

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

1. GENERAL INFORMATION

The Company was incorporated in Bermuda with limited liability on 15 June 2001 as an exempted company under the Companies Act (1981) of Bermuda pursuant to a group reorganization which involved a change of domicile of the Group from Hong Kong to Bermuda, details of which are set out in the prospectus of the Company dated 19 October 2001.

The change of domicile does not alter the listing status, management, business, financial position, underlying assets and liabilities of the Group. Hence, the group reorganization is accounted for using merger accounting as permitted by SSAP 27 "Accounting for Group Reconstructions". The consolidated accounts of the Group for the year ended 31 December 2001 were prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the holding of equity or equity-related investments and the provision of management services to the investee companies.

2. IMPACT OF NEW/REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAP")

The following SSAPs have been adopted for the first time in the preparation of the current year's consolidated financial statements, together with a summary of their major effects where applicable:—

— SSAP 1 (Revised)	:	Presentation of financial statements
— SSAP 11 (Revised)	:	Foreign currency translation
— SSAP 15 (Revised)	:	Cash flow statements
— SSAP 34	:	Employee benefits

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for content therein. One of the major significant new requirements of the SSAP is inclusion of statement of changes in equity, instead of statement of recognized gains and losses in financial statements.

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2. IMPACT OF NEW/REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAP”) (Continued)

SSAP 11 (Revised) prescribes consideration of the need for a prior year adjustment where there has been a change in the rates used to translate the income statements of overseas entities. The profit and loss accounts of foreign entities denominated in foreign currencies are translated at the weighted average exchange rates during the year. This is a change in accounting policy from previous years where these were translated at the balance sheet date. SSAP 11 (Revised) has no major impact on these financial statements.

SSAP 15 (Revised) prescribes the classification of cash flows under three headings: “cash flows from operating activities”, “cash flows from investing activities” and “cash flows from financing activities”. Interest and dividends, which were previously presented under a separate heading, should be classified on a consistent basis under either operating, investing or financing activities. Cash flows arising from taxes on income would typically be classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, cash equivalents are defined more restrictively as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

SSAP 34 prescribes the accounting treatment for employees’ benefits and relevant disclosures. SSAP 34 has no major impact on these financial statements.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants. The financial statements are prepared under the historical cost convention.

(b) Basis of consolidation

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

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

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For the year ended 31 December 2002

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) **Subsidiaries**

Investment in subsidiaries is included in the Company's balance sheet at cost less any identified impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) **Jointly controlled entities**

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

Joint venture agreements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly controlled entities.

The Group's share of the post-acquisition results of the jointly controlled entities is included in the consolidated income statement. The Group's interests in jointly controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for impairments in values other than those considered to be temporary in nature deemed necessary by the directors.

(e) **Associates**

An associate is a company, not being a subsidiary, in which the Group holds an equity interest for the long term and exercises significant influence on its financial and operating policies.

The results of the associates are accounted for by the Group using the equity method of accounting. The Group's investments in associates are stated at its share of net assets of the associates.

(f) **Capital reserve or goodwill on consolidation**

According to the principal accounting policies of the Group, goodwill on acquisition of subsidiaries, jointly controlled entities or associates is amortized over twenty years from initial recognition in order to reflect the best estimate of the period during which future economic benefits are expected to flow to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Investments in securities

Held-to-maturity debt securities are stated at amortised costs less provision for impairment. Provision for impairment is made and charged to the income statement when it is not expected to recover the carrying value of the held-to-maturity debt securities.

Investment securities include the Group's equity interest in companies in which the Group has no significant influence on their financial and operating policies and which are intended to be held on a continuing basis for an identified long-term purpose. Investment securities are stated at cost less any provision for diminution in value. Provisions are made when the fair value of such securities has declined below the carrying amounts, unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the income statement.

(h) Property, plant and equipment

(i) Depreciation

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

Office equipment	20%
Computer equipment	20%
Motor vehicle	20%

(ii) Measurement bases

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Property, plant and equipment *(Continued)*

When assets are sold, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

(i) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rental applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms.

