

## 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 as modified by the valuation of investment in securities at fair value.

In the current year, the Group adopted Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

The adoption of the above revised SSAP had no material financial impact on these accounts.

#### (b) 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 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.

The gain or loss on the 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.

## Notes to the Accounts

### 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (b) Consolidation *(Continued)*

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) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rate used for this purpose is 33<sup>1</sup>/<sub>3</sub>%.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in 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.

#### (d) 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.

## Notes to the Accounts

### 1 PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (e) Investment securities

##### (i) *Investment securities*

Investment securities which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Where there is objective evidence that individual investments are impaired, the cumulative loss recorded in the investment revaluation reserve is taken to the profit and loss account.

##### (ii) *Trading securities*

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

#### (f) 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 and deposits held at call with banks and bank overdraft.

#### (g) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

## Notes to the Accounts

### 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (g) **Deferred taxation** *(Continued)*

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

#### (h) **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 in these cases are dealt with in the profit and loss account.

#### (i) **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.

#### (j) **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

#### (k) **Employee benefits**

##### *(i) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

## Notes to the Accounts

### 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (k) Employee benefits *(Continued)*

##### *(ii) Profit sharing and bonus plans*

The expected cost of profit sharing and bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

##### *(iii) Pension obligations*

The Group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the fund.

#### (l) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

#### (m) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed 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 accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

## Notes to the Accounts

### 2 TURNOVER AND REVENUE

The Group is principally engaged in the investment in listed and unlisted companies. Revenues recognised during the year are as follows:

	2003 HK\$	2002 HK\$
Turnover		
Proceeds from sale of trading securities	15,525,940	38,667,190
Other revenues		
Interest income	185	879,659
Dividend income from investments in securities	182,130	2,173,968
Other income	–	10,000
	<u>182,315</u>	<u>3,063,627</u>
Total revenues	<u>15,708,255</u>	<u>41,730,817</u>

All of the Group's turnover, contribution to operating (loss)/profit, assets and liabilities are attributable to the investments in listed companies and accordingly no analysis of the Group's turnover, contribution to operating (loss)/profit, assets and liabilities by principal activities is provided.

No geographical analysis is presented as none of the Group's turnover, contribution to operating (loss)/profit, assets and liabilities is attributable to markets outside Hong Kong.

## Notes to the Accounts

### 3 OPERATING (LOSS)/PROFIT

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

	2003 HK\$	2002 HK\$
Auditors' remuneration	195,000	150,000
Depreciation	153,408	311,820
Loss on disposal of a subsidiary	–	1,806,190
Staff costs including directors' remuneration	1,104,200	1,978,764
Operating leases – land and buildings	894,286	479,187
Retirement benefit costs (note 8)	32,700	51,388
	<u>          </u>	<u>          </u>

### 4 FINANCE COSTS

	2003 HK\$	2002 HK\$
Interest on bank overdraft	806,535	23,492
	<u>          </u>	<u>          </u>

### 5 TAXATION

Hong Kong profits tax has not been provided in these accounts as the Group has no estimated assessable profit during the year (2002: Nil).

The taxation on the Group's (loss)/profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2003 HK\$	2002 HK\$
(Loss)/profit before taxation	(25,433,132)	520,547
Calculated at a taxation rate of 17.5% (2002: 16%)	(4,450,798)	83,288
Income not subject to taxation	(31,905)	(488,580)
Expenses not deductible for taxation purposes	8,391	311,046
Unrecognised tax losses (note 17)	4,474,312	94,246
	<u>          </u>	<u>          </u>
Taxation charge	–	–
	<u>          </u>	<u>          </u>

## Notes to the Accounts

### 6 (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The (loss)/profit attributable to shareholders is dealt with in the accounts of the Company to the extent of the loss of HK\$25,310,179 (2002: Profit of HK\$500,527).

### 7 (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted (loss)/earnings per share is based on the Group's loss attributable to the shareholders of HK\$25,433,132 (2002: Profit of HK\$520,547).

The basic (loss)/earnings per share is based on the weighted average of 200,000,004 (2002: 200,000,004) ordinary shares in issue during the year. The number of ordinary shares in issue during the year ended 31st December 2002 has been adjusted retrospectively after taking into account the one for one bonus issue.

