NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands.

The principal investment objective of the Company is to achieve medium-term capital appreciation through investments in listed and unlisted companies in Hong Kong and the People's Republic of China (the "PRC").

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure 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 (the "Listing Rules").

In the current year, the Company adopted the following SSAPs which are effective for accounting periods commencing on or after 1 January 2002:

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

The effects of adopting these new SSAPs and a summary of the significant accounting policies followed by the Company in the preparation of the financial statements are set out below:

a. Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost as modified by the marking-to-market of certain investments in securities as explained in note 2b below.

b. Investments in securities

Securities transactions are accounted for on a trade date basis and gains and losses on securities are calculated on the average cost basis.

i. Held-to-maturity securities

Dated debt securities that the Company has the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the income statement. Provision is made when there is a diminution in value.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Investments in securities (continued)

ii. Non-trading securities

Non-trading securities are investments in listed and unlisted securities not intended to be held for trading purposes. Listed non-trading securities are stated at their fair values on the basis of their latest available quoted or traded market prices at the balance sheet date on an individual investment basis. Unlisted non-trading securities are stated at their estimated fair values on an individual basis. The estimated fair values are determined by the directors having regard to information known to them and on market conditions existing at the balance sheet date.

The gains or losses arising from changes in the fair values of a non-trading security are dealt with as movements in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the income statement to the extent of the amount previously charged.

iii. Trading securities

Trading securities are investments in listed or unlisted securities held for trading purposes. Listed trading securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted trading securities are stated at their estimated fair values on an individual basis. The estimated fair values are determined by the directors having regard to information known to them and on market conditions existing at the balance sheet date. The gains or losses arising from changes in the fair value of a trading security are credited or charged to the income statement for the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Fixed assets and depreciation

An item of fixed asset is recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset to the Company can be measured reliably.

Fixed assets are stated at cost less accumulated depreciation and impairment. The cost of a fixed asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Depreciation is provided on the straight-line method so as to write down the cost of fixed assets to their estimated realisable value over their anticipated useful lives at the following annual rates:

Leasehold improvements	:	Over the lease term period
Furniture and fixtures	:	20%
Office equipment	:	25%

Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the estimated net disposal proceeds and the carrying amounts of the assets and are recognised in the income statement on the date of retirement or disposal.

d. Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised to reduce the asset to its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction, while value in use is the present value of the estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. A reversal of an impairment loss is recognised as income immediately.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Assets under leases

i. Finance leases

Leases that substantially transfer to the Company all the rewards and risks of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities.

The finance charges are charged to the income statement over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

ii. Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

f. Current assets and liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Company's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Company's operating cycle.

g. Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed.

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future. Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Translation of foreign currencies

Transactions in foreign currencies during the year are translated into Hong Kong dollars at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Hong Kong dollars at rates of exchange ruling at the balance sheet date. All gains and losses on translation of foreign currencies are dealt with in the income statement.

i. Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

j. Revenue recognition

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

i. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend. Dividend income from unlisted investments is recognised when the shareholders' right to receive payment is established.

ii. Interest income is recognised on a time-apportioned basis on the principal outstanding and at the rates applicable.

iii. Sundry income is recognised on an accrual basis.

k. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

l. Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, a provision is recognised.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

n. Employee benefits

i. Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Company of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Company. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii. The Company participates in the mandatory provident fund for its employees in Hong Kong. Contributions to the fund by the Company and the employees are calculated as a percentage of the employees' basic salaries. The retirement benefit cost charged to the income statement represents contributions payable by the Company to the fund. The Company's contributions to the fund are expensed as incurred and the Company's voluntary contributions are reduced by contributions forfeited by those employees who leave the fund prior to vesting fully in the contributions. The assets of the fund are held separately from those of the Company in an independently administered fund.

iii. When the Company grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

iv. Termination benefits are recognised when, and only when, the Company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

3. TURNOVER, REVENUE AND OTHER NET INCOME

	2002 HK$	2001 HK$
Turnover:		
Dividend income from trading securities listed in Hong Kong		
– Great Wall Cybertech Limited	–	42,530
Interest income from convertible loans receivable	1,175,000	1,336,126
	1,175,000	1,378,656
Other revenue:		
Interest on bank deposits	543	49,570
Total revenues	1,175,543	1,428,226
Other net income:		
Sundry income	–	2,912

No segment information is presented as all of the turnover, contribution to operating results, assets and liabilities of the Company are attributable to investment activities which are carried out or originated principally in Hong Kong.

