

Notes to the Financial Statements

For the year ended 31st December, 2001

1. General

The Company is incorporated in the Cayman Islands as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited with effect from 17th July, 1998.

The Group principally invests in listed and unlisted companies in Hong Kong and in other parts of the People's Republic of China (the "PRC").

2. Adoption of Statements of Standard Accounting Practice

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP"(s)) issued by the Hong Kong Society of Accountants. The adoption of these new and revised SSAPs does not have any material effect on the current or prior years' financial statements except for SSAP 14 (Revised) "Leases" which has introduced some amendments to the disclosures specified for the Group's leasing arrangements. Disclosures for the Group's leasing arrangements have been modified so as to comply with the requirement of SSAP 14 (Revised). Comparative amounts have been restated in order to achieve a consistent presentation.

3. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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 have been eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Notes to the Financial Statements

For the year ended 31st December, 2001

3. Significant Accounting Policies (continued)

Turnover

Turnover represents interest and dividend income received and receivable for the year.

Revenue recognition

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rates applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Proceeds from the disposal of investments are recognised when a sale and purchase contract is entered into and title has been passed.

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at 20% per annum.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. Significant Accounting Policies (continued)

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Securities quoted, listed, traded or dealt in on any market are stated at the last transacted price on that market as at the official close of such market at the balance sheet date or the trading date immediately prior to the balance sheet date if it is not a trading date on that market. The cost of investments in listed securities is calculated using the moving average cost method.

Each unquoted security is valued at fair value as determined by the investment manager.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to have been impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

Notes to the Financial Statements

For the year ended 31st December, 2001

3. Significant Accounting Policies (continued)

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

Retirement benefits scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's Mandatory Provident Fund Scheme.

4. Turnover

An analysis of the Group's turnover is as follows:

Dividend income (*Note 5*)

Interest income

2001	2000
HK\$'000	HK\$'000
104	526
265	3,934
369	4,460

Notes to the Financial Statements

For the year ended 31st December, 2001

5. Dividend Income

	2001	2000
	HK\$'000	HK\$'000
Listed investments:		
Champion Technology Holdings Limited	1	1
Harmony Asset Limited	–	263
Tonic Industries Holdings Limited	103	262
	104	526

6. (Loss) Gain on Disposal of Listed Investments

The (loss) gain on disposal of listed investments arose from the disposal of investments in equity securities listed in Hong Kong. For the year ended 31st December, 2001, included in the loss on disposal is an amount of HK\$26,395,000 (2000: nil) in respect of investment revaluation reserve released from the disposal as set out in note 18.

7. Business and Geographical Segments

All of the Group's turnover and contribution to operating results are attributable to investment activities.

The Group invests in listed and unlisted companies in Hong Kong and in other parts of the People's Republic of China (the "PRC"). These geographical markets are the basis on which the Group reports its primary segment information.

Notes to the Financial Statements

For the year ended 31st December, 2001

7. Business and Geographical Segments (continued)

Segment information about these geographical markets is presented below:

	Hong Kong		PRC		Total	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	<u>344</u>	<u>952</u>	<u>25</u>	<u>3,508</u>	<u>369</u>	<u>4,460</u>
RESULTS						
Segment results	(30,227)	(7,753)	(7,758)	(3,242)	(37,985)	(10,995)
Unallocated corporate expenses					<u>(2,636)</u>	<u>(3,335)</u>
Loss before taxation					<u>(40,621)</u>	<u>(14,330)</u>
Taxation					<u>-</u>	<u>(18)</u>
Loss for the year					<u>(40,621)</u>	<u>(14,348)</u>
ASSETS						
Segment assets	17,496	34,734	26,986	25,244	44,482	59,978
Unallocated corporate assets					<u>271</u>	<u>74</u>
Consolidated total assets					<u>44,753</u>	<u>60,052</u>
LIABILITIES						
Segment liabilities	(542)	(352)	-	-	(542)	(352)
Unallocated corporate liabilities					<u>(609)</u>	<u>(725)</u>
Consolidated total liabilities					<u>(1,151)</u>	<u>(1,077)</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

8. Loss Before Taxation

	2001 HK\$'000	2000 HK\$'000
Loss before taxation has been arrived at after charging:		
Auditors' remuneration:		
– current year	254	184
– underprovision in prior year	15	42
Depreciation	151	151
Investment management fee (Note 22)	822	1,427
Loss on disposal of property, plant and equipment	–	1
Provision for bad and doubtful debt	1,015	–
Retirement benefits scheme contributions	9	7
Staff costs	264	266

9. Directors' Remuneration and Highest Paid Employees

	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive Directors	60	60
Independent Non-executive Directors	40	40
	100	100
Other emoluments	–	–
Total emoluments	100	100

The aggregate emoluments of each of the Directors during both years were within the band ranging from nil to HK\$1,000,000.