The diluted loss per share for the year ended 31st December 2003 is the same as the basic loss per share as all potential ordinary shares are anti-dilutive. The diluted earnings per share for the year ended 31st December 2002 is based on 200,146,689 ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average of 146,685 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

### 8 RETIREMENT BENEFIT COSTS

The Group contributes to a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Scheme Ordinance (the "MPF Ordinance") which is available to all qualifying employees. Under the MPF Scheme, the Group's contributions are at 5% of employees' relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The retirement benefit costs charged to the profit and loss account represent contributions payable by the Group to the MPF Scheme.

During the year, the Group's contribution charged to the profit and loss account, amounted to HK\$32,700 (2002: HK\$51,388). As at 31st December 2003, there were no contributions payable to the MPF Scheme (2002: Nil).

## Notes to the Accounts

### 9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

#### (a) Directors' emoluments

The aggregate amounts of emoluments payable to directors, which are also included in staff costs as disclosed in note 3, of the Company during the year are as follows:

	2003 <i>HK\$</i>	2002 <i>HK\$</i>
Fees	131,000	69,000
Other emolument		
Basic salaries, housing allowances, other allowances and benefits in kind	859,200	1,702,000
Contribution to pension schemes	27,000	42,000
	1,017,200	1,813,000
	1,017,200	1,813,000

Directors' fees disclosed above include HK\$131,000 (2002: HK\$69,000) paid to independent non-executive directors.

All emoluments of directors fell within the emolument band of HK\$Nil to HK\$1,000,000 for the year ended 31st December 2003 and 2002.

None of the directors waived emoluments in respect of the year ended 31st December 2003 and 2002.

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2002: five) directors whose emoluments are reflected in the analysis presented in note 9(a) above. The emoluments payable to the remaining one individual for 2003 were as follows:

	2003 <i>HK\$</i>	2002 <i>HK\$</i>
Basic salaries, housing allowances, other allowances and benefits in kind	114,000	-
Contribution to pension scheme	5,700	-
	119,700	-
	119,700	-

## Notes to the Accounts

### 9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

#### (c) Share options granted to the directors of the Company

Under a share option scheme (the "1999 Scheme") approved by the shareholders of the Company in 1999, the directors of the Company may, at their discretion, invite employees, including executive directors of the Company, to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

Particulars of share options held by the directors of the Company under the 1999 Scheme during the year, after adjusting for the 1 for 1 bonus issue of shares effected on 24th May 2002, were as follows:

Name of director	Options held at 1st January 2003	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options held at 31st December 2003	Exercise price HK\$	Grant date
Mr. NGAN Man Kit	4,000,000	-	-	4,000,000	-	0.33	15th February 2000

The share options granted to Mr. NGAN Man Kit, a former executive director, under the 1999 Scheme lapsed on 15th July 2003 following his resignation as a director of the Company.

Pursuant to a shareholders' resolution passed on 2nd May 2003, the 1999 Scheme was terminated and a new share option scheme (the "New Scheme") was adopted. Under the New Scheme, the directors of the Company may grant options to those participants who, in the opinion of the Board, have contributed or may contribute to the development and growth of the Group and any entity in which the Group holds any equity interest. No share options were granted under the New Scheme during the year.

## Notes to the Accounts

### 10 FIXED ASSETS

	Group and Company			
	Leasehold	Office	Furniture	Total
	improve- ments <i>HK\$</i>	equipment <i>HK\$</i>	and fixtures <i>HK\$</i>	
Cost				
At 1st January 2003	81,530	58,248	163,681	303,459
Additions	85,640	71,586	–	157,226
	<u>167,170</u>	<u>129,834</u>	<u>163,681</u>	<u>460,685</u>
At 31st December 2003	<u>167,170</u>	<u>129,834</u>	<u>163,681</u>	<u>460,685</u>
Accumulated depreciation				
At 1st January 2003	13,575	10,362	27,253	51,190
Charge for the year	55,668	43,235	54,505	153,408
	<u>69,243</u>	<u>53,597</u>	<u>81,758</u>	<u>204,598</u>
At 31st December 2003	<u>69,243</u>	<u>53,597</u>	<u>81,758</u>	<u>204,598</u>
Net book value				
At 31st December 2003	<u>97,927</u>	<u>76,237</u>	<u>81,923</u>	<u>256,087</u>
At 31st December 2002	<u>67,955</u>	<u>47,886</u>	<u>136,428</u>	<u>252,269</u>

### 11 INVESTMENTS IN SUBSIDIARIES

	Company	
	2003 <i>HK\$</i>	2002 <i>HK\$</i>
Investments at cost		
Unlisted shares	78	80
Loan to a subsidiary	144,390	21,435
	<u>144,468</u>	<u>21,515</u>

The loan to a subsidiary is interest-free and has no fixed terms of repayment.

