

For the year ended 31 December 2003

1. GENERAL

The Company was incorporated in Bermuda with limited liability on 15 June 2001 as an exempted company under the Companies Act (1981) of Bermuda pursuant to a group reorganisation which involved a change of domicile of the Group from Hong Kong to Bermuda, details of which are set out in the prospectus of the Company dated 19 October 2001.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the holding of equity or equity-related investments and the provision of management services to the investee companies.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements are prepared under the historical cost convention.

The accounting policies used in the preparation of the financial statements are consistent with the previous year except that the Group has adopted the revised Hong Kong Statement of Standard Accounting Practice 12 "Income taxes" which became effective for the current financial year.

The principal effect of the implementation of the revised statement is in relation to deferred tax. In previous years partial provision was made for deferred tax using income statement liability method, that is, a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. The revised statement requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements, the new accounting policy has been adopted retrospectively, but the adoption of the Standard has not had any material effect on the results for the current year or prior accounting periods.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and with accounting standards issued by the Hong Kong Society of Accountants.

(a) Revenue recognition

Management fee income is recognised when service is rendered.

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

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

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December 2003.

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

(c) Subsidiaries

A subsidiary is an entity 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.

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

(d) Associates

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

The Group's investments in associates include the Group's share of the net assets of the associates. The Group's share of post-acquisition profits or losses of associates is included in the consolidated income statement.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised in the consolidated income statement.

(e) Jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group's interests in jointly controlled entities include the Group's share of the net assets of the jointly controlled entities. The Group's share of post-acquisition profits or losses of jointly controlled entities is included in the consolidated income statement.

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3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Jointly controlled entities (Continued)

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised in the consolidated income statement.

(f) Capital reserve or goodwill on consolidation

According to the principal accounting policies of the Group, goodwill arising on acquisition of subsidiaries, jointly controlled entities or associates is amortised over twenty years from initial recognition in order to reflect the best estimate of the period during which future economic benefits are expected to flow to the Group.

(g) Investment in securities

Held-to-maturity debt securities are stated at amortised costs less any impairment loss recognised to reflect irrecoverable amounts.

Investment securities include the Group's equity interest in companies in which the Group has no significant influence on their financial and operating decisions and which are intended to be held on a continuing basis for an identified long-term purpose. Investment securities are stated at cost less impairment losses, if any.

The carrying amounts of individual investment securities 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 investment securities is reduced to its fair value. The amount of reduction is recognised as an expense in the consolidated income statement. The reduction is written back to consolidated income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(h) Trading investments

Trading 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 trading investments are recognised in the consolidated income statement. Profits or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the consolidated income statement as they arise.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)**(i) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Property, plant and equipment are depreciated at rates sufficient to write off their costs over their estimated useful lives on a straight line basis. The principal annual rates are as follows:

Office equipment	20%
Computer equipment	20%
Motor vehicle	20%

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the consolidated income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(j) Club membership

Club membership is stated at cost less impairment losses, if any. The carrying amount of individual club membership is reviewed at each balance sheet date to assess whether the fair value has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such club membership is reduced to its fair value. The amount of the reduction is recognised as an expense in the consolidated income statement.

(k) Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity, at acquisition. For the purpose of the consolidated cash flow statement, bank overdrafts, if any, which are repayable on demand and form an integral part of an enterprise's cash management are also included as a component of cash and cash equivalents.

(l) 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. Rentals applicable to such operating leases are charged to the consolidated income statement on a straight line basis over the lease term.

(m) Impairment of assets

The carrying amounts of assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. 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 consolidated income statement.

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3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Foreign currency translation

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the consolidated income statement.

The balance sheets of subsidiaries, associates and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst income statements' items are translated at average rates. Exchange differences are dealt with as a movement in reserves. Upon the disposal of an overseas subsidiary, associate or a jointly controlled entity, the related cumulative exchange difference is included in the consolidated income statement as part of the gain or loss on disposal.