4. LOSS FROM OPERATIONS

	2002 HK$	2001 HK$
Loss from operations is stated after charging:		
Auditors' remuneration	150,000	150,000
Total staff costs, excluding contributions to defined contribution plans	75,000	1,653,637
Contributions to defined contribution plans	3,500	53,796
Depreciation of owned fixed assets	264,030	603,479
Depreciation of fixed asset held under finance lease	2,708	7,965
Operating lease rentals in respect of office premises	167,564	1,036,580
Net unrealised holding losses from trading securities	1,238,500	1,135,623
Investment management fee (note 23)	596,069	693,012
Loss on disposal of fixed assets	369,630	–

5. FINANCE COSTS

	2002 HK$	2001 HK$
Interest element of finance lease	**978**	1,956

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2002 HK$	2001 HK$
Fees:		
Executive directors	**70,000**	175,000
Non-executive directors	**–**	–
Independent non-executive directors	**5,000**	57,500
	75,000	232,500
Other emoluments for executive directors:		
Provident fund contributions	**3,500**	8,750
Total emoluments	**78,500**	241,250

The aggregate emoluments of each of the directors for the current year and the prior year were within the band of nil to HK$1,000,000.

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph headed "Directors' interests in shares and rights to acquire shares" in the report of the directors. In the absence of a ready market for the options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted to the respective directors.

No directors waived any emoluments and no emoluments were paid to the directors as inducement to join or upon joining the Company or as compensation for loss of office during the year.

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

During the year, the Company did not employ any employees other than the directors of the Company. The aggregate emoluments of the five highest paid individuals employed by the Company for the prior year, all being non-director individuals, were as follows:

	2002	2001
	HK$	HK$
Basic salaries, housing allowances, other allowances and benefits in kind	–	1,036,300
Provident fund contributions	–	37,100
	–	1,073,400

The emoluments of the five highest paid individuals, excluding directors of the Company, were within the band of nil to HK$1,000,000 for the prior year.

7. TAXATION

No provision for Hong Kong profits tax has been made as the Company had no assessable profits arising in Hong Kong for the current year and the prior year.

No provision for deferred taxation has been made as the Company did not have any material potential liabilities arising on timing differences at the balance sheet dates.

8. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of HK$2,439,681 (2001: HK$11,398,966) and on the weighted average of 318,410,959 ordinary shares in issue during the year (2001: 300,000,000 shares, as retrospectively adjusted for the effects of the Share Sub-division, further details of which are set out in note 18).

No diluted loss per share is presented for the current and prior year as the exercise of the share options of the Company is anti-dilutive.

9. DIVIDEND

No interim dividend was paid during the year (2001: Nil). The directors do not recommend the payment of any final dividend for the year (2001: Nil).

10. RETIREMENT BENEFIT COSTS

The Company operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for its 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 employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately. The assets of the scheme are held separately from those of the Company in an independently administered fund.

As at 31 December 2002, there were no forfeited contributions available for the Company to offset contributions payable in future years (2001: Nil).

11. FIXED ASSETS

	Leasehold improvements	**Furniture and fixtures**	**Office equipment**	**Total**
	HK$	HK$	HK$	HK$
At cost:				
At 1 January 2002	752,550	343,450	310,480	1,406,480
Additions	385,478	28,521	170,692	584,691
Disposals	(752,550)	(343,450)	(310,480)	(1,406,480)
At 31 December 2002	385,478	28,521	170,692	584,691
Accumulated depreciation:				
At 1 January 2002	653,898	120,207	100,917	875,022
Charge for the year	184,314	26,700	55,724	266,738
Written back on disposal	(752,550)	(143,104)	(128,192)	(1,023,846)
At 31 December 2002	85,662	3,803	28,449	117,914
Net book value:				
At 31 December 2002	**299,816**	**24,718**	**142,243**	**466,777**
At 31 December 2001	98,652	223,243	209,563	531,458

As at 31 December 2001, the net book value of fixed assets included an asset held under a finance lease amounting to HK$18,035 (note 17).

