

30 JUNE 2003

I. CORPORATE INFORMATION

Prime Investments Holdings Limited (the “Company”) was incorporated on 12 July 2000 in the Cayman Islands under the Companies Law as an exempted company with limited liability. The address of the registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.

The Company’s principal place of business is located at Room 2505, 25th Floor, 9 Queen’s Road Central, Central, Hong Kong.

The Company is an investment holding company while the Group is principally engaged in the investment of listed and unlisted companies established and/or doing business in Hong Kong and other parts of the PRC.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following new and revised SSAPs are effective for the first time for the current year’s financial statements:

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

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs, are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 17 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group’s reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. Further details of these changes are included in the accounting policy for “Cash and cash equivalents” in note 3, and also in note 22 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits except that additional disclosures are now required in respect of the Company’s share option scheme, as detailed in note 20 to the financial statements. These share option scheme disclosures are similar to the disclosures pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) previously included in the Report of the Directors, which are now included in the notes to the financial statements as a consequence of the SSAP.

30 JUNE 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

30 JUNE 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture and fixtures	25%
Office equipment	33 $\frac{1}{3}$ %

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

Leased assets

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Investment securities

Investment securities are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis.

Listed 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 securities are stated at their estimated fair values on an individual basis. These are determined by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases or projected cash flows of the securities or comparison of price/revenue ratios, price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair value of an investment security are dealt with as movements in the long term 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 long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises.

Trading securities

Trading securities are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

30 JUNE 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

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

- (a) income from securities trading, when the transactions are completed;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (c) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Pension scheme and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

NOTES TO FINANCIAL STATEMENTS

30 JUNE 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SEGMENT INFORMATION

The Group is principally engaged in the investment of listed and unlisted companies. Accordingly, no analysis of business segment is provided. No geographical analysis is presented as none of the Group's turnover, results, assets and liabilities are attributable to markets outside the People's Republic of China (including Hong Kong).

5. TURNOVER AND REVENUE

The Group is principally engaged in the investment in listed and unlisted companies. An analysis of turnover and other revenue is as follows:

	2003 HK\$	2002 HK\$
Turnover		
Proceeds from sale of trading securities	<u>3,503,172</u>	<u>2,891,700</u>
Other revenue		
Interest income	5,798	245,699
Dividend income from trading securities	–	15,000
Other	<u>3,126</u>	–
	<u>8,924</u>	<u>260,699</u>

NOTES TO FINANCIAL STATEMENTS

30 JUNE 2003

6. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	Note	2003 HK\$	2002 HK\$
Depreciation	12	86,817	90,186
Lease payments under operating leases on land and buildings		1,051,019	405,469
Auditors' remuneration		132,000	120,000
Staff costs (excluding directors' remuneration, see note 8):			
Wages and salaries		502,039	407,132
Net pension scheme contributions*		18,536	19,612
		<u>520,575</u>	<u>426,744</u>
Loss on disposal of an investment security**		4,800,000	—
Loss on disposal of fixed assets**		—	142,915
Provision for a loan receivable**		1,107,200	—
Impairment of investment securities**		<u>7,392,800</u>	<u>—</u>

* At 30 June 2003, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2002: Nil).

** Included in "Other operating expenses" on the face of the consolidated profit and loss account.

7. FINANCE COSTS

	2003 HK\$	Group 2002 HK\$
Interest expense on other loans	<u>281,149</u>	<u>—</u>

2003
ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS

30 JUNE 2003

8. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2003 HK\$	2002 HK\$
Fees	<u>90,000</u>	<u>90,000</u>
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	<u>600,000</u>	600,000
Pension scheme contributions	<u>12,000</u>	<u>12,000</u>
	<u>612,000</u>	<u>612,000</u>
	<u>702,000</u>	<u>702,000</u>

The directors' fees disclosed above include HK\$60,000 (2002: HK\$60,000) paid to the non-executive and independent non-executive directors.

