

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention, except that, as disclosed in the accounting policies below, other investments and certain investment securities are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2002:

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

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out below:

(b) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and also goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(d) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with in the profit and loss account.

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Intangible asset – goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired associated companies and subsidiaries at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January, 2001 is included in "Interests in associated companies" and is amortised using the straight line basis over its estimated useful life of 5 years. Goodwill on acquisitions that occurred prior to 1st January, 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1st January, 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately. For acquisitions prior to 1st January, 2001, negative goodwill was taken directly to reserves on acquisition.

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Leasehold improvements are depreciated over the period of the lease while other tangible fixed assets are depreciated at rates sufficient to write off their costs over their estimated useful lives on a straight-line basis. The principal annual rate used is 20%.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Fixed assets (continued)

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(g) Operating leases

Leases where substantially all the risks and rewards 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 profit and loss account on a straight-line basis over the lease periods.

(h) Investments in securities

(i) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-down or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Investments in securities (continued)

(ii) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) Club debentures

Club debentures included in other assets are stated at cost less any provision for impairment losses.

The carrying amounts of club debentures are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such club debentures will be reduced to its fair value. The impairment loss is recognized as an expense in the profit and loss account.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(l) Employee benefits

Employee entitlements to annual leave, sick leave and maternity or paternity leave are not recognised until the time of leave.

The Group has only one defined contribution plan and the assets of which are held in separate trustee – administered funds. The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(m) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(n) Revenue recognition

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

Dividend income is recognised when the right to receive payment is established.

Gains or losses on sale of investment securities and other investments are recognised on the transfer of risks and rewards of ownership which generally coincides with the time when investments are delivered and title has passed.

(o) Comparatives

The comparatives for basic and diluted earning per shares have been adjusted for the subsequent events disclosed in Note 26 (a) and (b).

Notes to the Accounts

2. REVENUES AND TURNOVER

The Group principally invests in securities listed on the Stock Exchange and unlisted securities, including equity securities, convertible notes and bonds issued by corporate entities. Total revenues recognised during the year are as follows:

	2002 HK\$	2001 HK\$
Turnover		
Interest income from		
– bank deposits	75,345	577,866
– investment securities	242,941	2,435,433
– other sources	17,824	1,718,681
Dividend income from		
– listed investments	594,525	489,443
– unlisted investments	2,125,000	8,213,300
	3,055,635	13,434,723
Other revenues		
(Loss)/gain on sale of		
– other investments	(2,997,630)	24,126,803
– investment securities	(125,561)	(518,480)
Recovery of bad debts	–	32,450
	(3,123,191)	23,640,773
Total revenues	(67,556)	37,075,496

No analysis of the Group's turnover and contribution to operating loss for the year set out by principal activities and geographical markets is provided as the Group has only one single business segment, investment holding, and less than 10% of the consolidated turnover and less than 10% of the consolidated results of the Group are attributable to markets outside Hong Kong.

3. UNREALISED (LOSS)/GAIN ON OTHER INVESTMENTS

The amounts represent net unrealised (loss)/gain arising from changes in fair values of other investments during the year.

4. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging the following:

	2002 HK\$	2001 HK\$
Auditors' remuneration	260,000	278,400
Annual listing fee	232,000	236,000
Management fees (Note 24)	2,427,069	2,542,190
Incentive fees (Note 24)	–	1,615,321
Pension costs – contributions to defined contribution plan	86,036	110,103
Traveling and entertainment expenses	433,624	684,154
Press announcements, printing and stationery expenses	316,457	272,694
Provision for bad debts	1,517,270	–
Operating lease in respect of land and buildings	234,240	233,280
Other operating expenses	1,953,370	2,060,991

There was no forfeited contribution in respect of the defined contribution plan available at the year-end to reduce future contributions (2001: Nil). There was no outstanding contributions to the plan at the year-end (2001: Nil).

5. FINANCE COSTS

Amount mainly represents interest on convertible bonds issued by a subsidiary of the Group which will be wholly repayable or converted into shares of a subsidiary within five years. Details of the convertible bonds are set out in Note 22 to the accounts.

Notes to the Accounts

6. 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:

	2002 HK\$	2001 HK\$
Fees	60,000	60,000

Directors' fees disclosed above include HK\$40,000 (2001: HK\$40,000) paid to independent non-executive directors.

In addition to the directors' emoluments disclosed above, one director of the Company received emoluments from a related company, namely Harmony Asset Management Limited, which amounted to HK\$1,560,000 (2001: HK\$1,560,000), in respect of his services provided to the Company and its subsidiaries.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2002	2001
HK\$Nil – HK\$1,000,000	3	3
HK\$1,500,001 – HK\$2,000,000	1	1

During the year, no (2001: Nil) options were granted to the directors under the Share Option Scheme, which were terminated in December 2002.

6. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year are presented in the analysis below:

	2002 HK\$	2001 HK\$
Basic salaries, other allowances and benefits in kind	1,077,400	1,297,400
Fees to a director of a subsidiary	455,000	455,000
Contributions to a pension scheme	70,530	81,030
	1,602,930	1,833,430

The individual emoluments payable to the five individuals are within the band "from HK\$Nil to HK\$1,000,000". One (2001: One) of these five individuals is a director of a subsidiary within the Group. This individual is not a director of the Company and the emoluments are therefore not reflected in the analysis presented in part (a).

7. TAXATION CHARGE

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits for the year. The amount of taxation charged to the consolidated profit and loss account represents:

	2002 HK\$	2001 HK\$
Hong Kong profits tax	38,044	765,900
Underprovision/(overprovision) in prior years	2,011	(422,103)
	40,055	343,797

No taxation charge is attributable to the associated companies of the Group (2001: Nil).