12. NON-TRADING SECURITIES

	2002	2001
	HK$	HK$
Unlisted equity securities, at cost		
– Non-current	**16,656,000**	6,000,000
– Current (note)	**–**	1,033,522
Fair value as at 31 December	**16,656,000**	7,033,522

Note: In October 2000, the Company entered into a subscription agreement with Canada Pacific Sunshine Technology Co., Limited ("CPST") to subscribe for a 20% equity interest of CPST by cash at a subscription price of CAD$200,000 (equivalent to HK$1,033,522). CPST is a company incorporated in Canada and was intended to be involved in waste treatment project in Hong Kong and the PRC. The subscription was completed in October 2000 and the amount was classified as investment in non-trading securities as at 31 December 2000. Due to the non-fulfilment of certain conditions, the Company entered into negotiation with CPST to withdraw its investment in CPST in March 2001. The amount of investment was refunded to the Company in February 2002.

Particulars of the Company's non-trading securities as at 31 December 2002 are as follows:

Name of investee company	**Place of incorporation**	**Attributable equity interest**	**Principal activities**
Jointech International Limited *	British Virgin Islands	20%	Investment holding
Hong Kong Cable Services Co. Limited *	Hong Kong	20%	Trading of computer hardware and software, provision of computer maintenance service and software development
Star River Consultants Limited *	British Virgin Islands	30%	Investment holding
Join Group International Limited *	Hong Kong	30%	Investment holding
北京大明潤誠投資顧問有限公司 *	PRC	25.5%	Provision of investment and business management consulting services
Artronic Productions (Australia) Pty Limited **	Australia	15%	Manufacturing and trading of printed circuit boards

12. NON-TRADING SECURITIES (continued)

* The Company's investments in Jointech International Limited, Hong Kong Cable Services Co. Limited, Star River Consultants Limited, Join Group International Limited and 北京大明潤誠投資顧問有限公司 with attributable equity interest held between 20% to 30% are initially recorded at cost and adjusted thereafter for any changes in fair value. These companies are not treated as associates because the Company is not in a position to exercise any significant influence over the financial and operating policies of these companies or to participate in their operations. Accordingly, the Company's investments in the aforesaid investee companies are accounted for as non-trading securities as at 31 December 2002.

** The Company's investment in Artronic Productions (Australia) Pty Limited was held through two holding companies which act as investment vehicles for the sole purpose of investing in Artronic Productions (Australia) Pty Limited. These holding companies have no other activities.

13. CONVERTIBLE LOANS RECEIVABLE

Particulars of the Company's convertible loans receivable as at 31 December 2002 are as follows:

a) As at 31 December 2002, the Company had an unsecured loan receivable of HK$6,000,000 (2001: HK$6,000,000) from Xinhui Changning High Polymer Material Company Limited ("Changning"), an independent third party which engages in manufacturing of polymer material and related products in the PRC, for investment purposes, for a maximum term of five years. Pursuant to a loan agreement effective as from 28 November 2000, the Company may demand repayment, and Changning may prepay, at any time before maturity all or part of the loan with interest accrued thereon provided that either party shall have given to the other party six months' prior written notice specifying the amount and date of repayment/prepayment. The loan can be converted into equity shares of Changning at any time before maturity if not previously repaid up to a maximum of 35% of the enlarged equity share capital of Changning, provided that the Company shall have given one month's prior written notice to Changning. The Company is entitled to an investment return at the higher of (i) interest at a fixed rate of 8% per annum; and (ii) an annual amount equivalent to 30% of the net profits after tax of Changning determined in accordance with the PRC accounting standards. Investment return received from Changning during the year amounted to HK$480,000.

