

Notes to the Financial Statements

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of its subsidiaries, associates and joint ventures are set out in notes 26, 27 and 28 to the financial statements, respectively.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following new and revised Statements of Standard Accounting Practice ("SSAP"s) issued by the Hong Kong Society of Accountants:

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

The adoption of these new and revised SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required. Comparative figures for the prior period have been restated in order to achieve a consistent presentation.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are 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 with the Group have been eliminated on consolidation.

Notes to the Financial Statements (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, an associate or a jointly controlled entity at the date of acquisition.

Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill is capitalised and amortised on a straight line basis over its useful economic life.

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

Turnover

Turnover represents the amount received and receivable for goods sold and marketing consultancy services provided.

Revenue recognition

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

Marketing consultancy service income is recognised when services are provided.

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

Dividend income from investments in securities is recognised when the Group's rights to receive dividend payments have been established.

Property, plant and equipment

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

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold improvements	20%
Furniture, fixtures and equipment	20%
Motor vehicles	25%

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

Notes to the Financial Statements (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. Income from investments in subsidiaries is accounted for when the Company's right to receive the dividend payment has been established.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid on acquisition in so far as it has not already been amortised, less any identified impairment loss.

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

The consolidated income statement includes the Group's share of post-acquisition results of jointly controlled entities for the year. The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss.

Investments in securities

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost less any impairment loss. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at fair value at subsequent reporting dates.

When securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. 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 previously recognised in equity is included in net profit or loss for the period.

Notes to the Financial Statements (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories, which represent merchandise held for resale, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Impairment

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Convertible note payable

The convertible note payable is separately disclosed and regarded as a liability unless conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible note payable, including the premium payable upon the final redemption of the convertible note, is calculated so as to produce a constant periodic rate of change on the remaining balance of the convertible note payable for each accounting period.

The costs incurred in connection with the issue of the convertible note payable are deferred and amortised on a straight-line basis over the lives of the convertible note payable from the date of issue of the convertible note to the final redemption date. If the note is purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

Notes to the Financial Statements (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Timing differences arise from the recognition for the 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 using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

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

On consolidation, income statement of subsidiaries, associates and joint ventures which are denominated in currencies other than the Hong Kong dollars are translated at the average exchange rates for the year and balance sheets are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease terms.

Retirement benefit scheme

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Notes to the Financial Statements (Continued)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into four operating divisions - metals trading, sales of communication products, investments in securities and provision of marketing consultancy services. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Income statement

	2002					Total HK\$'000
	Metals trading HK\$'000	Sales of communication products HK\$'000	Investments in securities HK\$'000	Marketing in consultancy services HK\$'000	Others HK\$'000	
Turnover	532	3,011	—	—	—	3,543
Segment result	(150)	(7,817)	(37,634)	—	—	(45,601)
Interest income	—	—	—	—	—	545
Unallocated corporate expenses	—	—	—	—	—	(16,660)
Loss from operations						(61,716)
Share of results of associates	—	—	(2,894)	—	1,482	(1,412)
Share of results of joint ventures	—	(238)	—	—	—	(238)
Amortisation of goodwill	—	—	(28,684)	—	(6,333)	(35,017)
Impairment loss recognised in respect of goodwill arising from the acquisition of an associate	—	—	—	—	(24,806)	(24,806)
Finance costs						(4,560)
Loss before taxation						(127,749)
Taxation						(462)
Net loss for the year						(128,211)

The directors of the Company consider that the Group will continue to engage in the business of provision of marketing consultancy services.

Notes to the Financial Statements (Continued)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Income statement (Continued)

	2001					Total HK\$'000
	Metals trading HK\$'000	Sales of communication products HK\$'000	Investments in securities HK\$'000	Marketing in consultancy services HK\$'000	Others HK\$'000	
Turnover	192	5,454	—	5,000	—	10,646
Segment result	(1,045)	(10,714)	29,433	3,300	—	20,974
Interest income	—	—	—	—	—	922
Unallocated corporate expenses	—	—	—	—	—	(16,497)
Profit from operations						5,399
Share of results of associates	—	—	12,030	—	(626)	11,404
Share of results of joint ventures	—	(997)	—	—	—	(997)
Amortisation of goodwill	—	—	(31,074)	—	(6,859)	(37,933)
Finance costs						(6,263)
Loss before taxation						(28,390)
Taxation						(62)
Net loss for the year						(28,452)