## Notes to the Accounts

### 11 INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following are the details of subsidiary held directly by the Company at 31st December 2003:

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest held
Moving Target Co., Ltd.	The British Virgin Islands	Investment holding in Hong Kong	10 ordinary shares of US\$1 each	100%

### 12 INVESTMENT SECURITIES

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Equity securities, at fair value Listed in Hong Kong	<u>81,313,638</u>	<u>84,853,388</u>	<u>81,313,638</u>	<u>84,853,388</u>
Market value of listed equity securities	<u>81,313,638</u>	<u>84,853,388</u>	<u>81,313,638</u>	<u>84,853,388</u>

## Notes to the Accounts

### 12 INVESTMENT SECURITIES (Continued)

As at 31st December 2003, the carrying amounts of interests in each of the following companies exceeded 10% of total assets of the Group and the Company respectively.

Name	Place of incorporation	Particulars of issued shares held	Investment value		Interest held	Dividends received
			Acquisition cost	At market value		
			HK\$	HK\$		
Asia Standard International Group Limited	Bermuda	Ordinary shares of HK\$0.1 each	16,193,885	15,762,450	1.39%	-
China United International Holdings Limited	Hong Kong	Ordinary shares of HK\$ 0.1 each	6,779,708	17,870,892	4.99%	-
Qualipak International Holdings Limited	Bermuda	Ordinary shares of HK\$0.01 each	20,283,950	11,656,320	2.55%	182,130
Yugang International Limited	Bermuda	Ordinary shares of HK\$ 0.01 each	11,325,636	29,324,352	3.61%	-

Particulars of the above major investment securities are as follows:

Asia Standard International Group Limited ("Asia Standard") is principally engaged in property sales and investment, hotel and management services businesses. The loss attributable to shareholders of Asia Standard for the year ended 31st March 2003 was approximately HK\$283,122,000 and the net assets of Asia Standard as at 31st March 2003 were approximately HK\$6,660,943,000.

China United International Holdings Limited ("China United") is principally engaged in property investment, investment holding, investments in marketable securities and the provision of brokerage and financial services. The loss attributable to shareholders of China United for the year ended 31st December 2002 was approximately HK\$331,560,000 and the net assets of China United as at 31st December 2002 were approximately HK\$428,354,000.

Qualipak International Holdings Limited ("Qualipak") is principally engaged in the design, development, manufacture and sale of packaging products for designer label items and luxury consumer goods, point-of-sale display units and office stationery. The profit attributable to shareholders of Qualipak for the year ended 31st December 2002 was approximately HK\$24,440,000 and the net assets of Qualipak as at 31st December 2002 were approximately HK\$316,277,000.

## Notes to the Accounts

### 12 INVESTMENT SECURITIES (Continued)

Yugang International Limited ("Yugang") is principally engaged in packaging business and property investment business. The loss attributable to shareholders of Yugang for the year ended 31st December 2002 was approximately HK\$151,420,000 and the net assets of Yugang as at 31st December 2002 were approximately HK\$1,718,905,000.

### 13 TRADING SECURITIES

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Equity securities, at fair value				
Listed in Hong Kong	<u>30,808,536</u>	<u>49,787,500</u>	<u>30,808,536</u>	<u>49,787,500</u>
Market value of listed equity securities	<u>30,808,536</u>	<u>49,787,500</u>	<u>30,808,536</u>	<u>49,787,500</u>

At 31st December 2003, none of the carrying amount of interests in each of the listed equity securities exceeded 10% of total assets of the Group and the Company.

### 14 BANKING FACILITIES

As at 31st December 2003, the Group's and the Company's bank overdraft facilities amounting to HK\$15,000,000 (2002: HK\$15,000,000) were secured by all the Group's investment/trading securities.