13. CONVERTIBLE LOANS RECEIVABLE (continued)

b) As at 31 December 2002, the Company had an unsecured loan receivable of HK$2,800,000 (2001: HK$2,800,000) from Yuelong Huayuan Produce Developing Company ("Yuelong"), an independent third party which engages in property development in the PRC, to assist financing the investment in certain property development, investment and management projects, for a maximum term of three years. Pursuant to a loan agreement effective as from 18 December 2000, the Company may demand repayment, and Yuelong may prepay, at any time before maturity all or part of the loan with interest accrued thereon provided that either party shall have given to the other party six months' prior written notice specifying the amount and date of repayment/ prepayment. The loan can be converted into equity shares of Yuelong at any time before maturity if not previously repaid up to a maximum of 35% of the enlarged equity share capital of Yuelong, provided that the Company shall have given one month's prior written notice to Yuelong. The Company is entitled to an investment return at the higher of (i) interest at a fixed rate of 8.75% per annum; and (ii) an annual amount equivalent to 20% of the net profits after tax of Yuelong determined in accordance with the PRC accounting standards. Investment return received from Yuelong during the year amounted to HK$245,000.

c) As at 31 December 2002, the Company had an unsecured loan receivable of HK$5,000,000 (2001: HK$5,000,000) from Newcorp Investment & Development Limited ("Newcorp"), an independent third party which engages in property investment in Hong Kong, for a maximum term of three years. Pursuant to a loan agreement effective as from 2 January 2001, the Company may demand repayment, and Newcorp may prepay, at any time before maturity all or part of the loan with interest accrued thereon provided that either party shall have given to the other party six months' prior written notice specifying the amount and date of repayment/prepayment. The loan can be converted into equity shares of Newcorp at any time before maturity if not previously repaid up to a maximum of 35% of the enlarged equity share capital of Newcorp, provided that the Company shall have given sixty days' prior written notice to Newcorp. The Company is entitled to an investment return at the higher of (i) interest at a fixed rate of 9% per annum; and (ii) an annual amount equivalent to 25% of the net profits after tax of Newcorp determined in accordance with generally accepted accounting principles in Hong Kong. Investment return received from Newcorp during the year amounted to HK$450,000.

14. TRADING SECURITIES

	2002	2001
	HK$	HK$
Equity securities listed in Hong Kong, at cost	**6,483,173**	7,021,723
Unrealised holding losses	**(2,377,073)**	(1,135,623)
Market value as at 31 December	**4,106,100**	5,886,100

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

Equity securities listed on The Stock Exchange of Hong Kong Limited:

	Name of investee company	**Place of incorporation**	**Number of shares held**	**Proportion of investee's capital owned**	**Cost**	**Market value**	**Unrealised holding losses arising on revaluation**	**Net assets attributable to the Company**
					HK$	HK$	HK$	HK$
a)	China Elegance International Fashion Limited	Bermuda	406,900,000	2.3%	6,427,862	4,069,000	(2,358,862)	2,589,248
b)	China Mobile (Hong Kong) Limited	Hong Kong	2,000	Less than 1%	55,311	37,100	(18,211)	16,504
					6,483,173	4,106,100	(2,377,073)	

A brief description of the business and financial information of the listed investee companies, based on their published annual reports, is as follows:

a) China Elegance International Fashion Limited is principally engaged in the manufacture, trading and distribution of leather and non-leather products, investment holding and properties investment. The audited consolidated net loss attributable to shareholders of China Elegance International Fashion Limited for the year ended 31 March 2002 was approximately HK$37,604,000 (2001: a loss of HK$41,831,000). As at 31 March 2002, the audited consolidated net asset value of China Elegance International Fashion Limited was approximately HK$112,576,000 (2001: HK$150,180,000).

b) China Mobile (Hong Kong) Limited is principally engaged in the provision of mobile communications and related services in the PRC and investment holding. The audited consolidated profit attributable to shareholders of China Mobile (Hong Kong) Limited for the year ended 31 December 2002 was approximately RMB32,742,000,000 (2001: RMB28,015,000,000). As at 31 December 2002, the audited consolidated net asset value of China Mobile (Hong Kong) Limited was approximately RMB172,202,000,000 (2001: RMB111,779,000,000).

15. SHORT-TERM CONVERTIBLE LOANS RECEIVABLE

As at 31 December 2001, the Company had unsecured loans of HK$3,900,000 receivable from two independent third parties. The loans carried interest and were equity-convertible, and can be recalled by the Company or converted into equity shares of these independent third parties. The loans were fully repaid in March 2002.

