

# Notes to the Financial Statements

For the year ended 31 December 2003

## 1. GENERAL INFORMATION

The Company is an investment holding company and is also engaged in acting as an agent in the coal business, sales and marketing of coal products. The Group's principal activities consist of sales and marketing of coal products and gold jewellery products.

## 2. PRINCIPAL ACCOUNTING POLICIES

### (a) Statement of compliance

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

In the current year, the Group has adopted, for the first time, SSAP 12 (Revised) "Income Taxes", issued by the HKSA, which is effective for financial statements relating to accounting periods commencing on or after 1 January 2003.

#### *SSAP 12 (Revised) – Income taxes*

In prior years, deferred tax liabilities were provided for using liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonably probability to crystallize in the foreseeable future. Deferred tax assets were not recognized unless their realization was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with the revised SSAP 12, the Group adopted a new accounting policy for deferred tax. Under the revised SSAP 12, deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilized. Although the new accounting policy has been applied retrospectively, it has not had any material effect on the financial results of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required but certain comparative figures for 2002 have been restated to conform with the current year's presentation.

### (b) Basis of preparation

The financial statements are prepared under the historical cost convention.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 2. **PRINCIPAL ACCOUNTING POLICIES** *(continued)*

### (c) **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 consolidated financial statements also include the Group's share of post-acquisition results and reserves of its associates.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

### (d) **Subsidiaries**

Subsidiaries are those enterprises in which the Company controls more than half of the voting power, or holds more than half of the issued share capital, or controls the composition of the board of directors.

Subsidiaries are carried at cost less impairment losses.

### (e) **Associates**

An associate is an enterprise in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The Group uses the equity method of accounting to account for the results of the associates. The Group's investments in associates are stated at its share of net assets of the associates. The Company's investments in associates are stated at cost less impairment losses.

An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates except where unrealised losses provide evidence of an impairment of the asset transferred.

### (f) **Revenue recognition**

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

#### (i) *Commission from coal business*

Commission from coal business is recognised when the agreed services are rendered.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (f) Revenue recognition (continued)

#### (ii) Sale of goods

Revenue is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

#### (iii) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### (g) Property, plant and equipment

#### (i) Depreciation and amortisation

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

|                        |                    |
|------------------------|--------------------|
| Leasehold land         | 2%                 |
| Buildings              | 5%                 |
| Leasehold improvements | 33 $\frac{1}{3}$ % |
| Office equipment       | 20%                |
| Furniture and fixtures | 20%                |
| Motor vehicles         | 25%                |

#### (ii) Measurement bases

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

### (h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less all further costs of completion and the estimated costs necessary to make the sale.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (i) Income tax

- (i) Income tax for the year comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

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

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

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset.

### (j) Foreign currencies

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

The financial statements of subsidiaries and associates expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Gains and losses arising on exchange are dealt with as movements in reserves.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (k) Employee benefits

#### (i) *Employee leave entitlements*

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

Non-accumulating compensated absences are not recognised until the time of leave.

#### (ii) *Retirement benefits costs*

The Group contributes to a defined contribution retirement benefits scheme, which is available to all employees. The assets of the scheme are held separately from those of the Group in an independently administered fund. The contributions are calculated as a percentage of employees' salaries and are expensed as incurred in the consolidated income statement.

### (l) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in a particular business (business segment), or conducting business in a particular geographical area (geographical segment), which is subject to risks and rewards that are different from those of other segments.

### (m) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement.

#### (i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (m) Impairment (continued)

#### (ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (n) 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 decision. Parties are also considered to be related if they are subject to common control or common significant influence.

## 3. REVENUE, TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in acting as an agent in the coal business, sales and marketing of coal products and gold jewellery products.