Notes to the Financial Statements

For the year ended 31st December, 2001

9. Directors' Remuneration and Highest Paid Employees (continued)

Of the five individuals with the highest emoluments in the Group, four (2000: four) were directors of the Company whose emoluments are set out above. The emoluments of the remaining individual (2000: one) were as follows:

	2001	2000
	HK\$'000	HK\$'000
Salaries and other benefits	164	166
Retirement benefits scheme contributions	9	7
	173	173

The Group formerly operated a defined contribution provident fund scheme for all qualifying employees. The assets of the scheme were held separately from those of the Group in funds under the control of the trustees. The provident fund scheme contributions represented contributions payable to the scheme by the Group at rates specified in the rules of the scheme. Where there were employees who left the scheme prior to vesting fully in the contributions, the contributions payable by the Group were reduced by the amount of forfeited contributions.

In December 2000, the Group changed its retirement benefits scheme to a scheme regulated by the Mandatory Provident Fund ("MPF") Schemes Authority in Hong Kong. Following such a change, the Group is required to make contributions for its eligible employees to a MPF scheme operated by approved trustees in Hong Kong. The contributions borne by the Group are calculated at 5% of the salaries and wages calculated under the MPF legislation.

Notes to the Financial Statements

For the year ended 31st December, 2001

10. Taxation

	2001	2000
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax	-	185
Overprovision in prior years	-	(167)
	<u>-</u>	<u>(18)</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred a loss for the year.

For the year ended 31st December, 2000, Hong Kong Profits Tax was calculated at the rate of 16% of the estimated assessable profit for that year.

At 31st December, 2001, a deferred tax asset of approximately HK\$1,729,000 (2000: HK\$1,184,000) in respect of tax losses available to offset future profits was not recognised in the financial statements as it is not certain that such benefits will be crystallised in the foreseeable future.

11. Loss for the Year

The Group's loss for the year includes a loss of HK\$21,838,000 (2000: HK\$30,551,000) which has been dealt with in the financial statements of the Company.

12. Basic Loss Per Share

The calculation of the loss per share is based on the loss for the year of HK\$40,621,000 (2000: HK\$14,348,000) and on the weighted average number of 100,000,000 (2000: 100,000,000) shares in issue during the year.

Notes to the Financial Statements

For the year ended 31st December, 2001

13. Property, Plant and Equipment

	Leasehold improvements	Furniture, fixtures and equipment	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP AND THE COMPANY			
COST			
At 1st January, 2001 and at 31st December, 2001	574	180	754
DEPRECIATION			
At 1st January, 2001	287	73	360
Provided for the year	115	36	151
At 31st December, 2001	402	109	511
NET BOOK VALUE			
At 31st December, 2001	172	71	243
At 31st December, 2000	287	107	394

14. Interests in Subsidiaries

	The Company	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	–	–
Amounts due from subsidiaries	50,976	57,572
Less: Impairment loss recognised	(31,304)	(21,333)
	19,672	36,239

The amounts are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, no part of the amount will be repayable within one year from the balance sheet date and the balances are therefore shown as non-current.

Notes to the Financial Statements

For the year ended 31st December, 2001

14. Interests in Subsidiaries (continued)

Details of the Company's subsidiaries at 31st December, 2001 are as follows:

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activity
			Directly	Indirectly	
Double Dragon Profits Limited	Hong Kong	HK\$2	100%	–	Inactive
Good Place Investments Limited	Hong Kong	HK\$2	100%	–	Inactive
New Portfolio Limited	British Virgin Islands/ Hong Kong	US\$1	100%	–	Investment holding
Speedy Zone Limited	British Virgin Islands	US\$1	100%	–	Inactive
Gold Canal International Limited (“Gold Canal”)	British Virgin Islands	US\$10	–	100%	Investment holding

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

Notes to the Financial Statements

For the year ended 31st December, 2001

15. Investments in Securities

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Equity securities listed in Hong Kong, at cost	351	52,728	–	27,320
Unrealised loss	(270)	(25,518)	–	(6,770)
Market value at 31st December	81	27,210	–	20,550
Unlisted equity security, at fair value	17,461	17,461	–	–
Unlisted convertible loan notes, at fair value	21,995	6,750	21,995	–
	39,537	51,421	21,995	20,550