(o) Employee benefits

Pursuant to the People's Republic of China ("PRC") laws and regulations, contributions to the retirement benefit scheme for the staff of the Company's subsidiary operating in the PRC are to be made monthly to a government agency at a certain percentage of the basic salaries of the employees. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The contributions are charged to the consolidated income statement as they become payable.

(p) Related parties

Two 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.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, 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.

Deferred taxation is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

(s) Events after the balance sheet date

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

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4. SEGMENTAL INFORMATION

In accordance with the Group's financial reporting, the Group has determined that the business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

An analysis of the Group's turnover and operating loss by business segment and geographical segment for the year is as follows:

	Turnover		Operating loss	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
By business segment:				
Management fees from jointly controlled entities	520,736	1,491,239	(38,544,954)	(4,417,567)
Dividend income from investment securities	1,970,538	2,453,015	1,970,538	2,453,015
	2,491,274	3,944,254	(36,574,416)	(1,964,552)
Finance costs			(11,593)	(23,331)
Share of net profits/(losses) of associates			3,171,032	(5,478,519)
Share of net profits/(losses) of jointly controlled entities			2,554,436	(6,115,690)
Gain on disposal of a jointly controlled entity			5,583,473	—
Gain on disposal of an associate			1,719,702	—
Loss before taxation			(23,557,366)	(13,582,092)
Total assets (unallocated)			275,162,516	246,575,803
Total liabilities (unallocated)			38,229,479	29,028,898

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4. SEGMENTAL INFORMATION (Continued)

Given the nature of the Group's operations as investment holding, segment assets and segment liabilities are unallocated.

	Turnover	
	2003 HK\$	2002 HK\$
By geographical segment:		
Hong Kong	1,970,538	2,453,015
The People's Republic of China	520,736	1,491,239
	2,491,274	3,944,254

Given the nature of the Group's operations as investment holding and the way in which costs are allocated, it is not considered meaningful to provide geographical analysis of operating loss.

5. TURNOVER AND OTHER REVENUE

	2003 HK\$	2002 HK\$
Turnover		
Management fees from jointly controlled entities	520,736	1,491,239
Dividend income from investment securities	1,970,538	2,453,015
	2,491,274	3,944,254
Other revenue		
Interest on bank deposits	615,689	548,796
Investment income from held-to-maturity debt securities	378,000	378,000
Gain on disposal of investment securities	22,740	—
Gain on disposal of trading investments	95,009	—
Other income	40,154	180,000
	1,151,592	1,106,796
Total revenue	3,642,866	5,051,050

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6. LOSS FROM OPERATIONS

Loss from operations is stated after charging the following:

	2003 HK\$	2002 HK\$
Amortisation of goodwill *	91,494	365,977
Auditors' remuneration	180,000	180,000
Depreciation	89,210	87,359
Operating lease payments on land and buildings	246,816	258,101
Property, plant and equipment written off	—	966
Provision for non-recovery of other loan	4,230,135	—
Provision for non-recovery of receivable arising from disposal of interest in a jointly controlled entity	30,680,100	—
Retirement benefit cost	114,807	133,595

* Amortisation of goodwill are included in "other operating expenses" on the face of the consolidated income statement.

7. FINANCE COSTS

	2003 HK\$	2002 HK\$
Bank charges	11,593	23,331

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of fees payable to directors of the Group during the year are as follows:

	2003 HK\$	2002 HK\$
Fees	260,000	420,000
Other emoluments	—	—
	260,000	420,000

The above amounts include directors' fees of HK\$100,000 (2002: HK\$100,000) paid to independent non-executive directors of the Group.

During the year, no share option was granted to the directors.

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8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)**(b) Five highest paid individuals**

Details of the fees and emoluments paid during the year to the five highest paid individuals (including directors and other employees) of the Group are as follows:

	2003 HK\$	2002 HK\$
Fees, basic salaries and other benefits in kind	607,704	727,195
Number of directors	2	2
Number of employees	3	3

The annual fees and emoluments paid during the year to all the five highest paid individuals (including directors and other employees) fall within the band of HK\$Nil — HK\$1,000,000.