There was no material unprovided deferred taxation for the year (2001: Nil).

Notes to the Accounts

8. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$20,474,738 (2001: profit of HK\$6,478,538).

9. (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted (loss)/earnings per share are based on the Group's loss attributable to shareholders of HK\$58,862,002 (2001: profit of HK\$13,537,884).

The basic (loss)/earnings per share is based on the adjusted weighted average of 47,174,492 (2001: 47,171,671) ordinary shares in issue during the year which have been adjusted for the rights issue and the 20-for-1 share consolidation which took place on 23rd January, 2003 and 24th January, 2003 respectively in accordance with the requirements of SSAP 5, Earnings per share. The diluted (loss)/earnings per share for the financial year is also based on the adjusted weighted average of 47,174,492 (2001: 47,171,671) ordinary shares in issue as the effect arising from the exercise of outstanding warrants was anti-dilutive.

10. FIXED ASSETS

	Group				Total HK\$
	Leasehold improvements HK\$	Office equipment HK\$	Furniture and fixtures HK\$	Motor vehicle HK\$	
Cost					
At 1st January, 2002	459,125	363,142	298,029	650,000	1,770,296
Additions	–	–	–	528,200	528,200
At 31st December, 2002	459,125	363,142	298,029	1,178,200	2,298,496
Accumulated depreciation					
At 1st January, 2002	329,040	196,930	216,406	487,500	1,229,876
Charge for the year	91,825	72,628	59,606	209,230	433,289
At 31st December, 2002	420,865	269,558	276,012	696,730	1,663,165
Net book value					
At 31st December, 2002	38,260	93,584	22,017	481,470	635,331
At 31st December, 2001	130,085	166,212	81,623	162,500	540,420

10. FIXED ASSETS (continued)

	Company					
	Leasehold improvements	Office equipment	Furniture and fixtures		Motor vehicle	Total
			HK\$	HK\$		
Cost						
At 1st January, 2002	459,125	329,737	298,029	650,000	1,736,891	
Additions	–	–	–	528,200	528,200	
At 31st December, 2002	459,125	329,737	298,029	1,178,200	2,265,091	
Accumulated depreciation						
At 1st January, 2002	329,040	184,258	216,406	487,500	1,217,204	
Charge for the year	91,825	65,947	59,606	209,230	426,608	
At 31st December, 2002	420,865	250,205	276,012	696,730	1,643,812	
Net book value						
At 31st December, 2002	38,260	79,532	22,017	481,470	621,279	
At 31st December, 2001	130,085	145,479	81,623	162,500	519,687	

Notes to the Accounts

11. OTHER ASSETS

	Group	
	2002 HK\$	2001 HK\$
Deposits for investments	2,300,000	29,324,629
Club debentures, at cost	1,231,360	1,231,360
	3,531,360	30,555,989

	Company	
	2002 HK\$	2001 HK\$
Deposits for investments	1,000,000	26,024,629
Club debentures, at cost	1,231,360	1,231,360
	2,231,360	27,255,989

The deposits were interest free and placed with the agent or investee companies for conversion to unlisted investment securities in the near future.

12. INVESTMENTS IN SUBSIDIARIES

	Company	
	2002 HK\$	2001 HK\$
Unlisted shares, at cost	16,718,590	16,718,590
Provision for impairment losses on investments in subsidiaries	(8,359,294)	–
	8,359,296	16,718,590
Amounts due from subsidiaries	160,125,075	110,004,938
Amounts due to subsidiaries	(42,163,799)	(33,099,409)
	126,320,572	93,624,119

The amounts due from and to subsidiaries are unsecured, interest free and repayable on demand.

12. INVESTMENTS IN SUBSIDIARIES (continued)

The following is a list of subsidiaries at 31st December, 2002:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
Plowright Investments Limited ("PIL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%*
Powercell Limited ("PCL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Quickrise Limited ("QRL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Multiple Asset Limited ("MAL")	Hong Kong	Dormant	2 Ordinary shares of HK\$1 each	100%*
Wingo Venture Limited ("WVL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
IT Star Holdings Limited ("ITSH")	Cayman Islands	Investment holding in Hong Kong	1 Ordinary share of HK\$0.1 each	100%*
IT Star Limited ("ITL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Wintech Limited ("WTL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%

Notes to the Accounts

12. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
Marrick Investments Limited (“MIL”)	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Noble Way Development Limited (“NWD”)	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Wayfairer Investments Limited (“WIL”)	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
IT Development Limited (“ITD”)	Hong Kong	Dormant	2 Ordinary shares of HK\$1 each	100%
Profit Success Limited (“PSL”)	British Virgin Islands	Investment holding in Hong Kong	10 Ordinary shares of US\$1 each	100%
Datacom Venture Limited (“DVL”)	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Batan Cyberbase Inc. (“BCI”)	British Virgin Islands	Investment holding in Hong Kong	1,300 Ordinary shares of HK\$500 each	100%
Gwynneth Gold Limited (“GGL”)	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Goal Vision Limited (“GVL”)	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%

* Shares held directly by the Company

13. INTERESTS IN AND LOAN TO ASSOCIATED COMPANIES

	Group	
	2002 HK\$	2001 HK\$
Share of net assets other than goodwill	2,410,530	400,753
Goodwill on acquisition of an associated company, net of amortisation/impairment	–	885,586
Loan to an associated company	12,865,220	420,000
	15,275,750	1,706,339
Investments in unlisted shares, at cost	7,678,500	5,576,000

The loan to an associated company is unsecured, interest free and repayable on demand.