Notes to the Financial Statements (Continued)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Other information

	2002 HK\$'000	2001 HK\$'000
Capital additions		
Metals trading	298	1,726
Sales of communication products	73	896
	<u> </u>	<u> </u>
Depreciation		
Metals trading	611	276
Sales of communication products	323	210
	<u> </u>	<u> </u>
Addition of goodwill		
Investments in securities	—	38,000
	<u> </u>	<u> </u>
Amortisation of goodwill		
Investments in securities	35,017	37,933
	<u> </u>	<u> </u>
Impairment loss recognised of goodwill in associates		
Investments in securities	24,806	—
	<u> </u>	<u> </u>
Unrealised (loss) gain on investments in securities	(32,337)	8,362
	<u> </u>	<u> </u>

Notes to the Financial Statements (Continued)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Balance sheet

	2002		2001	
	Segment assets	Segment liabilities	Segment assets	Segment liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Metals trading	2,735	4,550	2,885	4,727
Sales of communication products	13,832	5,729	11,204	3,666
Investments in securities	284,546	—	338,759	—
Other corporate assets/liabilities	4,293	57,250	86,869	56,750
	<u>305,406</u>	<u>67,529</u>	<u>439,717</u>	<u>65,143</u>

(b) Geographical segments

- (i) The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Turnover		Profit (loss) from operations	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The People's Republic of China, excluding Hong Kong	3,011	5,128	(7,470)	(9,767)
Hong Kong	532	5,193	(54,246)	15,721
Others	—	325	—	(555)
	<u>3,543</u>	<u>10,646</u>	<u>(61,716)</u>	<u>5,399</u>

Notes to the Financial Statements (Continued)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(b) Geographical segments (Continued)

(ii) The following table is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	31.12.2002 HK\$'000	31.12.2001 HK\$'000	Year ended 31.12.2002 HK\$'000	Year ended 31.12.2001 HK\$'000
The People's Republic of China, excluding Hong Kong	7,504	6,410	73	896
Hong Kong	297,902	433,307	298	1,726
	<u>305,406</u>	<u>439,717</u>	<u>371</u>	<u>2,622</u>

5. OTHER OPERATING INCOME

	2002 HK\$'000	2001 HK\$'000
Interest income on bank deposits	545	922
Dividend income from investments in securities	165	1,266
Others	240	9
	<u>950</u>	<u>2,197</u>

Notes to the Financial Statements (Continued)

6. (LOSS) PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
(Loss) profit from operations has been arrived at after charging (crediting):		
Directors' emoluments	7,893	10,249
Contributions to retirement benefit schemes	88	141
Other staff costs	4,989	4,964
Total staff costs	<u>12,970</u>	<u>15,354</u>
Auditors' remuneration	770	780
(Reversal of) allowance for bad and doubtful debts	(2,364)	124
Cost of inventories recognised	2,783	4,901
Depreciation	934	486
Loss on disposals of property, plant and equipment	—	34
Minimum lease payments under operating leases in respect of		
Rented premises	2,892	2,938
Motor vehicles	511	581
	<u> </u>	<u> </u>

(i) Information regarding directors' emoluments

	2002 HK\$'000	2001 HK\$'000
Directors' emoluments:		
Directors' fees		
Executive	—	—
Non-executive	—	—
Independent non-executive	300	900
	<u>300</u>	<u>900</u>
Other emoluments to executive directors		
Salaries and other benefits	7,510	9,258
Contributions to retirement benefit schemes	83	91
	<u>7,593</u>	<u>9,349</u>
Total emoluments	<u>7,893</u>	<u>10,249</u>

Notes to the Financial Statements (Continued)

6. (LOSS) PROFIT FROM OPERATIONS (Continued)

(i) Information regarding directors' emoluments (Continued)

The emoluments of the directors were within the following bands:

	Number of directors	
	2002	2001
HK\$nil to HK\$1,000,000	7	7
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	1	—
HK\$4,000,001 to HK\$4,500,000	—	1
	—	1

(ii) Information regarding employees' emoluments

The five highest paid individuals in the Group in 2002 and 2001 were all directors of the Company and details of their emoluments are included in note 6(i) above.

