

## NOTES TO CONDENSED INTERIM REPORTS

### I. Basis of preparation and accounting policies

The condensed unaudited consolidated interim accounts (the "Interim Accounts") are prepared in accordance with the requirements of Hong Kong Statement of Standard Accounting Practice (the "SSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants (the "HKSA"), and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

These Interim Accounts should be read in conjunction with the audited annual accounts for the year ended 31 March 2003.

The accounting policies and methods of computation used in the preparation of these Interim Accounts are consistent with those used in the audited annual accounts for the year ended 31 March 2003, except that the Group has changed certain of its accounting policies following its adoption of SSAP 12 (revised) "Income Taxes" issued by HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The changes to the Group's accounting policies and the effect of adopting this new policy are set out below:

#### *SSAP 12 (revised): Income Taxes*

Income taxes for the period comprises current and deferred taxes.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous year. Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts.

The adoption of this accounting standard has had no significant impact on the Group's results for the prior accounting period.

## 2. Turnover and other revenues

The Group principally invests in listed and unlisted securities, including equity securities and convertible bonds. Total revenues recognized during the period are as follows:

	For the six months ended 30 September	
	2003 (Unaudited) HK\$	2002 (Unaudited) HK\$
Turnover		
Proceeds from sale of listed securities	22,785,039	1,693,124
Dividend income from listed and unlisted securities	135,296	4,420,000
	<u>22,920,335</u>	<u>6,113,124</u>
Other revenues		
Interest on bank deposits	2,867	36,912
Other revenue	-	12,500
	<u>2,867</u>	<u>49,412</u>
Total revenues	<u>22,923,202</u>	<u>6,162,536</u>

No analysis of the Group's turnover and contribution to operating profit (loss) for the period set out by principal activities and geographical markets is provided as the Group has only one single business segment, investment holding, and all the consolidated turnover and the consolidated results of the Group are attributable to markets in Hong Kong.

## 3. Profit (Loss) from operations

Profit (Loss) from operations has been arrived at after (crediting) charging:

	For the six months ended 30 September	
	2003 (Unaudited) HK\$	2002 (Unaudited) HK\$
Overprovision of auditors' remuneration in previous year	(32,000)	-
Gain on disposal of an investee company	-	(12,500)
Investment management fee (note 11)	709,018	752,441
Staff cost, including HK\$7,200 (2002: HK\$7,200) to defined contributions MPF scheme	<u>229,200</u>	<u>229,200</u>

**4. Finance costs**

	<b>For the six months ended 30 September</b>	
	<b>2003 (Unaudited) HK\$</b>	<b>2002 (Unaudited) HK\$</b>
Interest on:		
Bank overdrafts	3	–
Other borrowings wholly repayable within five years	<u>454</u>	<u>61,113</u>
	<u><u>457</u></u>	<u><u>61,113</u></u>

**5. Income taxes**

Income taxes in the condensed consolidated income statement represented overprovision of profit tax payable in respect of prior year.

Provision for Hong Kong profits tax has not been made as there are no assessable profits for the six months ended 30 September 2003 (2002: Nil).

Deferred tax has not been provided for the Group and the Company as there were no significant temporary differences giving rise to deferred tax liabilities as at 30 September 2003 (2002: Nil).

**6. Basic earning (loss) per share**

The basic earning (loss) per share is based on the Group's profit attributable to shareholders for the period of HK\$5,800,250 (2002: loss of HK\$14,853,148) and the weighted average number of ordinary shares of 1,059,778,200 shares (2002: 1,037,879,873) in issue during the period.

No diluted earning (loss) per share for 2003 and 2002 are presented respectively as the Company does not have dilutive potential ordinary shares.

## 7. Investments in securities

	30 September 2003 (Unaudited) HK\$	31 March 2003 (Audited) HK\$
Held-to-maturity debt securities		
Unlisted convertible bonds	<u>9,900,000</u>	<u>9,900,000</u>
Other investments		
Unlisted equity securities	9,573,228	9,379,000
Less: Loss in value of investments in unlisted equity securities	<u>(3,649,000)</u>	<u>(3,649,000)</u>
	<u>5,924,228</u>	<u>5,730,000</u>
Listed equity securities in Hong Kong, at cost	70,259,599	69,823,848
Unrealised holding loss	<u>(15,923,249)</u>	<u>(26,124,048)</u>
	<u>54,336,350</u>	<u>43,699,800</u>
Fair value	<u>70,160,578</u>	<u>59,329,800</u>
Market value of listed equity securities	<u>54,336,350</u>	<u>43,699,800</u>
Carrying amount analysed for reporting purposes as:		
Current		
– Held to-maturity debt securities	9,900,000	9,900,000
Non-current		
– Other investments	<u>60,260,578</u>	<u>49,429,800</u>
	<u>70,160,578</u>	<u>59,329,800</u>