Turnover and other revenue recognised during the year are as follows:

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Commission from coal business                     | 853              | —                |
| Sales of gold jewellery products                  | 617              | 3,732            |
| <b>Turnover</b>                                   | <b>1,470</b>     | <b>3,732</b>     |
| Bank Interest income                              | 614              | 1,122            |
| Other Interest income                             | 626              | 223              |
| Reversal of impairment loss on land and buildings | 2,691            | —                |
| Other income                                      | —                | 6                |
| <b>Other revenue</b>                              | <b>3,931</b>     | <b>1,351</b>     |
| <b>Total revenue</b>                              | <b>5,401</b>     | <b>5,083</b>     |

# Notes to the Financial Statements

For the year ended 31 December 2003

## 3. REVENUE, TURNOVER AND SEGMENT INFORMATION *(continued)*

An analysis of the Group's turnover and contribution to operating loss for the year by principal activities and markets is as follows:

|  | Turnover         |                  | Operating loss   |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| <b>Principal activities:</b>                     |                  |                  |                  |                  |
| Commission from coal business                    | 853              | —                | 853              | —                |
| Sale and marketing of gold<br>jewellery products | 617              | 3,732            | 613              | 3,726            |
| Others   | —                | —                | (2,970)          | (9,070)          |
|  | <b>1,470</b>     | <b>3,732</b>     | <b>(1,504)</b>   | <b>(5,344)</b>   |
| <b>Principal markets:</b>                        |                  |                  |                  |                  |
| Hong Kong  | 617              | 2,635            | (2,357)          | (6,441)          |
| China  | 595              | 1,097            | 595              | 1,097            |
| Korea  | 258              | —                | 258              | —                |
|  | <b>1,470</b>     | <b>3,732</b>     | <b>(1,504)</b>   | <b>(5,344)</b>   |

## 4. OPERATING LOSS

Operating loss is arrived at after charging:

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Cost of inventories sold  | 5,990            | 15,758           |
| Less: Provision for inventories written back upon disposal  | (5,990)          | (15,758)         |
| Cost of sales   | —                | —                |
| Staff costs <i>(including directors' remuneration and retirement benefits scheme contributions)</i> | 4,418            | 4,725            |
| Retirement benefits scheme contributions  | 75               | 76               |
| Depreciation and amortisation   | 471              | 591              |
| Auditors' remuneration  | 188              | 220              |
| Provision for doubtful debts <i>(included in other operating expenses)</i>                          | —                | 74               |
| Impairment loss on land and buildings <i>(included in other operating expenses)</i>                 | —                | 1,900            |

# Notes to the Financial Statements

For the year ended 31 December 2003

## 5. INCOME TAX

- (a) No provision for Hong Kong profits tax has been made in the financial statements in respect of the Company and its subsidiaries for the year (2002: NIL), as the Company and its subsidiaries either have substantial accumulated tax losses brought forward which are available for setting off against current year's assessable profits or have tax losses for the year.
- (b) Reconciliation between actual tax expense and tax of the Group's loss before taxation at applicable tax rates:

|   | 2003     |        | 2002     |        |
|---|----------|--------|----------|--------|
|   | HK\$'000 | %      | HK\$'000 | %      |
| Loss before taxation  | (2,805)  |        | (5,344)  |        |
| Notional tax on loss before taxation,<br>calculated at the rates applicable<br>to loss in the countries concerned | (267)    | 9.5    | (856)    | 16.0   |
| Tax effect of non-deductible expenses   | 44       | (1.6)  | 355      | (6.7)  |
| Tax effect of non-taxable revenue   | (572)    | 20.4   | (180)    | 3.4    |
| Tax effect of unused tax losses not<br>recognized   | 795      | (28.3) | 681      | (12.7) |
| Actual tax expense  | –        | –      | –        | –      |

In June 2003, the Hong Kong profits tax rate was increased from 16% to 17.5% with effect from the year of assessment 2003/2004. Hong Kong profits tax is calculated at 17.5% (2002: 16%) on the estimated assessable profit/adjusted loss for the year. Taxation for overseas subsidiaries and associates is charged at the appropriate current rates of taxation ruling in the relevant countries.