(j) Impairment

At each balance sheet date an assessment is made 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 impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

(k) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Provisions and contingent liabilities *(Continued)*

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

(l) Deferred tax

Deferred taxation is calculated at the current tax rate, using the liability method, in respect of the taxation effect arising from all timing differences which are expected with reasonable probability to crystallise in the foreseeable future.

(m) Revenue recognition

Management fees are recognised when services are rendered.

Dividend income is recognised when the right of the Group or the Company as a shareholder to receive payment is established.

Interest income is recognised on a time proportion basis.

(n) Foreign currencies

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

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Retirement benefit costs

Pursuant to the People's Republic of China ("PRC") laws and regulations, contributions to the retirement benefit scheme for the staff of the Company's subsidiary operating in the PRC are to be made monthly to a government agency at a certain percentage of the basic salaries of the employees. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The contributions are charged to the income statement as they become payable.

4. SEGMENTAL INFORMATION

In accordance with the Group's financial reporting, the Group has determined that the business segments are its primary reporting format and geographical segments are its secondary reporting format.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

4. SEGMENTAL INFORMATION (Continued)

An analysis of the Group's turnover and operating loss by principal activity and geographical segment for the year is as follows:

	Turnover		Operating loss	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
By principal activity:				
Management fees from jointly controlled entities	1,491,239	1,952,449	(4,417,567)	(10,522,825)
Dividend income from investment securities	2,453,015	2,561,415	2,453,015	2,561,415
	<u>3,944,254</u>	<u>4,513,864</u>	<u>(1,964,552)</u>	<u>(7,961,410)</u>
Finance costs			(23,331)	(45,722)
Share of net losses of jointly controlled entities			(6,115,690)	(3,953,743)
Share of net (losses)/profits of associates			(5,478,519)	723,165
Loss before taxation			<u>(13,582,092)</u>	<u>(11,237,710)</u>
Total assets (unallocated)			<u>246,575,803</u>	<u>261,450,463</u>
Total liabilities (unallocated)			<u>29,028,898</u>	<u>28,552,664</u>

Given the nature of the Group's operations as investment holding, segment assets and segment liabilities are unallocated.

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For the year ended 31 December 2002

4. SEGMENTAL INFORMATION (Continued)

	Turnover	
	2002 HK\$	2001 HK\$
By geographical segment:		
Hong Kong	2,453,015	2,561,415
The People's Republic of China	1,491,239	1,952,449
	<u>3,944,254</u>	<u>4,513,864</u>

Given the nature of the Group's operations as investment holding and the way in which costs are allocated, it is not considered meaningful to provide geographical analysis of operating loss.

5. TURNOVER AND OTHER REVENUES

The amount of each significant category of revenue recognised during the year is as follows:

	2002 HK\$	2001 HK\$
Turnover		
Management fees from jointly controlled entities	1,491,239	1,952,449
Dividend income from investment securities	2,453,015	2,561,415
	<u>3,944,254</u>	<u>4,513,864</u>
Other revenues		
Interest on bank deposits	548,796	1,335,353
Investment income from held-to-maturity debt securities	378,000	63,003
Other income	180,000	510,666
	<u>1,106,796</u>	<u>1,909,022</u>
Total revenues	<u>5,051,050</u>	<u>6,422,886</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

6. OPERATING LOSS

	2002	2001
	HK\$	HK\$
Operating loss is arrived at after charging:		
Amortisation of goodwill*	365,977	365,977
Auditors' remuneration	180,000	189,000
Loss on disposal of investment securities	—	3,408,353
Operating lease payments on land and buildings	258,101	258,201
Retirement benefit cost	133,595	201,945
Write-off of property, plant and equipment	966	5,535
	<u>966</u>	<u>5,535</u>

* Amortization of goodwill are included in "other operating expenses" on the face of the consolidated income statement.

7. FINANCE COSTS

	2002	2001
	HK\$	HK\$
Bank charges	23,331	24,612
Interest on other borrowings and loans wholly repayable within five years	—	21,110
	<u>23,331</u>	<u>45,722</u>

NOTES TO THE FINANCIAL STATEMENTS

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8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	2002 HK\$	2001 HK\$
Fees	—	—
Other emoluments:		
Basic salaries and other benefits in kind	<u>420,000</u>	<u>510,000</u>
	<u>420,000</u>	<u>510,000</u>

The above amounts include directors' salaries of HK\$100,000 (2001: HK\$130,000) paid to independent non-executive directors of the Group.