16. DEPOSITS FOR INVESTMENT IN UNLISTED SHARES

On 31 July 2001, the Company paid a deposit of HK$5,000,000 for intended investments in a company engaging in the manufacturing of environment protection products. Due to the non-fulfilment of certain terms and conditions, the intended investment was cancelled and the deposit was fully refunded to the Company in March 2002.

17. OBLIGATION UNDER FINANCE LEASE

At the balance sheet date, the Company's finance lease liabilities were repayable as follows:

	2002 **HK$**	2001 HK$
Within one year	–	10,615
In the second year	–	10,615
Total minimum finance lease payables	–	21,230
Future finance charges on finance lease	–	(3,894)
Total present value of the minimum lease payment	–	17,336
Present value of the minimum finance lease liabilities		
– Within one year	–	8,668
– In the second year	–	8,668
	–	17,336

18. SHARE CAPITAL

	Number of ordinary shares	Total value HK$
Authorised:		
At 1 January 2001/2002 (shares of HK$0.10 each)	200,000,000	20,000,000
Share Sub-division (note i)	800,000,000	–
At 31 December 2002 (shares of HK$0.02 each)	**1,000,000,000**	**20,000,000**
Issued and fully paid:		
At 1 January 2001/2002 (shares of HK$0.10 each)	60,000,000	6,000,000
Share Sub-division (note i)	240,000,000	–
Number of shares of HK$0.02 each	300,000,000	6,000,000
Issue of ordinary shares (note ii)	60,000,000	1,200,000
At 31 December 2002 (shares of HK$0.02 each)	**360,000,000**	**7,200,000**

Notes:

i. Pursuant to a resolution passed by the shareholders of the Company at an extraordinary general meeting of the Company held on 30 May 2002, each of the then existing issued and unissued shares of the Company having a par value of HK$0.10 each was sub-divided into five shares having a par value of HK$0.02 each (the "Share Sub-division"). The Share Sub-division became effective as from 31 May 2002.

   Before the Share Sub-division, the authorised share capital of the Company was HK$20,000,000 divided into 200,000,000 shares of HK$0.10 each, of which 60,000,000 shares were in issue and 140,000,000 shares remained unissued. Immediately upon the Share Sub-division becoming effective, 300,000,000 sub-divided shares of HK$0.02 each were created pursuant to the Share Sub-division in substitution for the 60,000,000 shares of HK$0.10 each, and the authorised share capital of the Company of HK$20,000,000 were divided into 1,000,000,000 sub-divided shares of HK$0.02 each, of which 700,000,000 sub-divided shares remained unissued. The sub-divided shares, save for the amount of par value, are identical in all respects with the shares in issue prior to the Share Sub-division and the rights and obligations attaching to the sub-divided shares are not affected by the Share Sub-division.

ii. On 19 August 2002, the Company entered into a placing agreement with Yicko Securities Limited whereby the Company appointed Yicko Securities Limited as the placing agent and underwriter to subscribe or procure subscribers for 60,000,000 new shares of the Company of HK$0.02 each at a placing price of HK$0.02 per share. The placing price represented (i) a premium of 14.94% of the average closing price of the shares quoted on The Stock Exchange of Hong Kong Limited for the ten consecutive trading days ended on and including 19 August 2002; and (ii) a premium of 25% of the closing price of the shares of HK$0.016 quoted on The Stock Exchange of Hong Kong Limited on 19 August 2002. On 11 September 2002, the Company issued 60,000,000 new shares of HK$0.02 each at the placing price of HK$0.02 per share to eight individual investors who are independent third parties. The net proceeds of HK$1,170,000 have been used as additional general working capital to finance the daily operations of the Company.

19. SHARE OPTIONS

Under the Company's share option scheme (the "Scheme"), the directors may, at its discretion, invite full-time employees, including executive directors of the Company, to take up options to subscribe for shares of the Company subject to the terms and conditions stipulated therein. The exercise price per share is to be determined by the directors at their absolute discretion provided that in no event shall such price be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the options.

The maximum number of shares in respect of which options may be granted under the Scheme when aggregated with any securities subject to any other scheme may not exceed 10% of the shares which have been duly allotted and issued and that the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Scheme. The financial impact of options granted are not recognised in the Company's balance sheet until they are exercised.