## 6. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss for the year is dealt with in the financial statements of the Company to the extent of HK\$4,044,000 (2002: HK\$3,186,000).

## 7. LOSS PER SHARE

### (a) Basic

The calculation of basic loss per share is based on the Group's loss attributable to shareholders for the year of HK\$2,805,000 (2002: HK\$5,344,000) and the weighted average of 2,080,800,000 (2002: 1,951,156,000) ordinary shares in issue during the year.

### (b) Diluted

No diluted earnings per share has been presented as the Company did not have any share options outstanding for both 2002 and 2003.



# Notes to the Financial Statements

For the year ended 31 December 2003

## 8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Fees   |                  |                  |
| Executive directors  | –                | –                |
| Non-executive directors  | 120              | 120              |
|  | 120              | 120              |
| Other emoluments:  |                  |                  |
| Basic salaries, housing allowances,<br>other allowances and benefits in kind | 2,418            | 2,418            |
| Retirement benefits scheme contributions                                     | 24               | 24               |
|  | 2,562            | 2,562            |

The emoluments of the Directors fell within the following bands:

### Emolument bands

|                               | Number of directors |      |
|-------------------------------|---------------------|------|
|                               | 2003                | 2002 |
| HK\$Nil – HK\$1,000,000       | 3                   | 3    |
| HK\$1,000,001 – HK\$1,500,000 | 2                   | 2    |
|                               | 5                   | 5    |

No directors waived any emoluments in respect of the year ended 31 December 2003 (2002: NIL).

### (b) Five highest paid individuals

The aggregate amounts of the emoluments paid to the five highest paid individuals of the Group whose emoluments have not been disclosed in the directors' emoluments noted above are as follows:

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Basis salaries, housing allowances,<br>other allowances and benefits in kind | 1,246            | 1,275            |
| Retirement benefits scheme contributions                                     | 30               | 24               |
|  | 1,276            | 1,299            |

# Notes to the Financial Statements

For the year ended 31 December 2003

## 8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

### (b) Five highest paid individuals (continued)

The number of the highest paid individuals whose emoluments have not been disclosed in the directors' emoluments noted above and fell within the following band is as follows:

| Emolument bands         | Number of individuals |      |
|-------------------------|-----------------------|------|
|                         | 2003                  | 2002 |
| HK\$Nil – HK\$1,000,000 | 3                     | 3    |

## 9. PROPERTY, PLANT AND EQUIPMENT

### Group

|   | Land and<br>buildings<br>HK\$'000 | Leasehold<br>improve-<br>ments<br>HK\$'000 | Office<br>equipment<br>HK\$'000 | Furniture<br>and fixtures<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Total<br>HK\$'000 |
|---|-----------------------------------|--|---------------------------------|---------------------------------------|-------------------------------|-------------------|
| <b>Cost</b>   |                                   |  |                                 |                                       |                               |                   |
| At 1 January 2003   | 9,970                             | 696  | 236                             | 91                                    | 601                           | 11,594            |
| Additions   | –                                 | –  | 39                              | –                                     | –                             | 39                |
| <b>At 31 December 2003</b>  | <b>9,970</b>                      | <b>696</b>                                 | <b>275</b>                      | <b>91</b>                             | <b>601</b>                    | <b>11,633</b>     |
| <b>Accumulated depreciation/<br/>amortisation and<br/>impairment losses</b> |                                   |  |                                 |                                       |                               |                   |
| At 1 January 2003   | 4,440                             | 135  | 193                             | 72                                    | 601                           | 5,441             |
| Depreciation/<br>amortisation charge<br>for the year                        | 221                               | 232  | 14                              | 4                                     | –                             | 471               |
| Reversal of impairment loss   | (2,691)                           | –  | –                               | –                                     | –                             | (2,691)           |
| <b>At 31 December 2003</b>  | <b>1,970</b>                      | <b>367</b>                                 | <b>207</b>                      | <b>76</b>                             | <b>601</b>                    | <b>3,221</b>      |
| <b>Net book value</b>   |                                   |  |                                 |                                       |                               |                   |
| At 31 December 2003   | 8,000                             | 329  | 68                              | 15                                    | –                             | 8,412             |
| At 31 December 2002   | 5,530                             | 561  | 43                              | 19                                    | –                             | 6,153             |

The leasehold land and buildings are situated in Hong Kong and held under medium term leases.