9. TAXATION

	2003 HK\$	2002 HK\$
Company and subsidiaries		
— Hong Kong profits tax	—	—
— Overseas income tax	208,295	192,805
Jointly controlled entities and associates		
— Share of taxation attributable to associates	437,984	—
— Share of taxation attributable to jointly controlled entities	578,220	1,575,997
	1,224,499	1,768,802

Hong Kong profits tax has not been provided as the individual companies comprising the Group do not have assessable profit arising in Hong Kong for the year.

Taxation for other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions.

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9. TAXATION (Continued)

Reconciliation between taxation and tax at the applicable rate:

	2003 HK\$	2002 HK\$
Loss before taxation	(23,557,366)	(13,582,092)
Tax at the applicable tax rate	(5,885,512)	(3,233,843)
Tax effect of income that is not taxable in determining taxable profit	(10,577,692)	(511,047)
Tax effect of expenses that are not deductible in determining taxable profit	16,229,622	2,975,157
Tax effect of utilisation of tax losses not previously recognised	(8,955)	—
Tax effect of unused tax losses not recognised	1,258,741	1,737,687
Underprovision in prior year	208,295	800,848
Taxation charge	1,224,499	1,768,802

The applicable tax rate represents the weighted average of the rates of taxation prevailing in the relevant jurisdictions in which the Group operates.

10. LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

The loss for the year attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$6,127,736 (2002: HK\$3,925,844).

11. LOSS PER SHARE

The calculation of the loss per share is based on the Group's loss for the year attributable to shareholders of HK\$24,781,865 (2002: HK\$15,350,894) and on the weighted average number of approximately 275,295,436 shares (2002: 89,990,000 shares (restated), adjusted to reflect the share consolidation during the year.)

12. PROPERTY, PLANT AND EQUIPMENT

Group	Office equipment	Computer equipment	Motor vehicle	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Cost				
At 1 January 2003	80,820	22,775	253,084	356,679
Additions	14,317	—	—	14,317
At 31 December 2003	95,137	22,775	253,084	370,996
Accumulated depreciation				
At 1 January 2003	16,000	7,873	134,009	157,882
Charge for the year	19,018	4,555	65,637	89,210
At 31 December 2003	35,018	12,428	199,646	247,092
Net book value				
At 31 December 2003	60,119	10,347	53,438	123,904
At 31 December 2002	64,820	14,902	119,075	198,797

13. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	<i>HK\$</i>	<i>HK\$</i>
Overseas unlisted shares, at cost	780	780
Due from a subsidiary	89,993,120	89,989,220
	89,993,900	89,990,000

The amount due from a subsidiary is unsecured, interest free and not repayable within the next twelve months.

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13. INVESTMENTS IN SUBSIDIARIES (Continued)

Details of the principal subsidiaries as at 31 December 2003 are as follows:

Name	Place of incorporation/ operation	Particulars of issued share capital/registered capital	Percentage of issued share capital/registered capital held	Principal activities
Directly held by the Company:				
Accufocus Investments Limited	British Virgin Islands	100 shares of US\$1 each	100%	Investment holding
Indirectly held by the Company:				
Attentive Investments Limited	British Virgin Islands	1 share of US\$1 each	100%	Investment holding
B2C E-Commerce Group Limited	British Virgin Islands	1 share of US\$1 each	100%	Investment holding
Best Policy Management Limited	British Virgin Islands	1 share of US\$1 each	100%	Investment holding
Chief Success Management Limited	British Virgin Islands	1 share of US\$1 each	100%	Investment holding
Ever Honest Investments Limited	British Virgin Islands	1 share of US\$1 each	100%	Investment holding
Founder China Industrial Investments Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Investment holding and provision of management services
Founder Industrial Investments (Holdings) Company Limited	Hong Kong	10,000,000 ordinary shares of HK\$1 each	100%	Investment holding

13. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Particulars of issued share capital/registered capital	Percentage of issued share capital/registered capital held	Principal activities
<i>Indirectly held by the Company: (Continued)</i>				
GR Investment Holdings Limited	Hong Kong	899,900,000 ordinary shares of HK\$0.1 each	100%	Investment holding
Glorious Bright Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Money lending
Genius Choice Investments Limited	British Virgin Islands	1 share of US\$1 each	100%	Investment holding
Home Growth Assets Limited	British Virgin Islands	1 share of US\$1 each	100%	Investment holding
Prosperity Investment Holdings Limited (formerly named as "Founder (Changzhou) Investment Company Limited")	Hong Kong	2 ordinary shares of HK\$1 each	100%	Dormant
Rich Concept Investments Limited	British Virgin Islands	1 share of US\$1 each	100%	Investment holding
Rich Profits International Limited	British Virgin Islands	1 share of US\$1 each	100%	Investment holding
Sun Kai Yip (Shanghai) Industrial Investments Limited #	People's Republic of China	US\$10,000,000	100%	Investment holding and provision of management and advisory services

Company not audited by RSM Nelson Wheeler. The Group's result before taxation attributable to this company amounted to loss of HK\$8,480,906 (2002: profit of HK\$278,540).

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13. INVESTMENTS IN SUBSIDIARIES (Continued)

The above summary lists only the principal subsidiaries of the Group which, in the opinion of the Company's directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

14. INVESTMENTS IN ASSOCIATES

	Group	
	2003 HK\$	2002 HK\$
Share of net assets	—	771,144
Due from associates	19,032,227	19,191,386
	19,032,227	19,962,530

The amounts due from associates are unsecured, interest free and not repayable within the next twelve months.

Details of the principal associates and those of which the carrying amounts of interests exceeded 5% of total assets of the Group as at 31 December 2003 are as follows:

Name	Place of incorporation	Proportion of investee's capital owned	Cost and advances thereto HK\$ million	Directors' valuation* HK\$ million	Dividend	Dividend cover	Net assets attributable to the investment HK\$ million	Principal activities/ place of operation
					income received during the year HK\$ million			
Luck Point Investments Limited	British Virgin Islands	35%	5	3	—	—	3	(2) Investment holding/ Hong Kong
Happy Online Group Limited	British Virgin Islands	33.75%	2	2	—	—	2	— Investment holding/ Hong Kong
Market Choice Investments Limited	British Virgin Islands	20%	14	13	—	—	13	(1) Investment holding/ Hong Kong

14. INVESTMENTS IN ASSOCIATES (Continued)

The above summary lists out only the principal associates of the Group which, in the opinion of the Company's directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

* Directors' valuation represents the aggregate of the cost of investment, post-acquisition results and loan to associates. The directors consider that the carrying values of the interests in the associates approximate their fair values.

15. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2003	2002
	HK\$	HK\$
Share of net assets other than goodwill	29,721,096	50,540,722
Goodwill on acquisition of a jointly controlled entity	—	3,629,269
	29,721,096	54,169,991
Due from jointly controlled entities	1,847,832	4,251,741
	31,568,928	58,421,732

The amounts due from jointly controlled entities are unsecured, interest free and not repayable within the next twelve months. Dividends declared by the jointly controlled entities during the year amounted to HK\$Nil (2002: HK\$856,269).

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15. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

Details of the principal jointly controlled entities and those of which the carrying amounts of interests exceeded 5% of total assets of the Group as at 31 December 2003 are as follows:

Name	Proportion of investee's capital owned	Cost and advances thereto HK\$ million	Directors' valuation* HK\$ million	Dividend	Dividend cover	Net assets attributable to the investment HK\$ million	Accumulated unrealised profit/(loss) HK\$ million	Principal activities
				income received during the year HK\$ Million				
Shanghai Yong An Dairy Company Limited	25%	5	6	—	—	6	1	Production and distribution of dairy products
Shanghai Tian An Bearing Company Limited	30%	29	25	—	—	25	(4)	Manufacture and distribution of bearing products

* Directors' valuation represents the aggregate of the cost of investment, post-acquisition results and loan to jointly controlled entities. The directors consider that the carrying values of the interests in the jointly controlled entities approximate their fair values.