7. FINANCE COSTS

	2002	2001
	HK\$'000	HK\$'000
Interest on borrowings wholly repayable within five years:		
Convertible note payable	(4,060)	(2,024)
Bank loans	—	(3,989)
	(4,060)	(6,013)
Amortisation of the issue costs of convertible note payable	(500)	(250)
	(4,560)	(6,263)

Notes to the Financial Statements (Continued)

8. TAXATION

	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
Share of taxation attributable to associates	462	51
Share of taxation attributable to joint ventures	—	11
	<u>462</u>	<u>62</u>

No provision for taxation has been made for the Group in the financial statements since the Company and its subsidiaries incurred tax losses for the year.

No provision for deferred taxation has been provided in the financial statements as there were no significant timing differences arising during the year or at the balance sheet date.

9. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of approximately HK\$128,211,000 (2001: HK\$28,452,000) and 6,837,422,389 (2001: weighted average of 5,776,581,606) shares in issue.

No diluted loss per share figures have been presented for either 2002 or 2001 because the exercise of the convertible note payable would result in a decrease in the loss per share and the exercise price of the Company's warrants outstanding was higher than the average market price of the Company's shares in either 2002 or 2001. There were no warrants outstanding at 31 December 2002.

Notes to the Financial Statements (Continued)

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP				
COST				
At 1 January 2002	428	1,110	2,690	4,228
Additions	—	73	298	371
At 31 December 2002	428	1,183	2,988	4,599
DEPRECIATION				
At 1 January 2002	172	600	771	1,543
Provided for the year	85	197	652	934
At 31 December 2002	257	797	1,423	2,477
NET BOOK VALUES				
At 31 December 2002	171	386	1,565	2,122
At 31 December 2001	256	510	1,919	2,685
THE COMPANY				
COST				
At 1 January 2002	428	315	1,636	2,379
Additions	—	—	298	298
At 31 December 2002	428	315	1,934	2,677
DEPRECIATION				
At 1 January 2002	172	92	116	380
Provided for the year	85	63	463	611
At 31 December 2002	257	155	579	991
NET BOOK VALUES				
At 31 December 2002	171	160	1,355	1,686
At 31 December 2001	256	223	1,520	1,999

Notes to the Financial Statements (Continued)

11. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	65,822	65,822
Amounts due from subsidiaries	689,150	684,129
	<u>754,972</u>	<u>749,951</u>
Impairment losses	(386,626)	(349,826)
	<u>368,346</u>	<u>400,125</u>

In the opinion of directors, the amounts due from subsidiaries will not be demanded for repayment within the next twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current.

The impairment losses are recognised to the extent that the estimated discounted net future cash flows from certain subsidiaries are less than the carrying amounts.

Details of the Company's subsidiaries at 31 December 2002 are set out in note 26.

Notes to the Financial Statements (Continued)

12. INTERESTS IN ASSOCIATES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	<u>222,545</u>	<u>232,905</u>
Goodwill		
At cost		
Balance at the beginning of the year	124,050	86,050
Arising from acquisitions during the year	<u>—</u>	<u>38,000</u>
Balance at the end of the year	<u>124,050</u>	<u>124,050</u>
Amortisation and impairment		
Balance at the beginning of the year	37,933	—
Amortisation for the year	35,017	37,933
Impairment loss recognised	<u>24,806</u>	<u>—</u>
Balance at the end of the year	<u>97,756</u>	<u>37,933</u>
Unamortised goodwill	<u>26,294</u>	<u>86,117</u>
	<u><u>248,839</u></u>	<u><u>319,022</u></u>

Goodwill arising from the acquisitions of associates is amortised over its economic life of three years.

The impairment loss is recognised for the unamortised goodwill of an associate which was inactive.

Details of the Group's associates at 31 December 2002 are set out in note 27.

Notes to the Financial Statements (Continued)

12. INTERESTS IN ASSOCIATES (Continued)

The Group has an approximately 34.87% interest in the issued ordinary share capital of Beauforte Investors Corporation Limited, a company which is incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited. The Group's share of net assets in Beauforte Investors Corporation Limited and its subsidiaries was approximately HK\$222,545,000 (2001: HK\$232,905,000). The following details have been extracted from the audited consolidated financial statements of Beauforte Investors Corporation Limited:

	2002 HK\$'M	2001 HK\$'M
Result for the year		
Turnover	<u>21.8</u>	<u>24.0</u>
(Loss) profit before taxation	(4.1)	32.8
Taxation	<u>(1.3)</u>	<u>(0.2)</u>
	<u>(5.4)</u>	<u>32.6</u>
Share of post-acquisition results by the Group during the year	<u>(1.4)</u>	<u>11.4</u>
Financial position		
Non-current assets	621.5	263.0
Current assets	18.1	406.1
Current liabilities	<u>(1.3)</u>	<u>(1.1)</u>
Net assets	<u>638.3</u>	<u>668.0</u>
Net assets attributable to the Group	<u>222.5</u>	<u>232.9</u>

Notes to the Financial Statements (Continued)

13. INTERESTS IN JOINT VENTURES

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	<u>6,805</u>	<u>7,043</u>

Details of the Group's joint ventures at 31 December 2002 are set out in note 28.

14. INVENTORIES

THE GROUP

At the balance sheet dates, all of the Group's inventories were carried at net realisable value.

15. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Trade receivables	4,943	2,085
Other receivables, deposits and prepayments	<u>3,171</u>	<u>2,205</u>
	<u>8,114</u>	<u>4,290</u>

The Group has adopted a credit policy of allowing invoices to be payable within 180 days from the date of issuance for sales of communication equipment and 30 days from the date of issuance for metals trading. The Group also allows a longer credit period to major customers.

Notes to the Financial Statements (Continued)

15. TRADE AND OTHER RECEIVABLES (Continued)

The following is an ageing analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Not yet due	1,916	1,412
Overdue 0 - 60 days	1	1
Overdue 61 - 90 days	160	—
Overdue over 90 days	2,866	672
	<u>4,943</u>	<u>2,085</u>

16. INVESTMENTS IN SECURITIES

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Trading securities		
Listed equity securities in Hong Kong, at market value	<u>35,137</u>	<u>50,812</u>

17. TRADE AND OTHER PAYABLES

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Trade payables	1,280	1,299
Other payables and accrued charges	8,999	7,094
	<u>10,279</u>	<u>8,393</u>

The following is an ageing analysis of trade payables at the balance sheet date:

Overdue 0 - 30 days	—	33
Overdue over 90 days	1,280	1,266
	<u>1,280</u>	<u>1,299</u>

Notes to the Financial Statements (Continued)

18. CONVERTIBLE NOTE PAYABLE

	THE GROUP AND THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Convertible note payable		
Balance at the beginning of the year	58,000	—
Issued during the year	—	60,000
Converted during the year	—	(2,000)
	<hr/>	<hr/>
Balance at the end of the year	58,000	58,000
	<hr/>	<hr/>
Issue costs		
Balance at the beginning of the year	1,250	—
Incurred during the year	—	1,500
Amortised during the year	(500)	(250)
	<hr/>	<hr/>
Balance at the end of the year	750	1,250
	<hr/>	<hr/>
Carrying value at the end of the year	<u>57,250</u>	<u>56,750</u>

On 30 May 2001, the Company entered into an agreement (the “Agreement”) with a placing agent for the placement of convertible notes issued by the Company up to an aggregate principal amount of HK\$60,000,000 (the “Convertible Note”). The Convertible Note is unsecured and bears interest at 7% per annum, accrued on a daily basis and payable every year in arrears. The Convertible Note may be converted into ordinary shares of the Company at an initial price of HK\$0.028 per share and the conversion prices are HK\$0.031 and HK\$0.034 per share for the period from the date immediately following the first anniversary from the date of issue of the Convertible Note (the “Issue Date”) to the second anniversary from the Issue Date and for the period from the date immediately following the second anniversary from the Issue Date to the third anniversary of the Issue Date. These conversion prices are subject to adjustments in accordance with the relevant provisions in the Agreement. The Convertible Note can only be repaid at its face value upon maturity on 3 July 2004 to the extent of the amount not previously converted.

On 4 July 2001, Convertible Note amounting to HK\$2,000,000 was converted into ordinary shares. No Convertible Note was converted during the year.