The following is a list of the associated companies at 31st December, 2002:

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	Interest held indirectly
Last minute Limited	British Virgin Islands	Investment holding	2,730,000 ordinary shares of HK\$1 each	35%
Teddy Bear Kingdom Holdings Limited	British Virgin Islands	Investment holding	4.4 ordinary shares of HK\$1,000,000 each	22%
Waltin (HK) Limited (Note 1)	Hong Kong	Investment holding	2,500 ordinary shares of HK\$1 each	25%

Notes to the Accounts

13. INTERESTS IN AND LOAN TO ASSOCIATED COMPANIES (continued)

Note 1:

The company was a former subsidiary of the Group and, during the year, the percentage of interest in this company was diluted to 25% and the investment was therefore reclassified as interest in an associated company. The operating loss of the company and its subsidiary consolidated to the Group's current year results amounted to HK\$23,704 (2001: HK\$17,220).

Note 2:

The former associated company, iBrandirect.com (Holdings) Limited, was liquidated on 30th September, 2002. Final distribution of HK\$157,653 was received from the liquidation of the associated company during the year.

Note 3:

A brief description of the business information of the major associated companies is as follows:

Teddy Bear Kingdom Holdings Limited

Teddy Bear Kingdom Holdings Limited ("Teddy Bear Kingdom") operates the first and largest indoor theme park in Hong Kong. The theme park occupies an area of over 60,000 square feet, comprising of various educational and recreational facilities such as a teddy bear museum, an entertainment centre, an educational centre, a picnic place and a merchandise shop. The Group's total investments in shares of and loan to this associated company amounted to HK\$12 million.

Waltin (HK) Limited

The Group also invested in another associated company, Waltin (HK) Limited ("Waltin") which holds an investment in a Chinese medicine health care centre (known as "Chinese Medicine Valley") in Zhuhai of the PRC. The Group has invested HK\$5 million in this project.

Chinese Medicine Valley commenced its operation in November 2002. Chinese Medicine Valley provides Chinese medicine spa, Chinese medicine treatments, personal beauty services, Chinese herbal meal, accommodation and various entertainment facilities. The major customers of Chinese Medicine Valley comprise of visitors and tours.

14. INVESTMENT SECURITIES

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Investment securities, at cost:				
Convertible notes and bonds, unlisted (Note (a))	3,700,000	6,800,000	–	–
Equity securities, unlisted (Note (b))	75,582,388	75,468,388	–	–
Loans to investee companies (Note (b))	87,092,608	46,759,330	–	–
	166,374,996	129,027,718	–	–
Less: Provision for impairment losses in investment securities	(48,989,182)	(17,368,250)	–	–
	117,385,814	111,659,468	–	–
Equity securities, listed in Hong Kong (Note (c))	–	9,963,981	–	9,963,981
Less: Provision for impairment losses in investment securities	–	(5,800,000)	–	(5,800,000)
	–	4,163,981	–	4,163,981
	117,385,814	115,823,449	–	4,163,981
Market value of listed equity securities	–	3,600,000	–	3,600,000

Listed and unlisted equity securities are classified as investment securities which are held for long term strategic purposes to maintain good relationships with business counterparts and generate regular dividends in future years.

Notes to the Accounts

14. INVESTMENT SECURITIES (continued)

(a) Convertible notes and bonds

Convertible notes and bonds are dated debt securities which permit the holder the right to convert the debt securities into shares of the issuers at the specified dates. The original intention of the directors was to take up the option to convert and, upon conversion of the convertible bonds, they would be stated at the cost of acquiring the underlying shares.

The convertible bonds bear interest which are either fixed or linked to prime rate. The rates of return derived from interest income provided by individual convertible bonds range from 6% to 13% (2001: 6% to 13%) per annum.

Details of the convertible notes and bonds are as follows:

Name of issuer	Security	Nature of business	Principal amount		Maturity date	% of total	% of total
			2002	2001		asset of the Group	asset of the Group
			HK\$'000	HK\$'000			
FortuneAdvice.com Limited	Secured	Provision of astrology global overview	-	1,000	10th July, 2002	-	0.43%
Fujita Glass Limited	Secured	Trading of glass	-	1,000	11th October, 2001	-	0.43%
TECO Technology (Holdings) Company Limited	Secured	Internet networking solution	-	1,100	17th May, 2002	-	0.48%
Mangreat Asia Limited	Secured	Engineering consultant & contracting services	1,700	1,700	15th March, 2003	1.01%	0.74%
C&A Interior Architects & Consultants	Secured	Interior architects & consultation	2,000	2,000	16th March, 2003	1.19%	0.87%
			3,700	6,800			
Less: Provision for impairment losses			(500)	(1,650)			
			3,200	5,150			

14. INVESTMENT SECURITIES (continued)

(b) Unlisted equity securities

At 31st December, 2002, the carrying amounts of equity interest in Capital Venture Limited, Chief Finance Limited and Goodwill Forever Limited exceeded 10% of total assets of the Company and the Group.

Details of the unlisted equity securities are as follows:

Name of investee company	Place of incorporation	Particulars of issued shares held	Interest in shares held	Cost		% of total assets of the Group	Net assets attributable to the Group	
				HK\$'000 2002	HK\$'000 2001			
Capital Venture Limited	Hong Kong	Provision of property investment & financing services	520,000 (2001: Nil) of ordinary shares of HK\$1 each	26% (2001: Nil)	36,745	-	21.82% (2001: Nil)	9,824 (2001: Nil)
Chief Finance Limited	Hong Kong	Provision of commercial financing services	2,600,000 (2001: 2,600,000) of ordinary shares of HK\$1 each	26% (2001: 26%)	38,279	35,464	22.73% (2001: 15.41%)	5,249 (2001: 2,813)
Goodwill Forever Limited	British Virgin Islands	Investment holdings	13,870 (2001: 13,870) of ordinary shares of US\$1 each	34.68% (2001: 34.68%)	23,620	23,620	14.03% (2001: 10.26%)	9,525 (2001: 8,720)
Yeelong Enterprises Limited	Hong Kong	Investment holdings	42,235,362 (2001: 42,235,362) of ordinary shares of HK\$1 each	35% (2001: 35%)	14,246	14,246	8.46% (2001: 6.19%)	15,920 (2001: 15,886)
Fullpower Holdings Limited	British Virgin Islands	Investment holdings	1,750,000 (2001: 1,750,000) of ordinary shares of HK\$1 each	35% (2001: 35%)	10,000	9,680	5.94% (2001: 4.21%)	4,930 (2001: 2,781)
iD Innovation Limited	Hong Kong	Production of multi-media, CD-ROM products	6,711 (2001: 6,711) of ordinary shares of HK\$1 each	33.29% (2001: 33.29%)	9,744	9,293	5.79% (2001: 4.04%)	- (2001: 2,285)

Notes to the Accounts

14. INVESTMENT SECURITIES (continued)

(b) Unlisted equity securities (continued)

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest in shares held	Cost		% of total assets of the Group	Net assets attributable to the Group
					HK\$'000	HK\$'000		
					2002	2001		
One Tel Holdings Limited	British Virgin Islands	IDD and ISP services	4,000,000 (2001: 4,000,000) of ordinary shares of HK\$1 each	20% (2001: 20%)	4,000	4,000	2.38% (2001: 1.74%)	3,387 (2001: N/A)
Expertise Holdings Limited	British Virgin Islands	Investment holdings	35 (2001: 35) of ordinary shares of US\$1 each	35% (2001: 35%)	3,730	3,668	2.22% (2001: 1.59%)	- (2001: 882)
Talent Information Management Limited	Hong Kong	Internet and intranet service provider	3,500 (2001: 3,500) of ordinary shares of HK\$1 each	35% (2001: 35%)	3,680	3,505	2.19% (2001: 1.59%)	864 (2001: 1)
Superweb Express Inc.	British Virgin Islands	Website designs and production	3,500 (2001: 3,500) of ordinary shares of US\$1 each	35% (2001: 35%)	3,537	3,488	2.10% (2001: 1.52%)	70 (2001: 126)
Multimedians Limited	Hong Kong	Software development for the education market	1,133,333 (2001: 1,133,333) of ordinary shares of HK\$0.10 each	32% (2001: 32%)	3,056	2,974	1.81% (2001: 1.29%)	- (2001: (243))
Cyber Infotech Holdings Limited	British Virgin Islands	Investment holdings	1,000,000 (2001: 1,000,000) of ordinary shares of US\$0.10 each	2.5% (2001: 2.5%)	2,330	2,330	1.38% (2001: 1.01%)	- (2001: -)
Overseaschinesenet	Nevada	Computing service	250,000 (2001: 250,000) of ordinary shares of US\$0.001 each	0.63% (2001: 0.63%)	195	195	0.12% (2001: 0.08%)	N/A** (2001: N/A)
Technology City Holdings Limited	British Virgin Islands	Provision of multi-media financial information	350 (2001: 350) of ordinary shares of US\$1 each	35% (2001: 35%)	1,000	1,000	0.59% (2001: 0.43%)	272 (2001: 615)

14. INVESTMENT SECURITIES (continued)

(b) Unlisted equity securities (continued)

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest in shares held	Cost		% of total assets of the Group	Net assets attributable to the Group
					HK\$'000	HK\$'000		
					2002	2001		
Webtrade Management Limited	Hong Kong	Sale of information products	3,000 (2001: 3,000) of ordinary shares of US\$1 each	35% (2001: 35%)	429	300	0.25% (2001: 0.13%)	- (2001: N/A)
King Henderson Holdings Limited	Hong Kong	Investment holdings	35,000(2001: 35,000) of ordinary shares of HK\$1 each	35% (2001: 35%)	1,000	1,000	0.59% (2001: 0.43%)	234 (2001: 440)
Innocom Technology Limited	Hong Kong	Product development & manufacturing	2,500 (2001: 2,500) of ordinary shares of HK\$1 each	25% (2001: 25%)	575	500	0.34% (2001: 0.22%)	N/A** (2001: 107)
Modern Market Management Limited	Hong Kong	Management services	300,000 (2001: 300,000) of ordinary shares of HK\$1 each	30% (2001: 30%)	750	750	0.45% (2001: 0.33%)	1,792 (2001: 721)
Jade Dynasty Holdings Limited	British Virgin Islands	Investment holdings	5,714 (2001: 5,714) of ordinary shares of US\$0.01 each	0.57% (2001: 0.57%)	1,000	1,000	0.59% (2001: 0.43%)	84 (2001: 48)
TJ Restaurant Management Co., Limited	Hong Kong	Japanese seafood restaurant	624,000 (2001: 780,000) of ordinary shares of HK\$1 each	8% (2001: 10%)	624	780	0.37% (2001: 0.34%)	381 (2001: N/A)
ChineseWorldNet.com Inc.	Cayman Islands	Provision of financial information service	250,000 (2001: 250,000) of ordinary shares of US\$0.001 each	4.17% (2001: 4.17%)	780	780	0.46% (2001: 0.34%)	152 (2001: 254)
Mypet.com Limited	Hong Kong	Provision of pet care products and related services on internet	350 (2001: 350) of ordinary shares of HK\$1 each	35% (2001: 35%)	215	215	0.13% (2001: 0.09%)	41 (2001: (154))

Notes to the Accounts

14. INVESTMENT SECURITIES (continued)

(b) Unlisted equity securities (continued)