The tenure of the above companies can be extended by agreements with the joint venture partners after obtaining the necessary approval from the relevant government bodies.

Pursuant to the terms of the joint venture agreements for the above jointly controlled entities, the Group is entitled to receive its attributable share of the net assets upon liquidation of the jointly controlled entities.

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16. INVESTMENT SECURITIES

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Overseas unlisted equity securities, at cost	12,855,246	12,855,246	—	—
Less: Impairment losses	(7,709,402)	(7,709,402)	—	—
	5,145,844	5,145,844	—	—
Loans to an investee company	48,139,674	48,139,674	—	—
Listed equity securities, at cost				
Listed in Hong Kong	44,937,429	31,693,194	13,487,442	—
Total investment securities	98,222,947	84,978,712	13,487,442	—
Market value of listed equity securities	52,940,775	27,115,505	13,327,635	—

Loans to an investee company are unsecured, interest free and not repayable within the next twelve months.

As at 31 December 2003, the carrying amounts of interests in the following investment securities exceeded 5% of total assets of the Group and the Company respectively:

Name of investee company/ listed equity securities	Place of incorporation	Proportion of investee's capital owned	Cost and advances thereto HK\$ million	Directors' valuation/ market value HK\$ million	Dividend income received during the year HK\$ million	Dividend cover	Net assets attributable to the investment HK\$ million	Unrealised gain/loss taken in the accounts HK\$ million	Principal activities
Dragon Fortune Limited	British Virgin Islands	18%	52	52	—	—	46	—	Investment holding
Golden Resources Development International Limited	Bermuda	5%	21	23	2	9%	46	—	Wholesaling and distribution of consumer goods

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16. INVESTMENT SECURITIES (Continued)

Particulars of impairment in investment securities at the year ended 31 December 2003 are as follows:

Name	Cost	Impairment	Share of	Reason for
	HK\$	losses	net assets	impairment
	million	million	million	
Beijing Tian An Stevio Sugar Product Company Limited	4	3	1	Decrease in share of net assets
Anhui Wanhong Plastics Company Limited	4	4	—	Decrease in share of net assets

17. HELD-TO-MATURITY DEBT SECURITIES

	Group	
	2003 HK\$	2002 HK\$
Convertible redeemable note maturing in July 2004	5,040,000	5,040,000

18. OTHER ASSET

	Group	
	2003 HK\$	2002 HK\$
Golf club membership, at cost	150,000	150,000

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19. OTHER RECEIVABLES

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Prepayments and deposits (note (a))	2,794,796	336,223	203,737	244,237
Receivables arising from disposal of interest in a jointly controlled entity and an associate (note (b))	1,924,743	30,680,100	—	—
Other loan (notes (b) and (c))	16,000,000	4,230,135	—	—
Others	22,378	78,900	—	—
	20,741,917	35,325,358	203,737	244,237

Notes:

- (a) Included in prepayment and deposits is an amount of HK\$2,734,200 advanced to an independent non-executive director of a substantial shareholder of the Group.
- (b) As at 31 December 2003, the ageing analysis of the receivables other than the prepayments and deposits and others was as follows:

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Within 3 months	1,924,743	4,230,135	—	—
3 to 6 months	—	—	—	—
6 to 12 months	16,000,000	—	—	—
Over 1 year	—	30,680,100	—	—
	17,924,743	34,910,235	—	—

- (c) Other loan represents an amount of HK\$16,000,000 advanced to a related company on 10 March 2003 which is unsecured, interest bearing at prime rate and is repayable on 9 March 2005.