The remuneration of each of the directors fell within the remuneration band of Nil to HK\$1,000,000.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

(b) Five highest paid individuals

The five highest paid individuals during the year included one (2002: three) director, details of whose remuneration are set out in note 8(a) above. Details of the remuneration of the remaining four (2002: two) non-director, highest paid individuals are as follows:

	Group	
	2003 HK\$	2002 HK\$
Basic salaries, housing allowances, other allowances and benefits in kind	<u>496,877</u>	407,132
Pension scheme contributions	<u>18,536</u>	<u>19,612</u>
	<u>515,413</u>	<u>426,744</u>

The remuneration of each of these four individuals fell within the remuneration band of Nil to HK\$1,000,000.

NOTES TO FINANCIAL STATEMENTS

30 JUNE 2003

9. TAX

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits during the year (2002: Nil).

The principal components of the unprovided net deferred tax assets of the Group and the Company at the balance sheet date calculated at the rate of 17.5% (2002: 16%) were as follows:

	Group and Company	
	2003	2002
	HK\$	HK\$
Tax losses	1,483,770	830,330
Accelerated depreciation allowances	(15,936)	(15,027)
Effect of the change in future rate from 16% to 17.5%	137,609	–
	<u>1,605,443</u>	<u>815,303</u>

10. NET LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders for the year ended 30 June 2003 dealt with in the financial statements of the Company, was HK\$18,156,574 (2002: HK\$5,005,570).

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year attributable to shareholders of HK\$18,156,574 (2002: HK\$4,971,570) and 40,000,000 (2002: 40,000,000) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 30 June 2003 and 2002 have not been disclosed as no diluting events existed during these years.

12. FIXED ASSETS

Group and Company	Furniture and fixtures HK\$	Office equipment HK\$	Total HK\$
Cost:			
At beginning of year	104,707	145,487	250,194
Additions	5,886	70,061	75,947
	<u>110,593</u>	<u>215,548</u>	<u>326,141</u>
At 30 June 2003			
Accumulated depreciation:			
At beginning of year	19,380	42,464	61,844
Charge for the year	14,404	72,413	86,817
	<u>33,784</u>	<u>114,877</u>	<u>148,661</u>
At 30 June 2003			
Net book value:			
At 30 June 2003	<u>76,809</u>	<u>100,671</u>	<u>177,480</u>
At 30 June 2002	<u>85,327</u>	<u>103,023</u>	<u>188,350</u>

NOTES TO FINANCIAL STATEMENTS

30 JUNE 2003

13. INVESTMENT SECURITIES

	Group	
	2003 HK\$	2002 HK\$
Unlisted equity securities, at fair value	<u>10,000,000</u>	<u>20,000,000</u>

As at 30 June 2003, the carrying amounts and further details of interests in the investments were as follows:

Name	Place of incorporation	Particulars of equity interests held	Investment value		Interest held
			Acquisition cost HK\$	At fair value HK\$	
China Link Investment Group Limited ("China Link") (note i)	British Virgin Islands ("BVI")	Ordinary shares of US\$1.00 each	5,000,000	5,000,000	22%
Zhongshan Chinese Standard Building Materials Company Limited (note ii)	The PRC	Registered capital of RMB525,000	5,000,000	5,000,000	5%
Auto System Limited (note iii)	BVI	Ordinary shares of US\$1.00 each	5,000,000	–	2.5%
Imoeba (BVI) Limited (note iv)	BVI	Ordinary shares of US\$1.00 each	2,392,800	–	10%

Notes:

- (i) China Link is principally engaged in the development of a website providing on-line professional consultancy services in the PRC. China Link is not accounted for as an associate as, in the opinion of the directors, the Group has no significant influence over its financial and operating decisions.
- (ii) Zhongshan Chinese Standard Building Materials Company Limited is principally engaged in the production and distribution of window frames in the PRC.
- (iii) Auto System Limited is principally engaged in the development and installation of household automated surveillance systems in Hong Kong and the PRC.
- (iv) Imoeba (BVI) Limited is principally engaged in the provision of website design services.

