 6% equity interests in Rich Returns Company Limited ("Rich Returns"), a 12% long term investment of the Group as at 31 December 2002, from an independent third party (the "Seller") at a consideration of HK\$35,900,000 which is payable in four installments. The first two installments totalling HK\$11,455,556 had already been paid to the Seller during the year ended 31 December 2002. The last two installments of HK\$10,000,000 and HK\$14,444,444 were payable to the Seller on 20 January 2003 and 17 February 2003, respectively.

Subsequent to the year end date on 20 January 2003 and 17 February 2003, the Group paid the above said two installments of HK\$10,000,000 and HK\$14,444,444 and the 6% equity interest in Rich Returns was transferred to the Group accordingly.

**32. COMPARATIVE AMOUNTS**

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to confirm with the current year's presentation.

**33. APPROVAL OF THE FINANCIAL STATEMENTS**

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