20. CASH AND BANK BALANCES

At 31 December 2003, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$70,741,000 (2002: approximately HK\$37,846,000). RMB is not freely convertible into foreign currencies. Subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

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21. OTHER PAYABLES

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Accruals	1,789,426	735,504	1,050,360	68,617
Due to related companies (note (a))	23,050,000	8,622,320	—	—
Other payables (note (b))	—	3,817,960	—	—
	24,839,426	13,175,784	1,050,360	68,617

Notes:

- (a) The amounts due to related companies are unsecured, interest free and have no fixed terms of repayment except an amount of HK\$16,000,000 (2002: HK\$Nil) which is interest bearing at prime rate.
- (b) As at 31 December 2003, the ageing analysis of the other payables was as follows:

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Within 3 months	—	—	—	—
3 to 6 months	—	—	—	—
6 to 12 months	—	—	—	—
Over 1 year	—	3,817,960	—	—
	—	3,817,960	—	—

22. DUE FROM/(TO) SINOX FUND MANAGEMENT LIMITED

The amount due from Sinox Fund Management Limited ("SINOX") represents investment management fees prepaid at the year end. The amount due to SINOX represents investment management fees payable at the year end. The amounts due are unsecured, interest free and repayable on demand.

Mr. Lam Sai Ho, Anthony has an indirect equity interest in SINOX.

SINOX is the Investment Manager of the Group and provides administrative and investment management services to the Group in relation to the investment of the Group's assets (note 30(a)).

23. DUE TO A SUBSIDIARY

The amount due to a subsidiary is unsecured, interest free and repayable on demand.

24. SHARE CAPITAL

	Note	Number of shares		Share capital	
		2003	2002	2003	2002
				HK\$	HK\$
Shares of HK\$0.10 each (2002: HK\$0.01 each)					
Authorised:	(b)	3,000,000,000	30,000,000,000	300,000,000	300,000,000
Issued and fully paid:					
At 1 January		899,900,000	899,900,000	8,999,000	8,999,000
Issue of shares	(a)	179,980,000	—	1,799,800	—
Consolidation of shares	(b)	(971,892,000)	—	—	—
Issue of consolidated shares	(b)	323,964,000	—	32,396,400	—
At 31 December		431,952,000	899,900,000	43,195,200	8,999,000

Notes:

- (a) On 26 March 2003, a subscription agreement was entered into between Cosmopolitan International Holdings Limited ("Cosmopolitan"), Baron Asset Management Limited ("Baron") and the Company pursuant to which the Company agreed to issue a total of 179,980,000 shares of par value of HK\$0.01 each and Cosmopolitan and Baron agreed to subscribe for 115,230,210 and 64,749,790 shares respectively at HK\$0.06 per share, amounting to HK\$6,913,813 and HK\$3,884,987 respectively. The transaction was completed on 29 April 2003.
- (b) Pursuant to the ordinary resolutions passed at the special general meeting held on 17 June 2003, every ten ordinary shares of HK\$0.01 each in the entire share capital of the Company were consolidated into one share of HK\$0.10 each ("consolidated share") with effect from 18 June 2003 and that 323,964,000 consolidated shares of HK\$0.10 each in the share capital of the Company were issued on 16 July 2003 by way of an Open Offer to qualifying shareholders on the basis of three offer shares for every one consolidated share held.

For the year ended 31 December 2003

24. SHARE CAPITAL (Continued)

Notes: (Continued)

- (c) The Company adopted an Employee Share Option Scheme under which the Board may grant to eligible employees, including the executive directors, the officers and the full or part-time employees of the Company or its subsidiaries, options to subscribe for shares in the Company.

The exercise price is set at not less than the highest of:

- (i) the closing prices of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant;
- (ii) the average of the closing prices of the shares as stated in the daily quotations sheet of the Stock Exchange for the 5 business days immediately preceding the date of grant; and
- (iii) the nominal value of a share.

During the year, no option was granted.