Movements in the share options during the year are as follows:

	Number
Options vested at 1 January 2002	**1,600,000**
Lapsed	**(800,000)**
Adjusted for effects of Share Sub-division (note 18)	**3,200,000**
Options vested at 31 December 2002	**4,000,000**

The terms of the outstanding share options as at 31 December 2002 are as follows:

Exercisable period	**Date granted**	**Exercise price**	**Number**
23 October 2000 to 22 October 2010	23 October 2000	HK$0.1619*	**4,000,000***

* as adjusted for the effects of the Shares Sub-division with effect from 31 May 2002.

The exercise in full of the outstanding vested options would have, with the capital structure of the Company as at 31 December 2002, resulted in the issue of additional 4,000,000 shares, representing approximately 1.1% of the Company's issued share capital as at that date. Subsequent to the balance sheet date, all outstanding share options as at 31 December 2002 were lapsed upon the resignation of Mr. Lee Kwok Leung as a director of the Company on 2 January 2003.

20. SHARE PREMIUM

Pursuant to the Companies Law of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to the shareholders, subject to the provisions of the Company's Memorandum and Articles of Association and a statutory solvency test. In accordance with Article 143 of the Company's Articles of Association, no dividend shall be declared or payable except out of the profits, any reserves of the Company set aside from profits which the directors determine is no longer needed and, with the approval of the shareholders of the Company, out of share premium. At 31 December 2002, in the opinion of the directors, the Company's reserves available for distribution to shareholders amounted to HK$32,410,659 (2001: HK$34,880,339).

21. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of the Company as at 31 December 2002 of HK$39,610,660 (2001: HK$40,880,341) and 360,000,000 ordinary shares in issue as at that date (2001: 300,000,000 shares, as retrospectively adjusted for the effects of the Share Sub-division, further details of which are set out in note 18).

22. RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH USED IN OPERATING ACTIVITIES

	2002 **HK$**	2001 HK$
Loss from operations	**(2,438,703)**	(11,397,010)
Adjustments for:		
Interest income	**(543)**	(1,385,696)
Depreciation	**266,738**	611,444
Loss on disposal of fixed assets	**369,630**	–
Net unrealised holding losses from trading securities	**1,238,500**	1,135,623
Net realised (gains)/losses on disposal of trading securities	**(986,214)**	4,547,403
Net realised losses on disposal of non-trading securities	**353,006**	–
Operating loss before changes in working capital	**(1,197,586)**	(6,488,236)
Changes in working capital:		
Sundry deposits, prepayments and other receivables	**1,097,381**	(143,438)
Sundry payables and accruals	**(957,165)**	776,028
Cash used in operations	**(1,057,370)**	(5,855,646)
Interest income	**543**	49,732
Interest element of finance lease rental payments	**(978)**	(1,956)
Net cash used in operating activities	**(1,057,805)**	(5,807,870)

23. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2002, the Company had entered into the following significant related party transactions which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary course of the Company's business:

	2002 **HK$**	2001 HK$
Investment management fee paid to Success Talent Investments Limited	**596,069**	693,012

Success Talent Investments Limited is a company in which Mr. Lee Kwok Leung, director of the Company (subsequently resigned as a director on 2 January 2003), has beneficial interests. Monthly investment management fee is calculated at 1.5% per annum of the net asset value of the Company of the preceding month in accordance with the investment management agreement.

24. OPERATING LEASE COMMITMENTS

As at 31 December 2002, the Company had future aggregate minimum lease payments under a non-cancellable operating lease in respect of office premises as follows:

	2002 **HK$**	2001 HK$
– Within one year	**180,000**	91,980
– In the second to fifth years inclusive	**240,000**	–
	420,000	91,980

25. POST BALANCE SHEET EVENT

On 21 March 2003, the Company entered into a share purchase agreement, pursuant to which the Company conditionally agreed to acquire a 20% equity interest in Health Dynamic Limited at an aggregate consideration of HK$4,000,000. Health Dynamic Limited is an investment holding company incorporated in the British Virgin Islands which in turn holds the entire equity interest in Ocean Pharmaceutical (HK) Limited which is principally engaged in the development, manufacture and sale of health products.