As at 31 December 2003, the Directors re-assessed the carrying value of the Group's land and buildings with reference to the recent favorable changes in the Hong Kong property market conditions and based on an independent professional valuers' valuation report and concluded that impairment loss to the extent of HK\$2,691,000 made in the previous years on the land and buildings held for own use by the Group should be reversed in 2003 (included in other revenue).

# Notes to the Financial Statements

For the year ended 31 December 2003

## 9. PROPERTY, PLANT AND EQUIPMENT (continued)

### Company

|   | Leasehold<br>improvements<br>HK\$'000 | Office<br>equipment<br>HK\$'000 | Furniture<br>and fixtures<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Total<br>HK\$'000 |
|---|---------------------------------------|---------------------------------|---------------------------------------|-------------------------------|-------------------|
| <b>Cost</b>                                       |                                       |                                 |                                       |                               |                   |
| At 1 January 2003                                 | 696                                   | 227                             | 91                                    | 601                           | 1,615             |
| Additions   | –                                     | 39                              | –                                     | –                             | 39                |
| <b>At 31 December 2003</b>                        | <b>696</b>                            | <b>266</b>                      | <b>91</b>                             | <b>601</b>                    | <b>1,654</b>      |
| <b>Accumulated depreciation/<br/>amortisation</b> |                                       |                                 |                                       |                               |                   |
| At 1 January 2003                                 | 136                                   | 185                             | 72                                    | 601                           | 994               |
| Depreciation/amortisation<br>charge for the year  | 232                                   | 13                              | 4                                     | –                             | 249               |
| <b>At 31 December 2003</b>                        | <b>368</b>                            | <b>198</b>                      | <b>76</b>                             | <b>601</b>                    | <b>1,243</b>      |
| <b>Net book value</b>                             |                                       |                                 |                                       |                               |                   |
| At 31 December 2003                               | 328                                   | 68                              | 15                                    | –                             | 411               |
| At 31 December 2002                               | 560                                   | 42                              | 19                                    | –                             | 621               |

## 10. INTEREST IN SUBSIDIARIES

|                                       | Company          |                  |
|---------------------------------------|------------------|------------------|
|                                       | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Unlisted shares, at cost              | 22,256           | 22,256           |
| Less: Provision for impairment losses | (22,256)         | (22,256)         |
|                                       | –                | –                |
| Amounts due from subsidiaries         | 203,873          | 175,468          |
| Less: Provision for doubtful amounts  | (151,324)        | (155,458)        |
|                                       | 52,549           | 20,010           |

# Notes to the Financial Statements

For the year ended 31 December 2003

## 10. INTEREST IN SUBSIDIARIES (continued)

Particulars of the subsidiaries at 31 December 2003 are as follows:

| Name   | Place of incorporation | Principal activities and place of operation      | Particulars of issued share capital/registered capital | Interest held directly |      |
|--|------------------------|--|--|------------------------|------|
|  |                        |  |  | 2003                   | 2002 |
| Full Bright International Limited            | New York, U.S.A.       | Dormant  | US\$183,750  | 100%                   | 100% |
| Fu Hui Jewellery & Goldsmith Company Limited | Hong Kong              | Jewellery retailing and wholesaling in Hong Kong | 2,000,000 ordinary shares of HK\$1 each                | 100%                   | 100% |
| Fu Hui Investments Limited                   | Hong Kong              | Provision of financing arrangements in Hong Kong | 100 ordinary shares of HK\$1 each                      | 100%                   | 100% |
| Jumbo Hall International Limited             | Hong Kong              | Property holding in Hong Kong                    | 2 ordinary shares of HK\$1 each                        | 100%                   | 100% |
| Maxease Limited                              | British Virgin Islands | Dormant  | 1 ordinary share of US\$1 each                         | 100%                   | 100% |
| Fushan Energy Group Limited                  | British Virgin Islands | Investment holding in PRC                        | 1 ordinary share of US\$1 each                         | 100%                   | —    |
| New Honest Limited                           | British Virgin Islands | Dormant  | 1 ordinary share of US\$1 each                         | 100%                   | —    |

## 11. INTEREST IN ASSOCIATES

|                                     | Group            |                  | Company          |                  |
|-------------------------------------|------------------|------------------|------------------|------------------|
|                                     | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Unlisted shares, at cost            | —                | —                | 4                | 4                |
| Share of net assets                 | 41,079           | —                | —                | —                |
| Amount due from an associate        | 3,739            | 3,739            | 3,739            | 3,739            |
|                                     | 44,818           | 3,739            | 3,743            | 3,743            |
| Less: Provision for doubtful amount | (3,739)          | (3,739)          | (3,743)          | (3,743)          |
|                                     | 41,079           | —                | —                | —                |

# Notes to the Financial Statements

For the year ended 31 December 2003

## 11. INTEREST IN ASSOCIATES (continued)

Particulars of the associates at 31 December 2003 are as follows:

| Name                         | Place of incorporation | Principal activities and place of operation                          | Particulars of issued share capital/ registered capital | Interest held |      |
|------------------------------|------------------------|--|---|---------------|------|
|                              |                        |  |   | 2003          | 2002 |
| Real Wide Limited            | Hong Kong              | Dormant  | 10,000 ordinary shares of HK\$1 each                    | 45%*          | 45%* |
| Jinshan Energy Group Limited | PRC                    | Investment holding, production and sales of coal products in the PRC | Registered capital of RMB100,000,000                    | 45%           | —    |

\* held by the Company directly

## 12. INVENTORIES

|                                 | Group            |                  |
|---------------------------------|------------------|------------------|
|                                 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Raw materials                   | 8,166            | 11,168           |
| Finished goods                  | 3,903            | 6,891            |
|                                 | 12,069           | 18,059           |
| Less: Provision for inventories | (12,069)         | (18,059)         |
|                                 | —                | —                |

## 13. TRADE RECEIVABLES

General credit terms of the Group range from 60 to 90 days. At 31 December 2003, the ageing analysis of the trade receivables (net of specific provision for bad and doubtful debts) was as follows:

|                    | Group            |                  | Company          |                  |
|--------------------|------------------|------------------|------------------|------------------|
|                    | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Current – 3 months | 826              | —                | 596              | —                |

# Notes to the Financial Statements

For the year ended 31 December 2003

## 14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in prepayments, deposits and other receivables at 31 December 2002 were two short term loans of HK\$10,000,000 each, advanced to two independent third parties for interest income. Both loans bore interest at 6.5% per annum and were repaid during 2003.

## 15. EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the Group and its employees are each required to make contributions to the scheme at 5% of the employee's relevant income, subject to a cap of monthly relevant income of HK\$20,000.