During the year, no share option was granted to the directors.

(b) Five highest paid individuals

Details of the emoluments paid during the year to the five highest paid individuals (including directors and other employees) of the Group are as follows:

	2002 HK\$	2001 HK\$
Basic salaries and other benefits in kind	<u>727,195</u>	<u>568,783</u>
Number of directors	<u>2</u>	<u>3</u>
Number of employees	<u>3</u>	<u>2</u>

The annual emoluments paid during the year to all the five highest paid individuals (including directors and other employees) fall within the band of Nil — HK\$1,000,000.

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9. TAXATION

	2002 HK\$	2001 HK\$
Company and subsidiaries		
— Hong Kong profits tax	—	—
— Overseas income tax	192,805	226,714
Jointly controlled entities and associates		
— Share of taxation attributable to jointly controlled entities	1,575,997	1,054,052
— Share of taxation attributable to associates	—	364,206
	<u>1,768,802</u>	<u>1,644,972</u>

Hong Kong profits tax has not been provided as the individual companies comprising the Group do not have assessable profit arising in Hong Kong for the year.

Taxation for other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions.

No deferred tax has been provided in the financial statements as there is no material timing difference.

10. LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

The loss for the year attributable to shareholders is dealt with in the financial statements of the Company to the extent of a loss of HK\$3,925,844 (2001: HK\$87,804).

11. LOSS PER SHARE

The calculation of loss per share is based on the loss attributable to shareholders of HK\$15,350,894 (2001: HK\$12,882,682 loss) and 899,900,000 (2001: 899,900,000) shares in issue during the year.

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12. PROPERTY, PLANT AND EQUIPMENT

Group

	Office equipment <i>HK\$</i>	Computer equipment <i>HK\$</i>	Motor vehicle <i>HK\$</i>	Total <i>HK\$</i>
Cost				
At 1 January 2002	82,401	33,931	253,084	369,416
Additions	2,789	—	—	2,789
Disposals/Write-off	(4,370)	(11,156)	—	(15,526)
At 31 December 2002	80,820	22,775	253,084	356,679
Accumulated depreciation				
At 1 January 2002	5,518	11,193	68,372	85,083
Charge for the year	14,415	7,307	65,637	87,359
Written back	(3,933)	(10,627)	—	(14,560)
At 31 December 2002	16,000	7,873	134,009	157,882
Net book value				
At 31 December 2002	64,820	14,902	119,075	198,797
At 31 December 2001	76,883	22,738	184,712	284,333

13. INTEREST IN SUBSIDIARIES

	Company	
	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Overseas unlisted shares, at cost	780	780
Amounts due from a subsidiary	89,989,220	89,989,220
	89,990,000	89,990,000

NOTES TO THE FINANCIAL STATEMENTS

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13. INTEREST IN SUBSIDIARIES (Continued)

The amounts due from a subsidiary are unsecured, interest free and have no fixed terms of repayment. In the opinion of the Company's directors, the amounts due from a subsidiary will not be repayable in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current assets.

Particulars of the principal subsidiaries as at 31 December 2002 are as follows:

Name	Place of incorporation/operation	Particulars of issued share capital/registered capital	Percentage of issued share capital/registered capital held	Principal activities
<i>Directly held by the Company:</i>				
Accufocus Investments Limited	British Virgin Islands	100 ordinary shares of US\$1 each	100%	Investment holding
<i>Indirectly held by the Company:</i>				
Attentive Investments Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	Investment holding
B2C E-Commerce Group Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	Investment holding
Best Policy Management Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	Investment holding
Chief Success Management Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	Investment holding
Ever Honest Investments Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	Investment holding

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13. INTEREST IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Particulars of issued share capital/registered capital	Percentage of issued share capital/registered capital held	Principal activities
<i>Indirectly held by the Company:</i>				
Founder (Changzhou) Investment Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Investment holding and provision of management services
Founder China Industrial Investments Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Investment holding and provision of management services
Founder Industrial Investments (Holdings) Company Limited	Hong Kong	10,000,000 ordinary shares of HK\$1 each	100%	Investment holding and provision of management services
GR Investment Holdings Limited	Hong Kong	899,900,000 ordinary shares of HK\$0.1 each	100%	Investment holding
Glorious Bright Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Money lending
Genius Choice Investments Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