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest in shares held	Cost	Cost	% of total assets of the Group	Net assets attributable to the Group
					HK\$'000	HK\$'000		
					2002	2001		
Goodwill China Business Information Limited	Hong Kong	Sale of information products	134,554 (2001: 134,554) of ordinary shares of HK\$1 each	2% (2001: 2%)	1,000	1,000	0.59% (2001: 0.43%)	- (2001: 50)
Always Internet Limited	Hong Kong	Provision of travel agency services and information on internet	1,050,000 (2001: 1,050,000) of ordinary shares of HK\$1 each	35% (2001: 35%)	1,500	1,500	0.89% (2001: 0.65%)	847 (2001: 925)
Hoss Virtualab Limited	Hong Kong	Provision of software products for education	Nil (2001: 1,250) of ordinary shares of HK\$1 each	Nil (2001: 12.5%)	-	300	Nil (2001: 0.13%)	- (2001: (12))
Fujita Glass Limited	Hong Kong	Trading of glass	3,750 (2001: 3,750) of ordinary shares of HK\$1 each	15% (2001: 15%)	250	250	0.15% (2001: 0.11%)	- (2001: (23))
Enviro Technology International Limited	Hong Kong	Development of battery regenerators	500 (2001: 500) of ordinary shares of HK\$1 each	16.67% (2001: 16.67%)	390	390	0.23% (2001: 0.17%)	131 (2001: 212)
					162,675	122,228		
Less: Provision for impairment losses					(48,489)	(15,718)		
					114,186	106,510		

* Shares held directly by the Company.

** The figures are not available as the first sets of audited accounts of the investee companies concerned have not yet been prepared since incorporation.

14. INVESTMENT SECURITIES (continued)

(b) Unlisted equity securities (continued)

A brief description of the business information of the major unlisted investee companies is as follows:

Capital Venture Limited (“CVL”)

The company has obtained the money lender licence since 1997. It principally engages in property investment and financing business in Hong Kong. Its customers are mainly established companies and individuals of high net worth in Hong Kong. The loan tenor offered to selected customers by CVL is from short to medium term.

Chief Finance Limited (“CFL”)

CFL is also a money lender and principally engages in financing business in Hong Kong. Its customers are mainly established companies and individuals of high net worth in Hong Kong. The business objective of CFL is to earn high interest income from short term loans advanced to selected clients.

Goodwill Forever Limited (“GFL”)

GFL is an investment holding company and the core business of its subsidiary is the provision of internet and networking solutions to Hong Kong and PRC enterprises. The Group has made a provision for impairment loss of HK\$5,905,000 for this investment as at 31st December, 2002.

Fullpower Holdings Limited (“FHL”)

FHL is an investment holding company which invests in Challengers Services Limited and Challengers Auto Services Limited (“Challengers”). Challengers are principally engaged in the provision of car washing, beauty services and auto garage services. As at 31st December, 2002, a provision for impairment loss of HK\$2,000,000 on this investment has been made by the Group.

Yeelong Enterprises Limited (“Yeelong”)

Yeelong is engaged in the business of operating bowling centres in the PRC and the major bowling centre is located in Dalian of the PRC. As at 31st December, 2002, a provision for impairment loss of HK\$9,971,941 has been made on this investment by the Group.

One.Tel Holdings Limited (“One.Tel”)

One.Tel is an investment holding company and the group engages in the provision of telecommunication service. One.Tel provides a wide range of telecommunication services at competitive values, including flat rate international call, post-paid calling cards, IDD roaming service and One.Tel Net internet services. The Group received a dividend income of HK\$1,375,000 from One.Tel during the year ended 31st December, 2002.

Notes to the Accounts

14. INVESTMENT SECURITIES (continued)

(b) Unlisted equity securities (continued)

The equity investments in the above companies with interests held exceeding 20% are recorded as investment securities at cost. These investments are not classified as investments in associated companies as the Group does not participate in their operations and has no significant influence over their management.

(c) Listed equity securities

At 31st December, 2001, the total market value of 30,000,000 ordinary shares held in Everest International Investments Limited amounted to HK\$3,600,000. The carrying value of the shares represented 1.8% of the total assets of the Group. The company was incorporated in the Cayman Islands and engaged in investments in listed and unlisted securities for medium to long term. The shares were all disposed during 2002.

15. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Accounts receivable	2,321,238	5,244,393	12,110	499,086
Deposits	68,000	68,000	68,000	68,000
Prepayments	345,299	202,507	313,319	202,507
Other receivables	216,871	203,750	–	–
	2,951,408	5,718,650	393,429	769,593

The aging analysis of the accounts receivable and prepayments were as follows:

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Current	1,148,180	5,117,843	303,229	697,843
30 – 60 days	201,240	–	8,120	–
61 – 90 days	1,601,988	600,807	82,080	71,750
	2,951,408	5,718,650	393,429	769,593

16. OTHER INVESTMENTS

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Equity securities, at fair value				
– Listed in Hong Kong	21,878,736	49,384,161	14,238,176	37,868,562
– Listed outside Hong Kong	1,696,500	4,056,150	–	–
	23,575,236	53,440,311	14,238,176	37,868,562
Market value of listed securities	23,575,236	53,440,311	14,238,176	37,868,562

Under an agreement entered into between the Group and a bank, the Group can pledge its listed securities with total market value of HK\$7,831,086 (2001: HK\$23,693,028) to the bank for a loan equal to 20% of the total market value of these shares.