## 16. SHARE CAPITAL

|                                  | Number of shares |               | Company          |                  |
|----------------------------------|------------------|---------------|------------------|------------------|
|                                  | 2003             | 2002          | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Authorised:                      |                  |               |                  |                  |
| Ordinary shares of HK\$0.10 each |                  |               |                  |                  |
| At 31 December                   | 5,000,000,000    | 5,000,000,000 | 500,000          | 500,000          |
| Issued and fully paid:           |                  |               |                  |                  |
| Ordinary shares of HK\$0.10 each |                  |               |                  |                  |
| At 1 January                     | 2,080,800,000    | 1,730,800,000 | 208,080          | 173,080          |
| Increase during the year         | –                | 350,000,000   | –                | 35,000           |
| At 31 December                   | 2,080,800,000    | 2,080,800,000 | 208,080          | 208,080          |

## 17. SHARE OPTION SCHEME

At the last annual general meeting of the Company held on 20 June 2003, the shareholders of the Company approved the adoption of a new share option scheme (the "Scheme") and to give the Directors the power to implement and administer the Scheme with effect from the date of passing of the resolution. The Scheme is designed to reward and provide incentive to, and strengthen the Group's business relationship with, the prescribed classes of participants, including eligible employees, directors of any member of the Group, who may contribute to the growth and development of the Group.

The exercise price of options is to be determined by the Directors and is the highest of the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant, the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and the nominal value of the share on the date of grant.

During the year ended 31 December 2003, no share options were granted under the Scheme.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 18. RESERVES

### Group

|   | Share<br>premium<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Other<br>reserves<br>HK\$'000 | Total<br>HK\$'000 |
|---|------------------------------|-----------------------------------|-------------------------------|-------------------|
| At 1 January 2002                           | 368,469                      | (499,200)                         | –                             | (130,731)         |
| Issues of shares                            | 30,700                       | –                                 | –                             | 30,700            |
| Loss for the year                           | –                            | (5,344)                           | –                             | (5,344)           |
| At 31 December 2002 and<br>1 January 2003   | 399,169                      | (504,544)                         | –                             | (105,375)         |
| Share of reserve movements<br>of associates | –                            | –                                 | (118)                         | (118)             |
| Loss for the year                           | –                            | (2,805)                           | –                             | (2,805)           |
| <b>At 31 December 2003</b>                  | <b>399,169</b>               | <b>(507,349)</b>                  | <b>(118)</b>                  | <b>(108,298)</b>  |

Accumulated losses of HK\$507,349,000 (2002: HK\$504,544,000) included accumulated losses of HK\$1,301,000 (2002: NIL) attributable to associates.

### Company

|  | Share<br>premium<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|--|------------------------------|-----------------------------------|-------------------|
| At 1 January 2002                            | 368,469                      | (507,159)                         | (138,690)         |
| Issues of shares                             | 30,700                       | –                                 | 30,700            |
| Loss for the year                            | –                            | (3,186)                           | (3,186)           |
| At 31 December 2002 and at<br>1 January 2003 | 399,169                      | (510,345)                         | (111,176)         |
| Loss for the year                            | –                            | (4,044)                           | (4,044)           |
| <b>At 31 December 2003</b>                   | <b>399,169</b>               | <b>(514,389)</b>                  | <b>(115,220)</b>  |

# Notes to the Financial Statements

For the year ended 31 December 2003

## 19. DEFERRED TAXATION

As at 31 December 2003, no deferred tax liabilities have been provided as the amount involved was immaterial and no deferred tax assets have been recognized in relation to the deductible temporary differences of HK\$7,332,000 (2002: HK\$7,835,000) and unused tax losses of HK\$167,744,000 (2002: HK\$163,206,000) as it is uncertain whether future taxable profit will be available against which the deductible temporary differences and tax losses can be utilized.

The deductible temporary differences and tax losses will not expire under current tax legislation.

## 20. CAPITAL COMMITMENTS

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

|                | Group            |                  | Company          |                  |
|----------------|------------------|------------------|------------------|------------------|
|                | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Contracted for | 5,960            | —                | —                | —                |

The above commitment related to the Group's commitment to fund an associate in the form of shareholder's loan based on the joint venture agreement.

## 21. ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company as at 31 December 2003 to be China Merit Limited, which is incorporated in the British Virgin Islands.

## 22. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 19 to 39 were approved by the Directors on 14 April 2004.