**8. Amounts due from investee companies**

	<b>30 September 2003 (Unaudited) HK\$</b>	31 March 2003 (Audited) HK\$
Amounts due from investee companies less provision of HK\$7,083,400 (31 March 2003: HK\$2,083,400)	<b>21,549,000</b>	26,549,000
Portion shown as current assets	<b>(20,174,000)</b>	(25,174,000)
Non-current portion and included in non-current assets	<b><u>1,375,000</u></b>	<b><u>1,375,000</u></b>

The amounts due from investee companies are unsecured, interest-free and with no fixed terms of repayment. The non-current portion of the amounts due from investee companies are not expected to be realised within one year from the balance sheet date and therefore included in non-current assets.

**9. Accounts and other receivables**

	<b>30 September 2003 (Unaudited) HK\$</b>	31 March 2003 (Audited) HK\$
Accounts receivables	<b>354,715</b>	–
Deposits and prepayments (Note)	<b>289,597</b>	598,615
Other receivables	<b>10,000</b>	907,240
	<b><u>654,312</u></b>	<b><u>1,505,855</u></b>

Note: As at 30 September 2003, prepayment of investment management fee of HK\$280,717 (31 March 2003: HK\$589,735) was prepaid to the investment manager, Upbest Assets Management Limited. Maximum balance outstanding during the period is HK\$876,842 (31 March 2003: HK\$589,735).

**10. Amount due to a related company**

The amount is secured by listed securities, interest bearing at 9.25% per annum and repayable on demand.

## II. Connected and related party transactions

During the period, significant connected and related party transactions, which were carried out in the ordinary course of the Group's business, are as follows:

	Notes	For the six months ended 30 September	
		2003 (Unaudited) HK\$	2002 (Unaudited) HK\$
Investment management fee paid to Upbest Assets Management Limited	(i)	709,018	752,441
Brokerage commission paid to Upbest Securities Company Limited	(ii)	113,798	13,579
Interest paid to Upbest Investment Company Limited	(iii)	454	61,113
Custodian fee paid to Wing Hang Bank Limited	(iv)	30,000	30,000

Note:

- (i) The Company has entered into an investment management agreement with Upbest Assets Management Limited, the investment manager, for a period of three years commencing from 1 April 2003. This agreement can be terminated by either the Company or the investment manager serving not less than three months' notice in writing prior to the expiration of the three years period. Pursuant to this agreement, monthly investment management fee is payable at 1.5% per annum of the consolidated net asset value as at the immediately preceding valuation date on the basis of the actual number of days in the relevant calendar month over a year of 365 days.
- (ii) Brokerage commission rate is charged at 0.25%, the prevailing market commission rate, of the value of the transactions.
- (iii) Interest for margin account was charged at 9.25% per annum. The Company maintained a margin account with Upbest Investment Company Limited to which the Company provided collateral for buying listed securities.
- (iv) Pursuant to a custodian agreement dated 22 December 1999 between the Company and a custodian, the custodian agrees to provide securities custodian services to the Company including the safe custody of the Group's securities and the settlement of the securities of the Group, the collection of dividends and other entitlements on behalf of the Group. The appointment of the custodian commenced on the date of commencement of trading of the Company's shares on the Stock Exchange and will continue in force until it is terminated by either party giving a written notice to the other party at any time.

The custodian is regarded as a connected person of the Company under Rule 21.13 of the Listing Rules, but the custodian fee falls below the de-minimis threshold under Rule 14.24(5) of the Listing Rules.

- (v) Upbest Assets Management Limited, Upbest Securities Company Limited and Upbest Investment Company Limited are wholly-owned subsidiaries of Upbest Group Limited, a company incorporated in the Cayman Islands with limited liability, the securities of which are listed on the Stock Exchange. The ultimate beneficial shareholder of the Company and Fung Fai Growth Limited, a substantial shareholder of the Company, holds indirectly 75 per cent interest in Upbest Group Limited.