## Notes to the Accounts

### 15 SHARE CAPITAL

	<b>Authorised ordinary shares of HK\$0.10 each</b>	
	<i>No. of shares</i>	<i>HK\$</i>
At 1st January 2002	200,000,000	20,000,000
Increase in authorised ordinary share capital in 2002	<u>200,000,000</u>	<u>20,000,000</u>
<b>At 31st December 2002 and 2003</b>	<b><u>400,000,000</u></b>	<b><u>40,000,000</u></b>
	<b>Issued and fully paid ordinary shares of HK\$0.10 each</b>	
	<i>No. of shares</i>	<i>HK\$</i>
At 1st January 2002	100,000,002	10,000,000
Issue of bonus shares in 2002	<u>100,000,002</u>	<u>10,000,000</u>
<b>At 31st December 2002 and 2003</b>	<b><u>200,000,004</u></b>	<b><u>20,000,000</u></b>

*Notes:*

- (a) By an ordinary resolution passed on 24th May 2002, the authorized ordinary share capital of the Company was increased from HK\$20,000,000 to HK\$40,000,000 by the creation of 200,000,000 shares of HK\$0.10 each.
- (b) Also on 24th May 2002, a total of 100,000,002 bonus shares were allocated and issued on the basis of one bonus share for every one share held by the then registered shareholders, credited as fully paid by way of capitalisation from the Company's share premium account.

## Notes to the Accounts

### 16 RESERVES

#### (a) Group

	Share premium <i>HK\$</i>	Investment revaluation reserve <i>HK\$</i>	Retained profits/ (accumulated losses) <i>HK\$</i>	Total <i>HK\$</i>
At 1st January 2002	84,031,922	10,800,000	7,899,313	102,731,235
Surplus on revaluation of investment securities	-	12,290,522	-	12,290,522
Profit for the year	-	-	520,547	520,547
2001 Final dividend paid	-	-	(1,000,000)	(1,000,000)
Issuance of bonus shares	(10,000,000)	-	-	(10,000,000)
At 31st December 2002	<u>74,031,922</u>	<u>23,090,522</u>	<u>7,419,860</u>	<u>104,542,304</u>
At 1st January 2003	74,031,922	23,090,522	7,419,860	104,542,304
Deficit on revaluation of investment securities	-	(1,331,575)	-	(1,331,575)
Loss for the year	-	-	(25,433,132)	(25,433,132)
At 31st December 2003	<u>74,031,922</u>	<u>21,758,947</u>	<u>(18,013,272)</u>	<u>77,777,597</u>

## Notes to the Accounts

### 16 RESERVES (Continued)

#### (b) Company

	Share premium HK\$	Investment revaluation reserve HK\$	Retained profits/ (accumulated losses) HK\$	Total HK\$
At 1st January 2002	84,031,922	10,800,000	7,940,848	102,772,770
Surplus on revaluation of investment securities	-	12,290,522	-	12,290,522
Profit for the year	-	-	500,527	500,527
2001 Final dividend paid	-	-	(1,000,000)	(1,000,000)
Issuance of bonus shares	(10,000,000)	-	-	(10,000,000)
<b>At 31st December 2002</b>	<b><u>74,031,922</u></b>	<b><u>23,090,522</u></b>	<b><u>7,441,375</u></b>	<b><u>104,563,819</u></b>
At 1st January 2003	74,031,922	23,090,522	7,441,375	104,563,819
Deficit on revaluation of investment securities	-	(1,331,575)	-	(1,331,575)
Loss for the year	-	-	(25,310,179)	(25,310,179)
<b>At 31st December 2003</b>	<b><u>74,031,922</u></b>	<b><u>21,758,947</u></b>	<b><u>(17,868,804)</u></b>	<b><u>77,922,065</u></b>

The Company had a distributable reserve of HK\$74,031,922 as at 31st December 2003 (2002: HK\$81,473,297), represented by the total of share premium and retained profits (for 2002 only) of the Company. Under the Companies Law (2000 Revision) of the Cayman Islands, share premium of the Company is distributable to the shareholders, subject to a solvency test.

## Notes to the Accounts

### 17 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002 : 16%).

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group and the Company have estimated unrecognised tax losses of HK\$28,095,572 (2002: HK\$2,919,761) respectively to carry forward against future taxable income. These estimated tax losses have not been accounted for due to uncertainty on future realization.