14. DEPOSIT FOR AN UNLISTED EQUITY INVESTMENT

Group

On 22 June 2001, the Group entered into an agreement to invest HK\$5,000,000 for a 20% equity interest in Sunkock Development Limited, a company engaged in the development of medical products in the PRC, and a deposit of HK\$1,000,000 was paid by the Group on that date. An additional deposit of HK\$4,000,000 was made by the Group on 20 August 2001. Subsequent to the balance sheet date, the deposit was transferred to the cost of investment securities upon the completion of the agreement on 25 July 2003.

NOTES TO FINANCIAL STATEMENTS

30 JUNE 2003

15. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$	2002 HK\$
Unlisted shares, at cost	56	48
Due from subsidiaries	<u>23,702,347</u>	<u>25,318,244</u>
	23,702,403	25,318,292
Provision for impairment	<u>(8,500,000)</u>	—
	<u>15,202,403</u>	<u>25,318,292</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Double Lucky Invest Co., Ltd.	BVI	US\$1.00	100	—	Investment holding
Sun Talent Investment Co., Ltd.	BVI	US\$1.00	100	—	Investment holding
Market Place Investment Co., Ltd.	BVI	US\$1.00	100	—	Investment holding
Sino Jumbo Investment Co., Ltd.	BVI	US\$1.00	100	—	Investment holding
Magic Fair Limited	BVI	US\$1.00	100	—	Dormant
Sure Bright Investment Co., Ltd.	BVI	US\$1.00	100	—	Dormant
Glorison Limited	BVI	US\$1.00	100	—	Investment holding
Sun East Development Limited	BVI	US\$1.00	—	100	Investment holding
Totality Profits Co., Limited	BVI	US\$1.00	—	100	Investment holding

2003
ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS

30 JUNE 2003

16. TRADING SECURITIES

	Group and Company	
	2003	2002
	HK\$	HK\$
Listed equity securities in Hong Kong, at market value	—	793,180

17. DUE TO A DIRECTOR

Group and Company

The amount due to a director was unsecured, interest-free and fully repaid subsequent to the balance sheet date.

18. OTHER LOANS

Included in other loans as at 30 June 2003 was a loan due to a third party of HK\$2,000,000, bearing interest at a rate of 24% per annum and secured by a personal guarantee given by a director. The loan was repaid on 22 September 2003 and a new loan of HK\$1,500,000 was granted by this third party on that date. The new loan bears the same terms as the previous loan and is repayable on 21 March 2004.

The remaining balance of HK\$1,046,250 representing a loan due to another third party was unsecured and bore an average interest rate of approximately 15% per annum. The loan was fully repaid subsequent to the balance sheet date.

19. SHARE CAPITAL

	2003	2002
	HK\$	HK\$
Authorised:		
200,000,000 ordinary shares of HK\$0.10 each	<u>20,000,000</u>	<u>20,000,000</u>
Issued and fully paid:		
40,000,000 ordinary shares of HK\$0.10 each	<u>4,000,000</u>	<u>4,000,000</u>

20. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading “Employee benefits” in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company’s share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations.

On 24 May 2001, the Company approved the Scheme under which the directors may, at their discretion, grant to full-time employees and executive directors of the Group, the right to take up options to subscribe for shares of the Company during the 10 years from its date of approval. The Scheme became effective upon the listing of the Company’s shares on the Stock Exchange on 8 June 2001 and unless otherwise cancelled or amended, will remain in force for 10 years from that date. No options have been granted since the approval of the Scheme.

30 JUNE 2003

20. SHARE OPTION SCHEME (*Continued*)

Subsequent to the adoption of the Scheme on 24 May 2001, the Stock Exchange introduced a number of changes to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") on share option schemes. These new rules came into effect on 1 September 2001. No share options have been granted under the Scheme since the adoption of these new rules on 1 September 2001. However, any option to be granted under the Scheme shall be subject to the new changes which include, inter alia, the following:

- (a) the maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting;
- (b) share options granted to a director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by independent non-executive directors; and
- (c) the exercise price of share options is determined by directors, but may not be less than the higher of: (i) the Stock Exchange closing price of the shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant.