25. RESERVES

Group

	Share premium HK\$	Capital reserve on consolidation HK\$	Contributed surplus HK\$	Exchange fluctuation reserve HK\$	Accumulated losses HK\$	Total HK\$
1 January 2003	166,327,220	468,163	80,991,000	(4,194,214)	(35,044,264)	208,547,905
Shares issued during the year	3,237,490	—	5,761,510	—	—	8,999,000
Realisation of exchange fluctuation on disposal of a jointly controlled entity	—	—	—	972,797	—	972,797
Loss for the year	—	—	—	—	(24,781,865)	(24,781,865)
31 December 2003	169,564,710	468,163	86,752,510	(3,221,417)	(59,826,129)	193,737,837

Retained by:

Company and subsidiaries	169,564,710	468,163	86,752,510	(3,221,417)	(33,949,135)	219,614,831
Associates	—	—	—	—	(1,948,528)	(1,948,528)
Jointly controlled entities	—	—	—	—	(23,928,466)	(23,928,466)
	169,564,710	468,163	86,752,510	(3,221,417)	(59,826,129)	193,737,837

Company

1 January 2003	—	—	80,991,000	—	(4,013,648)	76,977,352
Shares issued during the year	3,237,490	—	5,761,510	—	—	8,999,000
Loss for the year	—	—	—	—	(6,127,736)	(6,127,736)
31 December 2003	3,237,490	—	86,752,510	—	(10,141,384)	79,848,616

For the year ended 31 December 2003

25. RESERVES (Continued)**Group**

	Share premium HK\$	Capital reserve on consolidation HK\$	Contributed surplus HK\$	Exchange fluctuation reserve HK\$	Accumulated losses HK\$	Total HK\$
1 January 2002	166,327,220	468,163	80,991,000	(4,194,214)	(19,693,370)	223,898,799
Loss for the year	—	—	—	—	(15,350,894)	(15,350,894)
31 December 2002	166,327,220	468,163	80,991,000	(4,194,214)	(35,044,264)	208,547,905
Retained by:						
Company and subsidiaries	166,327,220	468,163	80,991,000	(4,194,214)	(3,441,802)	240,150,367
Associates	—	—	—	—	(5,119,560)	(5,119,560)
Jointly controlled entities	—	—	—	—	(26,482,902)	(26,482,902)
	166,327,220	468,163	80,991,000	(4,194,214)	(35,044,264)	208,547,905

Company

1 January 2002	—	—	80,991,000	—	(87,804)	80,903,196
Loss for the year	—	—	—	—	(3,925,844)	(3,925,844)
31 December 2002	—	—	80,991,000	—	(4,013,648)	76,977,352

The contributed surplus of the Group and the Company represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation scheme completed on 12 December 2001 over the nominal value of the Company's shares issued in exchange. Movement during the year represents an exchange of shares in which the value of the Company's shares issued to a listed investee company exceeds the nominal value of the Company's shares.

Under the Companies Act (1981) of Bermuda (as amended), the contributed surplus is distributable to the shareholders, provided that the Company is, after the payment of dividends out of the contributed surplus, able to pay its liabilities as they become due; or the realisable value of the Company's assets would thereby not be less than the aggregate of its liabilities, issued share capital and reserves.

26. NET ASSET VALUE PER SHARE

Net asset value per share is computed based on the net assets of HK\$236,933,037 (2002: HK\$217,546,905) and 431,952,000 (2002: 899,900,000) shares in issue as at 31 December 2003.

27. DEFERRED TAXATION

No provision for deferred taxation has been made in the financial statements as the tax effect of temporary differences is immaterial to the Group.

28. EMPLOYEE BENEFITS

The contributions to the retirement benefit scheme for the staff of the Company's subsidiary operating in the PRC are charged to the consolidated income statement as they become payable. The only obligation of the Group with respect to the scheme is to make the specified contributions.