Included in the above are the following investments which exceeded one tenth of the amount of the Group's total assets at the balance sheet date:

(a) Unlisted equity security

Name of investee company	Place of incorporation	2001 HK\$'000	2000 HK\$'000
天津標準國際建材工業有限公司 Tianjin Standard International Building Materials Industry Co., Ltd. ("Tianjin Standard") (Note i)	The PRC	17,461	17,461

Notes to the Financial Statements

For the year ended 31st December, 2001

15. Investments in Securities (continued)

(b) Unlisted convertible loan notes

Issuer	Principal amount		Impairment loss recognised		Fair value		Interest rate	Maturity Date
	2001	2000	2001	2000	2001	2000		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
(a) Assets Planning Limited ("Assets Planning") – unsecured (Notes ii & iii)	9,500	–	–	–	9,500	–	5% per annum	31st December, 2003
(b) Dynamic Venture Enterprises Limited ("Dynamic Venture") – secured (Note iv)	13,500	13,500	(13,500)	(6,750)	–	6,750	8% per annum	on default
(c) Kellerton Industries Limited ("Kellerton") – unsecured (Notes ii & v)	9,500	–	–	–	9,500	–	5% per annum	31st December, 2003
(d) JRB Limited (formerly known as Koffman Limited) ("JRB") – unsecured (Notes ii and vi)	9,000	9,000	(9,000)	(9,000)	–	–	16% per annum	on default
(e) IPO43.com Limited ("IPO43.com") – unsecured (Notes ii & vii)	2,995	–	–	–	2,995	–	5% per annum	31st December, 2003
	<u>44,495</u>	<u>22,500</u>	<u>(22,500)</u>	<u>(15,750)</u>	<u>21,995</u>	<u>6,750</u>		

Notes:

- (i) Pursuant to various agreements entered into in December 2000, the Group acquired all the issued share capital of Gold Canal for a nominal value, changed the terms of the convertible loan note such that it has become interest-free and has neither fixed repayment terms nor the right to conversion. Gold Canal's sole asset is an investment in a 21% equity interest in Tianjin Standard which is principally engaged in the manufacture and trading of building materials and the provision of related consultancy services. In the opinion of the directors, following the acquisition of Gold Canal by the Group, the Group is not in a position to exercise any significant influence over the financial and operating policies of Tianjin Standard. Accordingly, Tianjin Standard is accounted for as an unlisted equity security.
- (ii) Held directly by the Company.

Notes to the Financial Statements

For the year ended 31st December, 2001

15. Investments in Securities (continued)

(b) Unlisted convertible loan notes (continued)

- (iii) Pursuant to the subscription agreement entered into on 13th December, 2001, the Group acquired a convertible loan note in the principal amount of HK\$9,500,000 carrying the right to convert the loan note into shares in Assets Planning. The loan note is unsecured, bears interest at 5% per annum and has a maturity date on 31st December, 2003. The Group will have the right on any business day before the maturity date to convert the whole or part of the outstanding principal amount of the loan note into shares in Assets Planning using a predetermined formulae. On the maturity date, all outstanding principal amount together with any unpaid interest shall automatically be converted into shares. In the event that upon full conversion of the loan note, the aggregate interest of the Group in the issued share capital of Assets Planning is less than 2%, Assets Planning shall issue and allot additional shares to the Group to make up for any shortfall.
- (iv) Pursuant to the subscription agreement entered into on 14th January, 1999 (the "Subscription Agreement"), the Group acquired a convertible loan note in the principal amount of HK\$13,500,000 carrying the right to subscribe for the conversion shares in Dynamic Venture. The convertible loan note was secured on the entire share capital of Dynamic Venture, bore interest at 15% per annum and had a maturity date on 31st December, 2000. The Group had the right on 31st March, 30th September and 31st December of each year, after the fulfillment of the conditions set out in the Subscription Agreement but before the maturity date to convert the whole or part of the outstanding principal amount of the loan note into shares in Dynamic Venture using a predetermined formulae. On the maturity date, all outstanding principal amount together with any unpaid interest should be repaid. On 21st March, 2001, the Group entered into a deed of variation to change the interest rate from 15% per annum to 8% per annum. The maturity date was extended from 31st December, 2000 to 31st December, 2001, but on which date, Dynamic Venture defaulted on the repayment of the convertible loan note. The Group is still negotiating the repayment terms with Dynamic Venture.
- (v) Pursuant to the subscription agreement entered into on 13th December, 2001, the Group acquired a convertible loan note in the principal amount of HK\$9,500,000 carrying the right to convert the loan note into shares in Kellerton. The loan note is unsecured, bears interest at 5% per annum and has a maturity date on 31st December, 2003. The Group has the right on any business day before the maturity date to convert the whole or part of the outstanding principal amount of the loan note into shares in Kellerton using a predetermined formulae and with reference to the valuation of Kellerton's investments. On the maturity date, all outstanding principal amount together with any unpaid interest shall automatically be converted.
- (vi) Pursuant to the subscription agreement entered into on 30th November, 1998, the Group acquired a convertible loan note in the principal amount of HK\$9,000,000 carrying the right to convert the loan note into shares in JRB. The convertible loan note was secured, bore interest at 16% per annum and had a maturity date on 31st May, 1999. The Group had the right, at any time three months after the date of the issue of the loan note, but before the maturity date to convert the whole of the outstanding principal amount of the loan note into shares in JRB using a predetermined formulae. On the maturity date, all outstanding principal amount together with any unpaid interest should be repaid. JRB defaulted on the repayment of its convertible loan note in the sum of approximately HK\$9,363,000 including accrued interest to the scheduled date of repayment. The Company had filed a legal action against JRB for the recovery of the amount of approximately HK\$9,363,000 plus overdue interest as set out in note 24.