Details of the other investments are as follows:

Name of investee company	Place of incorporation	Number of shares/warrants held	Carrying value as at 1st January, 2002 HK\$'000	Market value as at 31st December, 2002 HK\$'000	Unrealised gain/(loss) arising on revaluation HK\$'000	% of total assets of the Group	Net assets attributable to the Group HK\$'000
At 31st December, 2002							
<i>Listed in Hong Kong</i>							
Shares							
Allied Properties (H.K.) Limited	Hong Kong	2,666,864	621	643	22	0.38%	3,119
Allied Group Limited	Hong Kong	7,814,000	3,360	2,813	(547)	1.67%	10,097
Chun Wo Holdings Limited	Bermuda	4,625,000	1,318	1,138	(180)	0.68%	4,063
EganaGoldpfeil (Holdings) Limited	Cayman Islands	5,200,000	9,894	7,332	(2,562)	4.35%	6,007
Millennium Group Limited	Hong Kong	1,454,000	174	209	35	0.12%	223
Prime Success International Group Limited	Cayman Islands	30,500,000	5,033	3,264	(1,769)	1.94%	6,650
Tonic Industries Holdings Limited	Cayman Islands	8,173,200	2,615	1,880	(735)	1.12%	5,238
Tysan Holdings Limited	Bermuda	10,000,000	1,850	1,550	(300)	0.92%	8,835
Upbest Group limited	Cayman Islands	4,000,000	1,450	1,880	430	1.12%	505
Zhu Kuan Development Company Limited	Bermuda	4,502,000	1,801	1,170	(631)	0.69%	5,377
			28,116	21,879	(6,237)		

Notes to the Accounts

16. OTHER INVESTMENTS (continued)

Name of investee company	Place of incorporation	Number of shares/warrants held	Carrying	Market	Unrealised gain/(loss) arising on revaluation	% of total assets of the Group	Net assets attributable to the Group
			value as at 1st January, 2002	value as at 31st December, 2002			
			HK\$'000	HK\$'000	HK\$'000		HK\$'000
As at 31st December, 2002							
<i>Listed outside Hong Kong</i>							
Shares							
Dragon Pharmaceuticals Inc.	Florida	250,000	3,386	1,190	(2,196)	0.71%	1,508
Transcom Security Networks Inc.	British Columbia	500,000	1,950	507	(1,443)	0.30%	556
			5,336	1,697	(3,639)		
			33,452	23,576	(9,876)		

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

Allied Group Limited (“Allied Group”)

Allied Group is primarily an investment holding company with a stated strategy of focusing its management and financial resources on its core business of property investments and development and financial services.

The profit attributable to shareholders of Allied Group for the six months ended 30th June, 2002 was approximately HK\$133,183,000. As at 30th June, 2002, the net asset value of Allied Group was approximately HK\$4,409,176,000.

EganaGoldpfeil (Holding) Limited (“EganaGoldpfeil”)

EganaGoldpfeil is principally engaged in design, assembly, manufacturing and distribution of timepieces, jewellery and leather products; licensing or assignment of brand names to third parties; and trading of timepiece components, jewellery and consumer electronic product.

The profit attributable to shareholders of EganaGoldpfeil for the six months ended 30th November, 2002 was approximately HK\$36,666,000. As at 30th November, 2002, the net asset value of EganaGoldpfeil was approximately HK\$1,308,724,000.

16. OTHER INVESTMENTS (continued)

Prime Success International Group Limited (“Prime Success”)

Prime Success is principally engaged in the manufacturing, marketing and sales of footwear products, shoe components and materials.

The profit attributable to shareholders of Prime Success for the six months ended 30th June, 2002 was approximately HK\$1,307,000. As at 30th June, 2002, the net asset value of Prime Success was approximately HK\$342,141,000. During the year, the Group received cash dividend of HK\$242,780 from Prime Success.

Upbest Group Limited (“Upbest”)

Upbest is principally engaged in the provision of a wide range of financial services including securities broking, futures broking, margin financing, money lending, corporate finance advisory and assets management.

The profit attributable to shareholders of Upbest for the six months ended 30th September, 2002 was approximately HK\$13,371,000. As at 30th September, 2002, the net asset value of Upbest was approximately HK\$141,590,000. During the year, the Group received cash dividend of HK\$39,722 from Upbest.

Notes to the Accounts

16. OTHER INVESTMENTS (continued)

Name of investee company	Place of incorporation	Number of shares/warrants held	Carrying value as at 1st January, 2001 HK\$'000	Market value as at 31st December, 2001 HK\$'000	Unrealised gain/(loss) arising on revaluation HK\$'000	% of total assets of the Group	Net assets attributable to the Group HK\$'000
At 31st December, 2001							
<i>Listed in Hong Kong</i>							
Shares							
Allied Properties (H.K.) Limited	Hong Kong	16,566,964	5,045	3,860	(1,185)	1.68%	20,645
Allied Group Limited	Hong Kong	10,304,000	4,311	4,431	120	1.92%	13,474
China Travel International Investment							
Hong Kong Limited	Hong Kong	200,000	313	322	9	0.14%	392
Chun Wo Holdings Limited	Bermuda	4,625,000	1,318	1,318	-	0.57%	3,718
EganaGoldpfeil (Holdings) Limited	Cayman Islands	51,960,000	9,246	10,080	834	4.38%	5,800
Fountain Set (Holdings) Limited							
Hong Kong Limited	Hong Kong	1,132,000	1,257	1,438	181	0.62%	3,361
Haywood Investments Limited	Cayman Islands	9,975,000	10,274	8,578	(1,696)	3.73%	4,925
Hua Lien International (Holding) Company Limited							
Cayman Islands	Cayman Islands	1,500,000	600	1,200	600	0.52%	1,331
Millennium Group Limited	Hong Kong	2,454,000	243	294	51	0.13%	455
Prime Success International Group Limited							
Cayman Islands	Cayman Islands	30,500,000	3,507	5,032	1,525	2.19%	8,631
Qingling Motors Company Limited							
PRC	PRC	300,000	422	348	(74)	0.15%	750
Quality Food International Limited							
Bermuda	Bermuda	5,000,000	475	275	(200)	0.12%	435
Sunlord Chemical Group							
Cayman Islands	Cayman Islands	7,170,000	2,847	2,653	(194)	1.15%	951
Tonic Industries Holdings Limited							
Cayman Islands	Cayman Islands	8,173,200	3,351	2,615	(736)	1.14%	5,094
Tysan Holdings Limited							
Bermuda	Bermuda	10,000,000	2,190	1,850	(340)	0.80%	9,037
Upbest Group limited							
Cayman Islands	Cayman Islands	1,000,000	1,200	1,450	250	0.63%	436
Vtech Holdings Limited							
Bermuda	Bermuda	50,000	140	270	130	0.12%	144
Yu Ming Investments Limited							
Hong Kong	Hong Kong	560,000	125	126	1	0.05%	223
Zhu Kuan Development Company Limited							
Bermuda	Bermuda	7,006,000	2,453	2,803	350	1.21%	8,075
			49,317	48,943	(374)		