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13. INTEREST IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Particulars of issued share capital/registered capital	Percentage of issued share capital/registered capital held	Principal activities
<i>Indirectly held by the Company:</i>				
Home Growth Assets Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	Investment holding
Rich Concept Investments Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	Investment holding
Rich Profits International Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	Investment holding
Sun Kai Yip (Shanghai) Industrial Investments Limited	People's Republic of China	US\$10,000,000	100%	Investment holding and provision of management and advisory services

The above summary lists only the principal subsidiaries of the Group which, in the opinion of the Company's directors, principally affected the results 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.

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14. INTEREST IN JOINTLY CONTROLLED ENTITIES

	2002	Group
	HK\$	2001
		HK\$
Share of net assets other than goodwill	50,540,722	59,088,678
Goodwill on acquisition of jointly controlled entities (less accumulated amortisation of HK\$2,365,311; 2001: HK\$1,999,334)	3,629,269	3,995,246
	54,169,991	63,083,924
Amounts due from jointly controlled entities	4,251,741	5,961,923
	58,421,732	69,045,847

The amounts due from jointly controlled entities are unsecured, interest free and have no fixed terms of repayment. In the opinion of the Company's directors, the amounts due from jointly controlled entities will not be repayable in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current assets. Dividends declared by the jointly controlled entities during the year amounted to HK\$856,269 (2001: HK\$337,235).

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14. INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

Particulars of the principal jointly controlled entities, which are joint venture companies incorporated and operating in the PRC are as follows:

Name	Proportion of investee's capital owned	Cost <i>HK\$</i> <i>million</i>	Directors' valuation* <i>HK\$</i> <i>million</i>	Dividend		Net assets attributable to the investment <i>HK\$</i> <i>million</i>	Accumulated unrealised loss <i>HK\$</i> <i>million</i>	Principal activities
				income received during the year <i>HK\$</i> <i>million</i>	Dividend cover			
Shanghai Sine Pharmaceutical Corporation Limited	30%	30	28	—	—	28	(2)	Manufacture and distribution of pharmaceutical products
Shanghai Yong An Dairy Company Limited	25%	5	5	0.6	13%	5	—	Production and distribution of dairy products
Shanghai Tian An Bearing Company Limited	30%	28	24	0.2	0.77%	24	(4)	Manufacture and distribution of bearing products

* Directors' valuation represents the aggregate of the cost of investment, post-acquisition results and loan to jointly controlled entities. The directors consider that the carrying value of the interest in the jointly controlled entities approximates their fair value.

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14. INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

The tenure of the above companies can be extended by agreement with the joint venture partners after obtaining the necessary approval from the relevant government bodies.

Pursuant to the terms of the joint venture agreements for the above jointly controlled entities, the Group is entitled to receive its attributable share of the net assets upon liquidation of the jointly controlled entities.

15. INTEREST IN ASSOCIATES

	2002	Group
	HK\$	2001
		HK\$
Share of net assets	771,144	6,114,661
Amounts due from associates	19,191,386	17,301,798
	<u>19,962,530</u>	<u>23,416,459</u>

The amounts due from associates are unsecured, interest free and have no fixed terms of repayment. In the opinion of the Company's directors, the amounts due from associates will not be repayable in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current assets.

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15. INTEREST IN ASSOCIATES (Continued)

Particulars of the principal associates as at 31 December 2002 are as follows:—

Name	Place of incorporation	Proportion of investee's capital owned	Cost and advances thereto	Directors' valuation	Dividend		Net assets attributable to the investment	Accumulated unrealised loss	Principal activities/ place of operation
					income received during the year	Dividend cover			
			HK\$ million	HK\$ million	HK\$ million		HK\$ million	HK\$ million	
Luck Point Investments Limited	British Virgin Islands	35%	5	3	—	—	3	(2)	Investment holding/ Hong Kong
Happy Online Group Limited	British Virgin Islands	33.75%	2	2	—	—	2	—	Investment holding/ Hong Kong
Market Choice Investments Limited	British Virgin Islands	20%	13	10	—	—	10	(3)	Investment holding/ Hong Kong
Victory Faith Investment Limited	Hong Kong	25%	4	4	—	—	4	—	Land development/ Hong Kong