Notes to the Financial Statements

For the year ended 31st December, 2001

15. Investments in Securities (continued)

(b) Unlisted convertible loan notes (continued)

- (vii) Pursuant to the subscription agreement entered into on 13th December, 2001, the Group acquired a convertible loan note in the principal amount of HK\$2,995,000 carrying the right to convert the loan note into shares in IPO43.com. The loan note is unsecured, bears interest at 5% per annum and has a maturity date on 31st December, 2003. The Group has the right on any business day before the maturity date to convert the whole or part of the outstanding principal amount of the loan note into shares in IPO43.com using a predetermined formulae. On the maturity date, all outstanding principal amount together with any unpaid interest shall automatically be converted. In the event that upon full conversion of the loan note, the aggregate interest of the Group in the issued share capital of IPO43.com is less than 3%, IPO43.com shall issue and allot additional shares to the Group to make up for any shortfall.

16. Trade and Other Receivables

Included in trade and other receivables are trade receivables of HK\$65,000 (2000: HK\$1,051,000), the aging analysis of which is as follows:

	The Group	
	2001 HK\$'000	2000 HK\$'000
0-60 days	65	541
60-120 days	—	510
	<u>65</u>	<u>1,051</u>

The Group has no credit policy on trade receivables which represent interest income and dividend income receivable from investments.

17. Share Capital

	Number of ordinary shares 2001 & 2000	Amount 2001 & 2000 HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each	<u>200,000,000</u>	<u>2,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each	<u>100,000,000</u>	<u>1,000</u>

There were no changes in the share capital of the Company during either year.

Notes to the Financial Statements

For the year ended 31st December, 2001

18. Reserves

	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
THE GROUP				
At 1st January, 2000	94,117	2,751	3,724	100,592
Unrealised loss on revaluation of investments	–	(28,269)	–	(28,269)
Loss for the year	–	–	(14,348)	(14,348)
At 31st December, 2000	94,117	(25,518)	(10,624)	57,975
Unrealised loss on revaluation of investments	–	(1,147)	–	(1,147)
Loss realised on disposal of non-trading investments	–	26,395	–	26,395
Loss for the year	–	–	(40,621)	(40,621)
At 31st December, 2001	94,117	(270)	(51,245)	42,602
THE COMPANY				
At 1st January, 2000	94,117	12,262	1,001	107,380
Unrealised loss on revaluation of investments	–	(19,032)	–	(19,032)
Loss for the year	–	–	(30,551)	(30,551)
At 31st December, 2000	94,117	(6,770)	(29,550)	57,797
Unrealised loss on revaluation of investments	–	(892)	–	(892)
Loss realised on disposal of non-trading investments	–	7,662	–	7,662
Loss for the year	–	–	(21,838)	(21,838)
At 31st December, 2001	94,117	–	(51,388)	42,729

The investment revaluation reserve represents the net unrealised losses on revaluation of non-trading investments at the balance sheet date.

In accordance with the Company's Articles of Association, as at the balance sheet date, the Company's reserve available for distribution to shareholders is its share premium.

Notes to the Financial Statements

For the year ended 31st December, 2001

19. Net Asset Value Per Share

The calculation of the net asset value per share is based on the net assets of the Group as at 31st December, 2001 of HK\$43,602,000 (2000: HK\$58,975,000) and 100,000,000 (2000: 100,000,000) ordinary shares in issue as at that date.