### 18 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of operating (loss)/profit to net cash outflow generated from operations

	2003 HK\$	2002 HK\$
Operating (loss)/profit	(24,626,597)	544,039
Depreciation	153,408	311,820
Loss on disposal of a subsidiary	–	1,806,190
Unrealised holding loss/(gain) on trading securities	27,038,224	(9,793,500)
Interest income	(185)	(879,659)
Dividend income	(182,130)	(2,173,968)
	<hr/>	<hr/>
Operating profit/(loss) before working capital changes	2,382,720	(10,185,078)
Increase in trading securities	(8,059,260)	(28,535,340)
Decrease in deposits, prepayments and other receivables	1,625,977	15,637
(Decrease)/increase in sundry payables and accruals	(265,778)	315,363
	<hr/>	<hr/>
Net cash outflow generated from operations	<u>(4,316,341)</u>	<u>(38,389,418)</u>

## Notes to the Accounts

### 18 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

#### (b) Sale of a subsidiary

	2003 HK\$	2002 HK\$
Net assets disposed of:		
Investments/trading securities	–	4,006,190
Loss on disposal of a subsidiary	–	(1,806,190)
	–	2,200,000
Consideration received	–	2,200,000
	–	2,200,000
Satisfied by:		
Cash	–	2,200,000
	–	2,200,000

### 19 COMMITMENTS UNDER OPERATING LEASES

At 31st December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases for land and buildings as follows:

	2003 HK\$	2002 HK\$
Not later than one year	620,796	720,000
Later than one year and not later than five years	13,864	600,000
	634,660	1,320,000
	634,660	1,320,000

## Notes to the Accounts

### 20 RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	<b>2003</b>	<b>2002</b>
	<i>HK\$</i>	<i>HK\$</i>
Management fee and bonus paid/payable to related companies ( <i>note (a)</i> )	1,105,139	2,732,439
Brokerage fee paid/payable to a related company ( <i>note (b)</i> )	–	364,430
	<u>                    </u>	<u>                    </u>

*Notes:*

- (a) Pursuant to an investment management agreement dated 6th October 1999 (the "Original Investment Management Agreement") between the Company and Alpha Asset Investments Limited ("Alpha"), Alpha has agreed to provide the Group with investment management and general administrative services. Under this arrangement, Alpha is entitled to a monthly management fee payable in advance at 2.5% per annum of the net asset value of the Group at the end of preceding month on the basis of actual number of days in the relevant calendar month over a year of 365 days. The aggregate of management fee and the Bonus paid to Alpha for the year amounted to HK\$956,593.

Mr. NGAN Man Kit, a former executive director of the Company, has 60% indirect equity interests in Alpha.

The Original Investment Management Agreement was terminated on 27th April 2003.

Pursuant to an investment management agreement dated 5th November 2003 between the Company and CU Investment Management Limited ("CUIM"), CUIM has agreed to provide the Group with investment management services with effect from 5th November 2003. Under this arrangement, CUIM is entitled to a monthly management fee payable in advance at 1% per annum of the net asset value of the Group at the end of preceding month on the basis of actual number of days in the relevant calendar month over a year of 365 days. The aggregate of management fee and the Bonus paid/payable to CUIM for the year amounted to HK\$148,546.

Dr. PANG Shuen Wai, Nichols, an executive director of the Company, is a director of CUIM.

- (b) Uni-Alpha Securities Limited ("UASL") provides brokerage services to the Company and is entitled to a brokerage fee at 0.25% of the transaction amounts.

Mr. NGAN Man Kit, a former executive director of the Company, has 60% indirect equity interests in UASL.

## **Notes to the Accounts**

### **21 SUBSEQUENT EVENTS**

On 8th January 2004, the Company issued 40,000,000 new ordinary shares of HK\$0.10 each at a subscription price of HK\$0.148 per share, by way of share placement, raising net proceeds of approximately HK\$5,800,000. On 5th March 2004, the Company announced the proposal to issue 48,000,000 new ordinary shares of HK\$0.10 each at a subscription price of HK\$0.20 per share. The due date for the new share placement will be 15th April 2004.

### **22 APPROVAL OF ACCOUNTS**

The accounts were approved by the board of directors on 26th March 2004.