The above summary only lists out the principal associates of the Group which, in the opinion of the Company's directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

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16. INVESTMENT SECURITIES

	Group	
	2002 HK\$	2001 HK\$
Overseas unlisted equity securities, at cost	12,855,246	12,855,246
Provision for diminution in value	(7,709,402)	(7,709,402)
	<u>5,145,844</u>	<u>5,145,844</u>
Loans to an investee company	48,139,674	39,139,674
Listed equity securities, at cost		
Listed in Hong Kong	31,693,194	31,693,194
Total investment securities	<u>84,978,712</u>	<u>75,978,712</u>
Market value of listed equity securities	<u>27,115,505</u>	<u>35,251,670</u>

Loans to an investee company are unsecured, interest free and have no fixed terms of repayment. In the opinion of the Company's directors, the loans to an investee company will not be repayable in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current assets.

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16. INVESTMENT SECURITIES (Continued)

Particulars of the principal investment securities as at 31 December 2002 are as follows:

Name	Place of incorporation	Proportion of investee's capital owned	Cost and advances thereto	Directors' valuation/ market value	Dividend		Net assets attributable to the investment	Unrealised gain/loss taken in the accounts	Principal activities
					income received during the year	Dividend cover			
			HK\$ million	HK\$ million	HK\$ million		HK\$ million	HK\$ million	
Unlisted equity security	British Virgin Islands	18%	52	52	—	—	45	—	Investment holding
Listed equity security in Hong Kong	Bermuda	5%	21	19	2	9.5%	46	—	Wholesaling and distribution of consumer goods
Listed equity security in Hong Kong	Cayman Islands	3%	5	4	—	—	1	—	Providing internet education services

Particulars of provision for diminution in value of the investment securities at the year ended 31 December 2002 are as follows:

Name	Cost	Provision	Share of net assets	Reason for provision
	HK\$ million	HK\$ million	HK\$ million	
Beijing Tian An Stevio Sugar Product Company Limited	4	3	1	Decrease in share of net assets
Anhui Wanhong Plastics Company Limited	4	4	—	Decrease in share of net assets

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17. HELD-TO-MATURITY DEBT SECURITIES

	Group	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Convertible redeemable note maturing in July 2004	<u>5,040,000</u>	<u>5,040,000</u>

18. OTHER ASSET

	Group	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Golf club membership, at cost	<u>150,000</u>	<u>150,000</u>

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19. OTHER RECEIVABLES

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Prepayments and deposits	336,223	380,031	244,237	185,759
Receivable arising from disposal of interest in a jointly controlled entity (<i>note (a)</i>)	30,680,100	30,680,100	—	—
Amounts due from investee companies	—	46,485	—	—
Amounts due from associates	—	42,716	—	—
Other loans (<i>note (a)</i>)	4,230,135	—	—	—
Others	78,900	30,300	—	—
	<u>35,325,358</u>	<u>31,179,632</u>	<u>244,237</u>	<u>185,759</u>

Note:

- (a) As at 31 December 2002, the ageing analysis of the receivables other than the prepayments and deposits was as follows:

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Within 3 months	4,230,135	—	—	—
3 to 6 months	—	—	—	—
6 to 12 months	—	—	—	—
Over 1 year	30,680,100	30,680,100	—	—
	<u>34,910,235</u>	<u>30,680,100</u>	<u>—</u>	<u>—</u>

The management is in continuous negotiation with the other party and in the opinion of the directors, receivable arising from disposal of interest in the jointly controlled entity can be recovered in full and no provision is required to be made.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

20. OTHER PAYABLES

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Accruals	735,504	1,579,338	68,617	69,333
Amount due to a related company (note (a))	8,622,320	8,622,320	—	—
Other payables (note (b))	3,817,960	3,817,960	—	—
	<u>13,175,784</u>	<u>14,019,618</u>	<u>68,617</u>	<u>69,333</u>

Note:

- (a) The amount due to a related company is unsecured, interest free and has no fixed terms of repayment.
- (b) As at 31 December 2002, the ageing analysis of the other payables was as follows:

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Within 3 months	—	—	—	—
3 to 6 months	—	—	—	—
6 to 12 months	—	—	—	—
Over 1 year	3,817,960	3,817,960	—	—
	<u>3,817,960</u>	<u>3,817,960</u>	<u>—</u>	<u>—</u>

21. AMOUNT DUE TO SINOX FUND MANAGEMENT LIMITED

The amount due to Sinox Fund Management Limited ("SINOX") represents investment management fees payable at year end. It is unsecured, interest free and repayable on demand.