Under the existing Scheme, the maximum number of shares over which options may be granted may not exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued pursuant to the Scheme. No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25% of the aggregate number of shares subject to the Scheme, at the time it is proposed to grant the relevant option to such person. The subscription price of the options is to be subject to a minimum which is the higher of the nominal value of a share and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the grant date of the options. The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1. The options granted can be exercised at any time during a period specified by the directors, which commences on the grant date and expires on the last day of such period, and in any event such period must not be less than 3 years and not more than 10 years from the grant date of the options.

The Company will amend, in due course, the terms of the Scheme to comply with the requirements of the amended Listing Rules on share option schemes.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

NOTES TO FINANCIAL STATEMENTS

30 JUNE 2003

21. RESERVES

(a) Group

The movements in the Group's reserves for the current and prior years are presented in the consolidated statement of changes in equity on page 17 of the financial statements.

(b) Company

	Share premium account HK\$	Accumulated losses HK\$	Total HK\$
At 1 July 2001	30,944,887	(433,715)	30,511,172
Net loss for the year	—	(5,005,570)	(5,005,570)
At 30 June 2002 and 1 July 2002	30,944,887	(5,439,285)	25,505,602
Net loss for the year	—	(18,156,574)	(18,156,574)
At 30 June 2003	<u>30,944,887</u>	<u>(23,595,859)</u>	<u>7,349,028</u>

At 30 June 2003, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$7,349,028 (2002: HK\$25,505,602). Under the Companies Law (2000 Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

22. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Changes to the layout of the consolidated cash flow statement

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassification resulting from the change in presentation is that interest received is now included in cash flows from investing activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout.

NOTES TO FINANCIAL STATEMENTS

30 JUNE 2003

23. OPERATING LEASE ARRANGEMENTS

The Group leases its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

At 30 June 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Within one year	798,960	1,096,514	–	337,502
In the second to fifth years, inclusive	–	838,908	–	–
	<u>798,960</u>	<u>1,935,422</u>	<u>–</u>	<u>337,502</u>

24. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed in notes 17 and 18 to the financial statements, significant related party transactions, which were carried out in the normal course of the Group's business, are summarised as follows:

	2003 HK\$	2002 HK\$
Investment management fee paid to Glory Investment Assets Limited	<u>530,000</u>	<u>736,000</u>

Pursuant to the Investment Management Agreement dated 24 May 2001 entered into between the Company and Glory Investment Assets Limited (the "Investment Manager"), the Investment Manager provides investment management services and general administrative services to the Group. Under this arrangement, the Investment Manager is entitled to a monthly management fee payable in advance, calculated at 2.5% per annum of the net asset value of the Group as at the end of the preceding month on the basis of the actual number of days in the relevant calendar month over a year of 365 days. In addition, the Investment Manager is also entitled to 15% of the surplus in net asset value of the Group over a financial year or period.

Pursuant to a supplemental agreement to the Investment Management Agreement dated 25 June 2002 entered into between the Company and the Investment Manager (the "Supplemental Agreement"), the monthly management fee payable in advance was reduced from 2.5% per annum to 2.0% per annum of the net asset value of the Group as at the end of the preceding month, calculated on the basis of the actual number of days in the relevant calendar month over a year of 365 days. The Supplemental Agreement became effective on 2 August 2002.

Ms. Chiu Kam Hing, Kathy, the chairman and an executive director of the Company, has a 30% equity interest in the Investment Manager.

2003
ANNUAL REPORT

30 JUNE 2003

25. POST BALANCE SHEET EVENTS

As further disclosed in notes 14 and 18 to the financial statements, on 24 September 2003, the Company entered into a loan agreement with an independent third party, pursuant to which the independent third party advanced to the Company a loan of HK\$2,500,000. The loan is unsecured, bears interest at the rate of 3% per annum and is repayable on or before 31 December 2003. Subsequent to the balance sheet date, a director of the Company advanced a loan to the Company. The loan is unsecured, interest-free and has no fixed terms of repayment. At the date of this report, the amount payable to this director by the Company amounted to approximately HK\$0.5 million.

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 October 2003.