Notes to the Accounts

16. OTHER INVESTMENTS (continued)

Name of investee company	Place of incorporation	Number of shares/warrants held	Carrying value as at 1st January, 2001 HK\$'000	Market value as at 31st December, 2001 HK\$'000	Unrealised gain/(loss) arising on revaluation HK\$'000	% of total assets of the Group	Net assets attributable to the Group HK\$'000
As at 31st December, 2001							
Warrants							
Allied Properties (H.K.) Limited							
– W0209	Hong Kong	15,267,749	328	382	54	0.17%	N/A
Global Green Tech Group – W-312							
	Cayman Islands	180,000	56	47	(9)	0.02%	N/A
Quality Food International Limited – W0212							
	Bermuda	200,000	18	12	(6)	0.01%	N/A
			402	441	39		
<i>Listed outside Hong Kong</i>							
Shares							
Dragon Pharmaceuticals Inc.							
	Florida	150,000	2,340	2,106	(234)	0.91%	1,016
Transcom Security Networks Inc.							
	British Columbia	500,000	1,950	1,950	–	0.85%	N/A
			4,290	4,056	(234)		
			54,009	53,440	(569)		
Write-back of last year's unrealised losses							
			–	–	4,009		
			54,009	53,440	3,440		

Notes to the Accounts

17. CREDITORS AND ACCRUALS

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Creditors	109,900	49,900	–	–
Accruals	679,918	2,229,899	679,918	2,229,899
	789,818	2,279,799	679,918	2,229,899

All accounts payables to creditors are unsecured and current.

18. BANK OVERDRAFT

At 31st December, 2002, other investments of HK\$7,831,086 (2001: HK\$23,693,028) were pledged to a bank for its overdraft facilities.

19. SHARE CAPITAL

	Authorised ordinary shares of HK\$0.01 each	
	No. of shares	HK\$
At 1st January, 2001, 31st December, 2001, and 31st December, 2002	10,000,000,000	100,000,000
	Issued and fully paid ordinary shares of HK\$0.01 each	
	No. of shares	HK\$
At 1st January, 2001 and 31st December, 2001	973,226,010	9,732,259
Exercise of warrants (Note(a))	1,162,215	11,623
At 31st December, 2002	974,388,225	9,743,882

19. SHARE CAPITAL (continued)

Notes:

(a) Warrants

In 2002, 1,568 warrants were exercised and 1,568 ordinary shares were issued at an exercise price of HK\$0.39 per ordinary share. In addition, 1,160,647 warrants were exercised and 1,160,647 shares were issued at an exercise price of HK\$0.08 per ordinary share. These new shares rank pari passu with the existing shares of the Company.

As at 31st December, 2002, the Company had 193,484,868 warrants outstanding which entitle the holders to subscribe for shares in the Company at a subscription price of HK\$0.08 per share during the period from 21st June, 2002 to 30th June, 2004. If the warrants are fully exercised, the Company will be required to issue a further 193,484,868 shares.

(b) Share options

At an extraordinary general meeting held on 19th December, 2002, the termination of the Company's Share Option Scheme was approved and the outstanding share options granted to the directors and employees of the Group in August 2000 were terminated.

Notes to the Accounts

20. RESERVES

Group

	Share premium HK\$	Retained earnings/ (accumulated loss) HK\$	Total HK\$
At 1st January, 2001	138,407,561	11,920,911	150,328,472
Profit for the year	–	13,537,884	13,537,884
At 31st December, 2001 and 1st January, 2002	138,407,561	25,458,795	163,866,356
Premium on issue of shares	81,840	–	81,840
Loss for the year	–	(58,862,002)	(58,862,002)
At 31st December, 2002	138,489,401	(33,403,207)	105,086,194
Attributable to:			
Company and subsidiaries	138,489,401	(26,589,650)	111,899,751
Associated companies	–	(6,813,557)	(6,813,557)
At 31st December, 2002	138,489,401	(33,403,207)	105,086,194

20. RESERVES (continued)

Company

	Share premium HK\$	Retained earnings/ (accumulated loss) HK\$	Total HK\$
At 1st January, 2001	138,407,561	12,722,490	151,130,051
Profit for the year	–	6,478,538	6,478,538
At 31st December, 2001 and 1st January, 2002	138,407,561	19,201,028	157,608,589
Premium on issue of shares	81,840	–	81,840
Loss for the year	–	(20,474,738)	(20,474,738)
At 31st December, 2002	138,489,401	(1,273,710)	137,215,691

Note: Distributable reserves of the Company at 31st December, 2002 according to the Company's Articles of Association amounted to HK\$137,215,691 (2001: HK\$157,608,589).

21. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on the net asset of HK\$114,830,076 (2001: HK\$173,598,615) and the 974,388,225 (2001: 973,226,010) ordinary shares in issue as at on 31st December, 2002.

22. CONVERTIBLE BONDS

	2002 HK\$	2001 HK\$
Convertible bonds		
Repayable within one year	30,000,000	–
Repayable between one to five years	19,900,000	49,900,000
	49,900,000	49,900,000

Notes to the Accounts

22. CONVERTIBLE BONDS (continued)

The convertible bonds were issued by a subsidiary of the Group and carried fixed interest of 5% to 6% per annum and would mature on 8th December, 2002. In addition, each bondholder was entitled to convert the full principal amount of the bond into a pre-determined number of ordinary shares of ITSH on occurrence of certain conversion events at any time prior to the maturity date. Upon conversion of all outstanding convertible bonds, the shares allotted to each of the bondholders will represent 2.75% to 11% of the enlarged issued share capital of ITSH.

The convertible bond held by Chun Wo Holdings Limited is secured by a guarantee of HK\$10 million provided by the Company. In addition, the convertible bond is also secured by a floating charge on ITSH's assets.

In December, 2002, three bondholders agreed with ITSH to extend the maturity date of convertible bonds of HK\$19.9 million to 8th December, 2003. In addition, two bondholders agreed to extend the maturity date of convertible bonds of HK\$30 million to 8th March, 2003.

On 9th April, 2003, three bondholders agreed to further extend the maturity date to 8th March, 2004. These bondholders who hold convertible bonds of HK\$19.9 million also agreed to accept quoted shares as principal repayment at the maturity date or on occurrence of the specified conversion events.

The conversion periods of the convertible bonds were also extended to the new maturity dates accordingly.

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of (loss)/profit before taxation to net cash inflow from operating activities

	2002 HK\$	2001 HK\$
Operating activities		
(Loss)/profit before taxation	(58,821,947)	13,881,681
Realised loss on disposal of investment securities	125,561	518,480
Provision for impairment losses on investment securities	33,270,932	12,368,250
Provision for bad debt	1,517,270	–
Share of losses of associated companies	2,765,420	1,283,675
Interest income	(336,110)	(4,731,980)
Dividend income from investment securities	(2,125,000)	(8,213,300)
Finance costs	2,694,000	2,693,640
Depreciation of owned fixed assets	433,289	353,196
Amortisation of goodwill	885,586	241,524
Operating (loss)/profit before working capital changes	(19,590,999)	18,395,166
Decrease/(increase) in other assets	22,700,000	(27,324,629)
Decrease in accounts receivable and prepayments	3,049,972	8,998,971
(Decrease)/increase in creditors and accruals	(1,489,980)	1,402,969
Decrease in other investments	29,865,075	11,005,070
Net cash inflow from operating activities	34,534,068	12,477,547

Notes to the Accounts

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital including premium	
	2002 HK\$	2001 HK\$
As at 1st January	148,139,820	148,139,820
Net cash inflow from financing	93,463	–
As at 31st December	148,233,283	148,139,820

24. MANAGEMENT CONTRACTS

	2002 HK\$	2001 HK\$
Management fees		
– Harmony Asset Management Limited (<i>Note</i>)	2,427,069	2,542,190
Incentive fees		
– Harmony Asset Management Limited (<i>Note</i>)	–	1,615,321

Note: The Company has entered into an investment management agreement with Harmony Asset Management Limited (“HAML”), a company which is wholly owned by Dr. Chow Pok Yu, Augustine. Under the agreement, HAML agreed to assist the board of directors with the day-to-day management of the Group for a period commencing 1st June, 1998 to 1st June, 2001. Pursuant to a supplemental agreement which was approved at the annual general meeting on 22nd May, 2000, the investment management agreement was extended to 5th April, 2006. In accordance with the investment management agreement, HAML is entitled to a monthly fee calculated at 1.5% per annum on the net asset value of the Company of the preceding month and an incentive fee at 10% of the surplus in the net asset value over a financial year. Dr. Chow Pok Yu, Augustine, being a beneficial shareholder, was interested in these contracts in 2002 and 2001.

25. COMMITMENTS

(a) Commitments under operating leases

At 31st December, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2002 HK\$	2001 HK\$
Within one year	235,200	116,640
In the second to fifth years inclusive	117,600	–
	352,800	116,640

(b) Commitments under subscription agreements for investment securities

At 31st December, 2002, the Group had no outstanding commitments to subscribe for convertible bonds for investment purposes (2001: HK\$1,900,000).

26. SUBSEQUENT EVENTS

(a) Rights issue

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 19th December, 2002, a rights issue scheme which offered three rights shares for every two existing shares to the existing shareholders was approved and adopted. New shares of 1,461,582,337 of HK\$0.01 each were issued at HK\$0.02 per share for cash on 23rd January, 2003 under the rights issue scheme. These shares rank pari passu to the existing shares. The funds raised by the Company net of share issue expenses amounted to HK\$28 million which will be used as the Group's working capital and for future investment purposes.

(b) Share consolidation

Pursuant to an ordinary resolution passed on the extraordinary general meeting of the Company held on 23rd January, 2003, 20 shares of the Company of HK\$0.01 each were consolidated into 1 new share of the Company of HK\$0.2 each with effect on 24th January, 2003.

The total number of ordinary shares in issue as at the date of this report, after the abovementioned rights issue and the share consolidation, is 121,798,528 shares. In addition, the exercise price of the Company's 2004 warrant was changed to HK\$1.

(c) Extension of maturity dates of convertible bonds

On 9th April, 2003, three bondholders agreed to extend the maturity date of convertible bonds of HK\$19,900,000 from 8th December, 2003 to 8th March, 2004 as disclosed in Note 22.

27. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 16th April, 2003.