Mr. Lam Sai Ho, Anthony has an indirect equity interest in SINOX.

SINOX is the Investment Manager of the Group and provides administrative and investment management services to the Group in relation to the investment of the Group's assets (note 28(a)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

22. AMOUNT DUE TO A SUBSIDIARY

The amount is unsecured, interest free and repayable on demand.

23. SHARE CAPITAL

	Authorised ordinary shares of HK\$0.01 each	
	<i>Number of shares</i>	<i>HK\$</i>
At 1 January 2002 and 31 December 2002	<u>30,000,000,000</u>	<u>300,000,000</u>

	Issued and fully paid ordinary shares of HK\$0.01 each	
	<i>Number of shares</i>	<i>HK\$</i>
At 1 January 2002 and 31 December 2002	<u>899,900,000</u>	<u>8,999,000</u>

- (a) The Company adopted an Employee Share Option Scheme under which the Board may grant to eligible employees, including the executive directors, the officers and the full or part-time employees of the Company or its subsidiaries, options to subscribe for shares in the Company.

The exercise price is set at not less than the highest of:

- (i) the official closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the offer date;
- (ii) the average of the official closing price of the shares as stated in the daily quotation sheets of the Stock Exchange for the 5 business days immediately preceding the offer date; and
- (iii) the nominal value of a share.

During the year, no option was granted.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

24. RESERVES

The Group

	Capital reserve on consolidation <i>HK\$</i>	Contributed surplus <i>HK\$</i>	Exchange fluctuation reserve <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
1 January 2002	468,163	247,318,220	(4,194,214)	(19,693,370)	223,898,799
Loss for the year	—	—	—	(15,350,894)	(15,350,894)
31 December 2002	<u>468,163</u>	<u>247,318,220</u>	<u>(4,194,214)</u>	<u>(35,044,264)</u>	<u>208,547,905</u>
Retained by:					
Company and subsidiaries	468,163	247,318,220	(4,194,214)	(3,441,802)	240,150,367
Jointly controlled entities	—	—	—	(26,482,902)	(26,482,902)
Associates	—	—	—	(5,119,560)	(5,119,560)
	<u>468,163</u>	<u>247,318,220</u>	<u>(4,194,214)</u>	<u>(35,044,264)</u>	<u>208,547,905</u>

The Company

1 January 2002	—	80,991,000	—	(87,804)	80,903,196
Loss for the year	—	—	—	(3,925,844)	(3,925,844)
31 December 2002	<u>—</u>	<u>80,991,000</u>	<u>—</u>	<u>(4,013,648)</u>	<u>76,977,352</u>

Under the Companies Act (1981) of Bermuda (as amended), the contributed surplus is distributable to the shareholders, provided that the Company is, after the payment of dividends out of the contributed surplus, able to pay its liabilities as they become due; or the realisable value of the Company's assets would thereby not be less than the aggregate of its liabilities, issued share capital and reserves.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

24. RESERVES (Continued)

The Group

	Capital reserve on consolidation <i>HK\$</i>	Contributed surplus <i>HK\$</i>	Exchange fluctuation reserve <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
1 January 2001	468,163	166,327,220	(4,194,214)	(6,810,688)	155,790,481
Shares issued during the year	—	80,991,000	—	—	80,991,000
Loss for the year	—	—	—	(12,882,682)	(12,882,682)
	<u>468,163</u>	<u>247,318,220</u>	<u>(4,194,214)</u>	<u>(19,693,370)</u>	<u>223,898,799</u>
Retained by:					
Company and subsidiaries	468,163	247,318,220	(4,194,214)	(2,117,383)	241,474,786
Jointly controlled entities	—	—	—	(17,934,946)	(17,934,946)
Associates	—	—	—	358,959	358,959
	<u>468,163</u>	<u>247,318,220</u>	<u>(4,194,214)</u>	<u>(19,693,370)</u>	<u>223,898,799</u>