Notes to the Financial Statements (Continued)

19. SHARE CAPITAL

	Number of ordinary shares	Issued and fully paid share capital HK\$'000
Balance as at 1 January 2001	4,698,693,818	469,869
Transfer to contributed surplus resulting from cancelling the paid-up capital to the extent of HK\$0.09 on each issued share	—	(422,882)
Issue of shares:		
– by placements	2,067,300,000	20,673
– conversion of convertible note payable	71,428,571	714
	<u>6,837,422,389</u>	<u>68,374</u>
Balance as at 31 December 2001 and 31 December 2002	<u>6,837,422,389</u>	<u>68,374</u>

(i) Information regarding share capital

Pursuant to a special resolution passed at the special general meeting held on 8 March 2001, the authorised share capital of the Company was reduced from HK\$2,000,000,000 to HK\$200,000,000 by cancelling the paid-up capital to the extent of HK\$0.09 on each issued share in the Company and reducing the nominal value of the authorised and unissued share capital from HK\$0.10 each to HK\$0.01 each (the “Reorganisation”). Reserve arising from the Reorganisation was credited to the contributed surplus of the Company. The shareholders also approved that the authorised share capital of the Company was increased from HK\$200,000,000 to HK\$500,000,000 by the creation of an additional 30,000,000,000 ordinary shares of HK\$0.01 each. Such new shares rank *pari passu* in all respects with the then existing issued and unissued shares of HK\$0.01 each in the share capital of the Company.

Details of movements in the issued and fully paid share capital of the Company were as follows:

- (a) On 30 May 2001, the Company entered into agreement with a placing agent for the placement of 939,700,000 ordinary shares of HK\$0.01 each in the Company at a price of HK\$0.022 per share. The placement was completed on 7 June 2001 and these shares rank *pari passu* in all respects with the then existing shares of the Company. The net proceeds of the placement was applied for general working capital purposes.
- (b) On 4 July 2001, a holder of the Convertible Note exercised its rights to convert an amount of HK\$2,000,000 into 71,428,571 ordinary shares of the Company.

Notes to the Financial Statements (Continued)

19. SHARE CAPITAL (Continued)

(i) Information regarding share capital (Continued)

- (c) On 9 July 2001, the Company announced that the Company proposed to place 1,127,600,000 ordinary shares of HK\$0.01 each in the Company at a price of HK\$0.048 per share. The placement was completed on 19 July 2001 and these shares rank pari passu in all respects with the then existing shares of the Company. The net proceeds of the placement was applied for general working capital purposes.

(ii) Information regarding share options

(a) The 1998 Scheme

The Company had a share option scheme (the “1998 Scheme”) which was adopted on 2 July 1998. Pursuant to the 1998 Scheme, the Company may grant options to directors and employees of the Company or its subsidiaries, for the purpose of providing incentive, to subscribe for shares in the Company (“Shares”), subject to a maximum of 10% of the issued share capital of the Company from time to time. The maximum entitlement of each participant under the 1998 Scheme was 25% of the aggregate of all Shares subject to the 1998 Scheme. Options granted may be exercised at any time during a period as may be determined by the board of directors of the Company which shall not be more than ten years from the date of grant. The subscription price of the option shares is the higher of the nominal value of the Shares and 80% of the average of the closing prices of the Shares on the five trading days immediately preceding the date of grant of the options. No consideration is payable on the grant of an option. The 1998 Scheme was terminated on 27 May 2002 at the annual general meeting.

No options were granted during the life of the 1998 Scheme.

Notes to the Financial Statements (Continued)

19. SHARE CAPITAL (Continued)

(ii) Information regarding share options (Continued)

(b) New Scheme

A new share option scheme (the “Scheme”) of the Company has been approved and adopted on 27 May 2002. The Scheme is valid and effective for a period of ten years from 27 May 2002.

Pursuant to the Scheme, the Company may grant options to Employees (including existing and proposed directors), adviser, consultant, agent, contractor, client and supplier of any members of the Group (collectively the “Participants”). The purpose of the Scheme is to recognize and motivate the contribution of Participants and to provide incentives and help the Company in retaining its existing Employees and recruiting additional Employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company. The total number of Shares available for issue under the Scheme is 683,742,238 which represents 10% of the issued share capital of the Company as at the date of this annual report. No Participant shall be granted an option if the total number of Shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised and outstanding options) in 12 month period up to and including the date of grant to such Participant would exceed 1 per cent. of the Shares for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed grantee and his associates abstaining from voting. An option may be exercised in accordance with the terms of the Scheme at any time during a period as the board of the directors of the Company (the “Board”) may determine which shall not be more than 10 years from the date of grant of the option subject to the provisions of early termination thereof and the Board may provide restrictions on the exercise of an option during the period an option may be exercised. The subscription price of the option shall be determined by the Board but in any case shall not be less than the higher of (i) the closing price of the Shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited on the date of grant which must be a trading day, (ii) the average closing price of the Shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of grant; or (iii) the nominal value of a Share. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

No share options have been granted by the Company since the adoption of the Scheme.

