

For the year ended March 31, 2002

Notes to the Financial Statements

(1) General

The Company is a public limited company incorporated in the Cayman Islands with its shares listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The Company and its subsidiaries are investment holding companies.

(2) Adoption of new and revised statements of standard accounting practice

In the current year, the Group has adopted the following new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP 9 (Revised)	Events after the balance sheet date
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

The adoption of new and revised SSAPs as outlined above does not have material impact on results reported in the current or prior year, though the terminology used and certain disclosures have been revised in line with the new requirements.

(3) Summary of significant accounting policies

The financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). They have been prepared under the historical cost convention, as modified with respect to the measurement of investments in securities as explained in the respective accounting policies below. 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 March 31 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.

Notes to the Financial Statements

For the year ended March 31, 2002

(3) Summary of significant accounting policies (Continued)

BASIS OF CONSOLIDATION (CONTINUED)

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

INVESTMENTS IN SUBSIDIARIES

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

IMPAIRMENT OF ASSETS

At each balance sheet date, the Group assesses whether there is indication that investments in subsidiaries and securities have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount is the higher of the net selling price and value in use of an asset. The net selling price is the amount that could be obtained from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life.

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 losses are 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, which is restricted to 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) Summary of 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, debts securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. 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.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary on individual basis. The amount of the reduction is recognised as an expense in the income statement.

Other investments are measured at fair value with unrealised gains and losses included in net profit or loss for the year.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. 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.

TAXATION

The charge for taxation is based on the results for the period 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 timing differences, computed using the 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.

Notes to the Financial Statements

For the year ended March 31, 2002

(3) Summary of significant accounting policies (Continued)

REVENUE RECOGNITION

Sale proceeds of investments in securities are recognised on a trade date basis.

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

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

Commission income is recognised when the relevant services are rendered.

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.

CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfill the above criteria.

(4) Turnover

The analysis of turnover for the year is as follows:

	2002 HK\$	2001 HK\$
Proceeds from sale of listed equity securities	27,510,942	35,036,022
Dividend income from listed equity securities	289,022	1,344,449
	<u>27,799,964</u>	<u>36,380,471</u>

Notes to the Financial Statements

(5) Other revenue

The analysis of other revenue for the year is as follows:

	2002 HK\$	2001 HK\$
Interest income	1,285,784	1,952,456
Commission income	—	100,000
Other income	—	24,476
	<u>1,285,784</u>	<u>2,076,932</u>

(6) Profit (Loss) from operations

Profit (Loss) from operations has been arrived at after charging:

	2002 HK\$	2001 HK\$
Auditors' remuneration		
– Current year	106,000	96,000
– Overprovision in prior year	—	(2,000)
	<u>106,000</u>	<u>94,000</u>
Investment management fee	1,343,368	1,519,716
Staff costs, including directors' remuneration as set out in note (8) below	447,900	462,846
Loss in value of investments in unlisted equity securities	—	1,415,000

Notes to the Financial Statements

For the year ended March 31, 2002

(7) Finance costs

	2002 HK\$	2001 HK\$
Interest on:		
Bank overdrafts	20	6,852
Other borrowings	388	9,889
	<u>408</u>	<u>16,741</u>

(8) Directors' and employees' emoluments

	2002 HK\$	2001 HK\$
<i>Fees:</i>		
Executive directors	39,900	63,550
Independent non-executive directors	36,000	36,000
<i>Other emoluments</i>	<u>—</u>	<u>—</u>
	<u>75,900</u>	<u>99,550</u>

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

Of the five individuals with the highest emoluments in the Group, four (2001: four) were also directors of the Company whose emoluments are included above. The emoluments of the remaining individual are as follows:

	2002 HK\$	2001 HK\$
Salaries and other benefits	<u>372,000</u>	<u>360,000</u>

The emoluments of the above employee are within the band of nil to HK\$1,000,000.

Notes to the Financial Statements

(9) Taxation

- (a) Taxation in the consolidated income statement represents:

Hong Kong profits tax

	2002 HK\$	2001 HK\$
Provision for current year	—	200,000
Underprovision in respect of prior year	—	1,427
Deferred taxation	—	(1,021,000)
	<u>—</u>	<u>(819,573)</u>

- (b) Tax payable in the consolidated balance sheet represents:

Hong Kong profits tax

	2002 HK\$	2001 HK\$
Provision for current year	—	200,000
Balance of profits tax payable in respect of prior year	<u>200,000</u>	<u>—</u>
	<u>200,000</u>	<u>200,000</u>

Provision for Hong Kong profits tax has not been made as there are no assessable profits for the year.

In the previous year, Hong Kong profits tax was calculated at 16% on the estimated assessable profit for that year.

Details of the deferred taxation are set out in note (20).