29. OPERATING LEASE COMMITMENTS

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2003	2002
	HK\$	HK\$
Within one year	125,147	162,680
In the second to fifth year inclusive	—	112,596
	125,147	275,276

For the year ended 31 December 2003

30. RELATED PARTY TRANSACTIONS

	Group	
	2003	2002
	HK\$	HK\$
Investment management fees paid to SINOX (note (a))	3,549,588	3,499,604

Notes:

- (a) Management fees paid to SINOX for administrative and investment management services were calculated at 1.5% (2002: 1.5%) per annum on the net asset value of the Group calculated on a quarterly basis.
- Mr. Lam Sai Ho, Anthony has an indirect equity interest of approximately 66.67% in SINOX.
- (b) The amount advanced to an independent non-executive director of a substantial shareholder of the Group amounted to HK\$2,734,200 (2002: HK\$ nil) is set out in note 19(a).
- (c) The amount due from a related company amounted to HK\$16,000,000 (2002: HK\$ Nil) is set out in note 19(c).
- (d) The amounts due to related companies amounted to HK\$23,050,000 (2002: HK\$8,622,320) are set out in note 21(a).
- (e) Details of guarantee issued by the Company in favour of a bank to the indirect subsidiaries of an investee company are set out in note 33.

31. CONNECTED TRANSACTION

As Mr. Lam Sai Ho, Anthony, the former Chairman of the Company, has an indirect interest of approximately 66.67% in SINOX, which is regarded as a connected person of the Company and, accordingly, the existing investment management agreement constitutes a connected transaction for the Group under the Listing Rules. As the total consideration for the investment management agreement is approximately HK\$3.5 million (2002: approximately HK\$3.5 million) during the duration of the investment management agreement, the investment management agreement is subject to disclosure requirement pursuant to Rule 14.25(1) of the Listing Rules.

As the abovementioned connected transaction has been conducted on normal commercial terms and in the ordinary course of business of the Group and the consideration paid by the Group to SINOX in each financial year under the previous investment agreements constituted less than 3% of the net tangible assets of the Group, it is expected that such transaction will continue in the future and will constitute ongoing connected transactions for the Group under the Listing Rules. As such, the Company had applied for a waiver from the Listing Division of the Stock Exchange that the ongoing connected transactions arising from renewal of the investment management agreement need only be disclosed in the next published annual report and no press notice would be required. The Listing Division of the Stock Exchange granted such waiver to the Company on 24 September 2001.

32. BANKING FACILITIES

At 31 December 2003 the Group had banking facilities totalling HK\$10 million. These banking facilities were secured by a floating charge over the Group's fixed deposits.

33. CONTINGENT LIABILITIES

At 31 December 2003 there were contingent liabilities in respect of letters of guarantee issued by the Company, as a third guarantor, in favour of a bank to certain percentages of the guaranteed indebtedness in respect of banking facilities granted by the bank to the indirect subsidiaries of an investee company, which were secured by the mortgage of an indirect subsidiary's investment property.

	Group	
	2003	2002
	HK\$	HK\$
Banking facilities granted by a bank to the following indirect subsidiaries of an investee company:		
— Fortune Leader Overseas Chinese (Daiyawan) Real Estate Development Company Limited	70,000,000	30,000,000
— Fortune Leader Overseas Chinese (Daiyawan) Investment Company Limited	50,000,000	—
	120,000,000	30,000,000

34. EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to an agreement dated 11 September 2003 the Group has committed to dispose its 35% equity interests in a jointly controlled entity namely Shanghai Foodstuffs Factory Company Limited incorporated in The People's Republic of China, to a third party for a consideration of RMB4.8 million (approximately HK\$4.5 million) resulting an estimated gain on disposal of HK\$2.6 million. At 31 December 2003 the purchaser has deposited a down payment of RMB1.5 million under an independent lawyer's custody. The completion of the disposal is subject to the approval of the relevant government bodies.

35. COMPARATIVE FIGURES

The comparative figures were audited by other firms of certified public accountants in Hong Kong. Certain comparative figures have been reclassified to conform with current year's presentation.

36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 14 to 47 were approved and authorised for issue by the board of directors on 25 March 2004.