20. Reconciliation of Loss Before Taxation to Net Cash (Outflow) Inflow from Operating Activities

	2001	2000
	HK\$'000	HK\$'000
Loss before taxation	(40,621)	(14,330)
Depreciation	151	151
Loss (gain) on disposal of listed investments	30,381	(615)
Loss on disposal of property, plant and equipment	–	1
Provision for bad and doubtful debt	1,015	–
Impairment loss recognised in respect of investments in securities	6,750	15,750
(Increase) decrease in trade and other receivables	(225)	2,900
Increase in other payables	74	397
Decrease in amount due to a related company	–	(1,458)
Net cash (outflow) inflow from operating activities	(2,475)	2,796

Notes to the Financial Statements

For the year ended 31st December, 2001

21. Purchase of a Subsidiary

During the year ended 31st December, 2000, the Group acquired 100% of the issued share capital of Gold Canal for a consideration of HK\$78, together with an agreement to vary the terms of a convertible loan advanced by the Group to Gold Canal. This acquisition was accounted for using the acquisition method of accounting. No goodwill arose on the acquisition. The loss after taxation of Gold Canal included in the consolidated income statement for the year ended 31st December, 2000 amounted to HK\$4,000.

	2000
	<i>HK\$'000</i>
Net assets acquired:	
Investments in securities	17,461
Bank balances and cash	39
Amount due to New Portfolio Limited, a subsidiary of the Company	(17,500)
	<u> </u>
	<u> </u>
	<u> </u>
Satisfied by:	
Cash	—
	<u> </u>
	<u> </u>
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	39
	<u> </u>
	<u> </u>

The subsidiary acquired during the year ended 31st December, 2000 did not make a significant contribution to net cash flows of the Group.

Notes to the Financial Statements

For the year ended 31st December, 2001

22. Related Party Transaction

During the year, the Company, in accordance with the relevant management agreement (the “Agreement”), paid management fees to the following company:

	2001	2000
	HK\$'000	HK\$'000
Haywood Investment Management Limited		
– Management fee	822	1,427

Management fees and incentive fees are calculated at 1.5% per annum of the net asset value of the Company at each preceding month end as defined in the Agreement and 10% of the surplus in the net asset value (with appropriate adjustment) over the preceding financial year, respectively, in accordance with the relevant management agreement.

No incentive fee was paid as the Group's net asset value decreased in both years.

Haywood Investment Management Limited is a company in which the directors, Mr. Wong Fong Kim and Dr. Chow Pok Yu, Augustine have beneficial interests.

23. Operating Lease Commitments

	2001	2000
	HK\$'000	HK\$'000
Minimum lease payments paid under an operating lease during the year in respect of rented premises	155	206

At the balance sheet date, the Company had commitments for future minimum lease payments under a non-cancellable operating lease in respect of rented premises which fall due as follows:

	2001	2000
	HK\$'000	HK\$'000
Within one year	78	155
In the second to fifth years inclusive	–	78
	78	233

The above lease was entered into for a term of two years with fixed monthly rental.

Notes to the Financial Statements

For the year ended 31st December, 2001

24. Pending Litigation

In 1999, JRB defaulted on the repayment of its convertible loan note held by the Company in the sum of approximately HK\$9,363,000 including accrued interest to the scheduled date of repayment. The Company had filed a legal action against JRB for the recovery of the amount of approximately HK\$9,363,000 plus overdue interest. At the same time, the Company had also brought a legal action against the guarantor of the convertible loan note for the enforcement of guarantee. JRB had subsequently counterclaimed against the Company for loss and damages for a total amount of approximately HK\$9,355,000. During the year and at the balance sheet date, these proceedings were still in progress.

As the outcome of the action cannot be determined reliably at this time, the carrying amount of the Company's investment in the convertible loan note has been reduced to nil.

25. Post Balance Sheet Event

Subsequent to 31st December, 2001, Fortuna Alliance Limited, which is a substantial shareholder of the Company holding 25% of the issued share capital of the Company, entered into a placing and subscription agreement for the placing of up to 20 million existing ordinary shares of HK\$0.01 each in the share capital of the Company, representing 20% of the issued share capital of the Company, at the placing price of HK\$0.35 per share to independent investors and the conditional subscription of new shares up to the same number of the shares successfully placed by the placing agents at the subscription price of HK\$0.35 per share, being the same as the placing price. Upon completion of the placing and subscription on 27th March, 2002, the shareholding of Fortuna Alliance in the Company's enlarged issued capital became 20.83%. The net proceeds of the subscription were approximately HK\$6.6 million which will be used for making investments and working capital purposes.