The Company

Shares issued during the year	—	80,991,000	—	—	80,991,000
Loss for the year	—	—	—	(87,804)	(87,804)
	<u>—</u>	<u>80,991,000</u>	<u>—</u>	<u>(87,804)</u>	<u>80,903,196</u>

25. NET ASSET VALUE PER SHARE

Net asset value per share is computed based on the net assets of HK\$217,546,905 (2001: HK\$232,897,799) and 899,900,000 (2001: 899,900,000) shares in issue as at 31 December 2002.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

26. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had minimum annual lease payment under non-cancellable operating leases which fall due as follows:

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Within one year	150,129	72,803	—	—
In the second to fifth year inclusive	112,596	—	—	—
	<u>262,725</u>	<u>72,803</u>	<u>—</u>	<u>—</u>

27. CAPITAL COMMITMENTS

At the balance sheet date, there was no capital commitment contracted for but not yet provided for in the financial statements (2001: Nil).

28. RELATED PARTY TRANSACTIONS

	Group	
	2002 HK\$	2001 HK\$
Investment management fees paid to SINOX (Note (a))	<u>3,499,604</u>	<u>3,660,469</u>

Note:

- (a) Management fees paid to SINOX for administrative and investment management services were calculated at 1.5% (2001: 1.5%) per annum on the net asset value of the Group calculated on a quarterly basis.

Mr. Lam Sai Ho, Anthony has an indirect equity interest of approximately 66.67% in SINOX.

- (b) In addition, at 31 December 2002, other related party transactions are set out in notes 20(a) and 30.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

29. CONNECTED TRANSACTION

As Mr. Lam Sai Ho Anthony, the Chairman of the Company, has an indirect interest of approximately 66.67 per cent in SINOX, which is regarded as a connected person of the Company and, accordingly, the existing investment management agreement constitutes a connected transaction for the Group under the Listing Rules. As the total consideration for the investment management agreement is approximately HK\$3.5 million (2001: approximately HK\$3.6 million) during the duration of the investment management agreement, the investment management agreement is subject to disclosure requirement pursuant to Rule 14.25(1) of the Listing Rules.

As the abovementioned connected transaction has been conducted on normal commercial terms and in the ordinary course of business of the Group and the consideration paid by the Group to SINOX in each financial year under the previous investment agreements constituted less than three percent of the net tangible assets of the Group, it is expected that such transaction will continue in the future and will constitute ongoing connected transactions for the Group under the Listing Rules. As such, the Company had applied for a waiver from the Listing Division of the Stock Exchange that the ongoing connected transactions arising from renewal of the investment management agreement need only be disclosed in the next published annual report and no press notice would be required. The Listing Division of the Stock Exchange granted such waiver to the Company on 24 September 2001.

30. BANKING FACILITIES AND PLEDGE OF ASSETS

At balance sheet date, the Group was the third guarantor with a bank to secure a general banking facilities of HK\$30,000,000 granted to Fortune Leader Overseas Chinese (Daiyawan) Real Estate Development Company Limited, an indirect subsidiary of an investee company included in the investment securities. During the year, there were no expenses or liabilities incurred to discharge the guarantee.

31. POST BALANCE SHEET EVENT

On 26 March, 2003, a subscription agreement was entered into between Cosmopolitan International Holdings Limited ("Cosmopolitan"), Baron Asset Management Limited ("Baron") and the Company pursuant to which the Company agreed to issue a total of 179,980,000 shares and Cosmopolitan and Baron agreed to subscribe for 115,230,210 and 64,749,790 shares respectively at HK\$0.06 per share, amounting to HK\$6,913,813 and HK\$3,884,987 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

32. RETIREMENT BENEFIT COSTS

The contributions to the retirement benefit scheme for the staff of the Company's subsidiary operating in the PRC are charged to the income statement as they become payable. The only obligation of the Group with respect to the scheme is to make the specified contributions.

33. COMPARATIVE FIGURES

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 accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative figures have been reclassified to conform with the current year's presentation.

34. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 12 to 48 were approved and authorised for issue by the board of directors on 10 April 2003.