Notes to the Financial Statements (Continued)

20. WARRANTS

On 14 October 1999, the Company issued warrants in registered form in units of HK\$0.15 of subscription rights entitling their holders to subscribe for share of HK\$0.10 each of the Company at an initial price of HK\$0.15 per share, subject to adjustment, at any time on or after the date of issue thereof but not later than 18 October 2002. The subscription price of the warrants was adjusted from HK\$0.15 per share to HK\$0.11 per share with effect from 8 March 2000 as a result of a rights issue. Warrants carrying subscription rights of HK\$9,600 were exercised in 2000.

At 31 December 2001, warrants carrying subscriptions rights of HK\$18,134,400, representing 164,858,181 shares of the Company to be issued under the present capital structure, remained outstanding. No warrants were exercised during the year and all outstanding warrants lapsed on 18 October 2002.

21. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY				
At 1 January 2001	81,956	65,621	(383,202)	(235,625)
Contributed surplus arising from the Reorganisation	—	422,882	—	422,882
Share premium arising from issue of shares, net of expenses	52,127	—	—	52,127
Share premium arising from conversion of convertible note payable	1,286	—	—	1,286
Net loss for the year	—	—	(22,193)	(22,193)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001 and 1 January 2002	135,369	488,503	(405,395)	218,477
Net loss for the year	—	—	(56,769)	(56,769)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	<u>135,369</u>	<u>488,503</u>	<u>(462,164)</u>	<u>161,708</u>

The contributed surplus of the Company represents the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company pursuant to the group reorganisation in 1998 and the amount arising from cancelling the paid-up capital to the extent of HK\$0.09 on each issued share in the Company from HK\$0.10 each to HK\$0.01 each pursuant to the Reorganisation in 2001.

Notes to the Financial Statements (Continued)

21. RESERVES (Continued)

Under the Company Act 1981 of laws in 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 contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) 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.

In the opinion of the directors, the Company's reserves available for distribution to shareholders were as follows:

	2002 HK\$'000	2001 HK\$'000
Contributed surplus	488,503	488,503
Accumulated losses	<u>(462,164)</u>	<u>(405,395)</u>
	<u>26,339</u>	<u>83,108</u>

Included in the Group's reserves are the following amounts attributable to the Group's associates and joint ventures:

	2002 HK\$'000	2001 HK\$'000
Associates		
– investment revaluation reserve	(13,435)	5,512
– investment property revaluation reserve	10,461	—
– accumulated profits	<u>5,523</u>	<u>7,397</u>
	<u>2,549</u>	<u>12,909</u>
Joint ventures		
– translation reserve	5	5
– accumulated losses	<u>(3,200)</u>	<u>(2,962)</u>
	<u>(3,195)</u>	<u>(2,957)</u>

Notes to the Financial Statements (Continued)

22. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

The retirement benefit cost charged to the income statement represents contributions payable to the scheme by the Group at rate specified in the rules of the scheme.

23. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments payable under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
In respect of rented premises:				
Within one year	3,452	2,103	821	945
In the second to fifth year inclusive	3,398	52	1,412	31
	<u>6,850</u>	<u>2,155</u>	<u>2,233</u>	<u>976</u>
In respect of motor vehicles:				
Within one year	—	22	—	22
	<u>—</u>	<u>22</u>	<u>—</u>	<u>22</u>

Operating lease payments represent rentals payable by the Group and the Company for their rented premises. Leases are negotiated for an average term of two to three years.

24. CONTINGENT LIABILITIES

THE COMPANY

The Company has given unlimited corporate guarantees to a bank for general banking facilities granted to a subsidiary. At the balance sheet date, none of the credit facilities were utilised.

Notes to the Financial Statements (Continued)

25. RELATED PARTY TRANSACTIONS

During the year, the Group paid rentals in respect of hiring a motor vehicle to Very Nice Development Limited amounting to HK\$264,000 (2001: HK\$376,000). Mr. Chiu Tao and Mr. Yeung Kwok Yu are directors of the Company and have beneficial interests in Very Nice Development Limited.

The above transaction was carried out after negotiation between the Group and the related party.

26. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2002 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Beijing Tetra Digital Technology Communication Co Ltd (foreign investment enterprise)	The People's Republic of China	Registered capital HK\$5,000,000	—	100%	Developing and trading of communication equipment
Cache Up Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Calculation Assets Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Securities investment
China Digital Communication Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Trading of communication equipment and provision of marketing consultancy services
E-Tech Pacific Limited	British Virgin Islands*	1 ordinary share of US\$1 each	100%	—	Investment holding
MetalsTrack Holdings Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Investment holding
MetalsTrack International Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Metals Trading

Notes to the Financial Statements (Continued)

26. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
MetalsTrack Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Metals trading
Northlink Holdings Limited	British Virgin Islands*	200 ordinary shares of US\$1 each	100%	—	Investment holding
Profit Linkage Enterprises Limited	Hong Kong	2 ordinary shares of US\$1 each	—	100%	Inactive
Sun Ace Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Swanpak Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive
Target Millennium Limited	British Virgin Islands*	1 ordinary share of US\$1 each	100%	—	Investment holding
Vaford Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Investment holding
Wealth Convergence Petroleum and Mechanical Facilities Company Limited	Hong Kong	100 ordinary shares of HK\$1 each	—	51%	Inactive
Winford Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Woodbridge Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive

* *The companies are engaged in investment business and have no specific principal place of operation.*

None of the subsidiaries had any debt securities at 31 December 2002 or at any time during the year.

Notes to the Financial Statements (Continued)

27. PARTICULARS OF ASSOCIATES

Particulars of the Group's associates as at 31 December 2002 are as follows:

Name of associate	Place of incorporation/ operations	Issued share capital/ registered capital	Nominal value of issued share capital/ registered capital held by the Group	Principal activities
Absolute Profits Limited	British Virgin Islands *	1 ordinary share of US\$1 each	34.87%	Inactive
Autopower Technology Limited	British Virgin Islands*	4 ordinary shares of US\$1 each	50%	Investment holding
Beauforte Finance (International) Limited	Cayman Islands*	500 ordinary shares of US\$1 each	34.87%	Inactive
Beauforte Investors Corporation Limited	Hong Kong	29,282,000 ordinary shares of HK\$4 each	34.87%	Investment holding
Beauforte Holdings Limited	Hong Kong	45,000,000 ordinary shares of HK\$1 each	34.87%	Dormant
Chinachem Industries Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	49%	Investment holding
Gold East Limited	British Virgin Islands *	1 ordinary share of US\$1 each	34.87%	Inactive
Golden Mass Investments Limited	British Virgin Islands *	1 ordinary share of US\$1 each	34.87%	Investment holding
Grand Noble Group Limited	British Virgin Islands *	2 ordinary shares of US\$1 each	34.87%	Property investment
I-Active Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Investment holding
Lambda Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	34.87%	Investment

Notes to the Financial Statements (Continued)

27. PARTICULARS OF ASSOCIATES (Continued)

Name of associate	Place of incorporation/ operations	Issued share capital/ registered capital	Nominal value of issued share capital/ registered capital held by the Group	Principal activities
Leader Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	34.87%	Inactive
Maxfull Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Inactive
Ocean Pearl Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Inactive
Qinyang Chinachem Aluminium Company Limited	The People's Republic of China	Registered capital RMB154,000,000	29.40%	Metals manufacture
Splendid Rewards Limited	British Virgin Islands*	500 ordinary shares of US\$1 each	34.87%	Investment
United Crown Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each	34.87%	Investment
Vason Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each	34.87%	Investment
Willthorn Investments Limited	British Virgin Islands*	500 ordinary shares of US\$1 each	34.87%	Investment holding
Wincom Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	34.87%	Lending
Workshop Holdings Limited	British Virgin Islands*	500 ordinary shares of US\$1 each	34.87%	Investment

* These companies are engaged in investment business and have no specific principal place of operation.

Notes to the Financial Statements (Continued)

28. PARTICULARS OF JOINT VENTURES

Particulars of the Group's joint ventures as at 31 December 2002 are as follows:

Name of joint venture	Place of incorporation/ operations	Issued share capital/ registered capital	Nominal value of issued share capital/ registered capital held by the Group	Principal activities
PTAC Cyber E-Biz Limited	Hong Kong	4 ordinary shares of HK\$1 each	50%	Investment holding
PTAC Cyber E-Biz (Tianjin) Limited	The People's Republic of China	Registered capital HK\$2,000,000	50%	Trading of communication products