(10) Net profit (loss) for the year attributable to shareholders

Of the Group's net profit (loss) for the year attributable to shareholders, a loss of HK\$1,198,760 (2001: HK\$814,493) has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

For the year ended March 31, 2002

(11) Earnings (Loss) per share

The basic earnings (loss) per share is based on profit of HK\$14,054,708 (2001: loss of HK\$25,172,043) and the weighted average of 1,010,714,000 (2001: 1,001,105,490) ordinary shares in issue during the year.

The diluted earnings (loss) per share for the year is based on 1,033,105,658 (2001: 1,107,097,321) ordinary shares which was the weighted average number of ordinary shares in issue during the year plus the weighted average of 22,391,658 (2001: 105,991,831) ordinary shares deemed to be issued at no consideration if all outstanding warrants had been exercised.

(12) Investments in subsidiaries

	The Company	
	2002 HK\$	2001 HK\$
Unlisted shares, at cost	<u>4,187,764</u>	<u>4,187,762</u>

Details of the Company's subsidiaries at March 31, 2002 are as follows:

Name of subsidiary	Place of incorporation	Issued and fully paid ordinary share capital	Percentage of equity interest held		Principal activity
			Directly %	Indirectly %	
Super Idea International Limited	British Virgin Islands	US\$1	100	–	Investment holding
UBA Development Limited	British Virgin Islands	US\$1	100	–	Investment holding
UBA Technologies Holdings Limited	British Virgin Islands	US\$1	100	–	Investment holding
Luen Wing Group Limited	British Virgin Islands	US\$1	–	100	Investment holding

Notes to the Financial Statements

(12) Investments in subsidiaries (Continued)

Name of subsidiary	Place of incorporation	Issued and fully paid ordinary share capital	Percentage of equity interest held		Principal activity
			Directly %	Indirectly %	
Cyber Features Limited	British Virgin Islands	US\$1	–	100	Investment holding
Upbest Venture Limited	British Virgin Islands	US\$1	100	–	Investment holding
Best Idea Development Limited	British Virgin Islands	US\$1	100	–	Investment holding
UBA Financial Trading Limited	Hong Kong	HK\$2	100	–	Trading of securities

All subsidiaries are unlisted and operate in Hong Kong.

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 March 31, 2002

(13) Investments in securities

	The Group		The Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
<i>Held-to-maturity debt securities</i>				
Unlisted convertible bonds	<u>9,900,000</u>	<u>10,900,000</u>	<u>—</u>	<u>—</u>
<i>Other investments</i>				
Unlisted equity securities	<u>8,609,000</u>	<u>8,609,000</u>	<u>—</u>	<u>—</u>
Less: Loss in value of investments in unlisted equity securities	<u>(1,415,000)</u>	<u>(1,415,000)</u>	<u>—</u>	<u>—</u>
	<u>7,194,000</u>	<u>7,194,000</u>	<u>—</u>	<u>—</u>
 Listed equity securities in Hong Kong, at cost	<u>60,805,874</u>	<u>71,212,157</u>	<u>1,262,625</u>	<u>1,262,625</u>
Unrealised holding loss	<u>(8,306,125)</u>	<u>(20,980,362)</u>	<u>(762,625)</u>	<u>(562,625)</u>
	<u>52,499,749</u>	<u>50,231,795</u>	<u>500,000</u>	<u>700,000</u>
 Fair value at March 31, 2002	<u>69,593,749</u>	<u>68,325,795</u>	<u>500,000</u>	<u>700,000</u>
 Market value of listed equity securities at March 31, 2002	<u>52,499,749</u>	<u>50,231,795</u>	<u>500,000</u>	<u>700,000</u>
 Carrying amount analysed for reporting purposes as:				
<i>Current</i>				
– Held-to-maturity debt securities	<u>—</u>	<u>1,000,000</u>	<u>—</u>	<u>—</u>
<i>Non-current</i>				
– Held-to-maturity debt securities	<u>9,900,000</u>	<u>9,900,000</u>	<u>—</u>	<u>—</u>
– Other investments	<u>59,693,749</u>	<u>57,425,795</u>	<u>500,000</u>	<u>700,000</u>
	<u>69,593,749</u>	<u>67,325,795</u>	<u>500,000</u>	<u>700,000</u>
	<u>69,593,749</u>	<u>68,325,795</u>	<u>500,000</u>	<u>700,000</u>

Notes to the Financial Statements

(13) Investments in securities (Continued)

Details of the Group's investments as at March 31, 2002 are as follows:

(1) EQUITY SECURITIES LISTED ON THE STOCK EXCHANGE:

Name of investee company	Cost		Market value	Unrealised holding gain (loss)	Dividend received during the year	% of total assets of the Group	
	As at	As at					
	1/4/2001	31/3/2002					
	HK\$	HK\$					
Shares							
Allied Properties (HK) Limited	2,922,807	(846,957)	2,075,850	1,051,512	(1,024,338)	–	1.04%
EganaGoldpfeil (Holdings) Limited	19,532,015	–	19,532,015	20,900,000	1,367,985	129,245	20.65%
Egana Jewellery & Pearls Limited	8,412,967	4,005,580	12,418,547	18,614,000	6,195,453	62,685	18.39%
Henderson Cyber Limited	1,262,625	–	1,262,625	500,000	(762,625)	–	0.49%
Lamex Holdings Limited	5,211,786	(5,211,786)	–	–	–	–	–
Pacific Century Cyberworks Limited	17,147,967	(1,153,231)	15,994,736	7,312,937	(8,681,799)	–	7.23%
Peace Mark (Holdings) Limited	9,519,159	(7,787,143)	1,732,016	550,000	(1,182,016)	–	0.54%
Tonic Industries Holdings Limited	6,425,289	1,364,796	7,790,085	3,571,300	(4,218,785)	70,138	3.53%
Vtech Holdings Limited	777,542	(777,542)	–	–	–	–	–
	71,212,157		60,805,874	52,499,749	(8,306,125)		

Notes to the Financial Statements

For the year ended March 31, 2002

(13) Investments in securities (Continued)

(2) WARRANTS LISTED ON THE STOCK EXCHANGE

The Group held 61,814 Pacific Century Cyberworks warrants (2001) as at March 31, 2001. Such warrants had expired before March 31, 2002.

(3) UNLISTED EQUITY SECURITIES

The following is a list of unlisted equity securities as at March 31, 2002:

Name of investee company	As at 1/4/2001 and 31/3/2002			% of total assets of the Group
	Cost	Loss in value	Carrying value	
	HK\$	HK\$	HK\$	
Chief Finance Limited	2,600,000	—	2,600,000	2.57%
Cyber Infotech Holdings Limited	1,165,000	(1,165,000)	—	0.00%
Enviro Technology International Limited	780,000	—	780,000	0.77%
Fujita Glass Limited ("FGL")	250,000	—	250,000	0.25%
Fullpower Holding Limited	1,000,000	—	1,000,000	0.99%
HKC efinance28 Limited	1,000,000	—	1,000,000	0.99%
Hoss Virtualab Limited	250,000	(250,000)	—	0.00%
iD Innovation Limited	1,564,000	—	1,564,000	1.55%
	<u>8,609,000</u>	<u>(1,415,000)</u>	<u>7,194,000</u>	

Notes to the Financial Statements

(13) Investments in securities (Continued)

(4) UNLISTED CONVERTIBLE BONDS, UNSECURED

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

Particulars of the convertible bonds are as follows:

Name of issuer	Principal amount HK\$	Annual interest rate	Maturity date
IT Star Holdings Limited ("ITSHL")	9,900,000	6%	December 12, 2002

ITSHL is an investment holding company. Its investee companies are principally engaged in information technology development.

On October 24, 2000, a deed of variation in relation to the convertible bond issued by IT Star Limited ("ITSL") to the Group was signed among Luen Wing Group Limited, ITSL and ITSHL.

Terms and conditions being varied are summarised as follows:

- (1) The conversion period is from January 3, 2000 to December 8, 2002.
- (2) The full principal amount of the bonds is converted automatically (subject to specified conversion events) into certain fully-paid shares of ITSHL.
- (3) Interest accrues on a daily basis and is payable on specified dates.

(5) PARTICULARS OF MAJOR INVESTMENTS IN OTHER INVESTMENTS

Listed investments

Allied Properties (HK) Limited ("Allied Properties")

Allied Properties is principally engaged in property investment, property development, hospitality related activities and financial services.

Notes to the Financial Statements

For the year ended March 31, 2002

(13) Investments in securities (Continued)

(5) PARTICULARS OF MAJOR INVESTMENTS IN OTHER INVESTMENTS (CONTINUED)

The Group holds 4,291,885 shares in Allied Properties, representing 0.099% interest in the issued share capital of Allied Properties. Based on the annual report of Allied Properties at December 31, 2001, the net assets of Allied Properties were approximately HK\$4,998,000,000.

EganaGoldpfeil (Holdings) Limited (“EganaGoldpfeil”)

EganaGoldpfeil is principally engaged in (i) design, assembly, manufacturing and distribution of time pieces and jewellery; (ii) manufacturing and distribution of leather products; (iii) licensing or assignment of brandnames to third parties; (iv) trading of time piece components, jewellery and consumer electronic product; and (v) referring customers or suppliers to third parties.

The Group holds 100,000,000 shares in EganaGoldpfeil, representing 0.86% interest in the issued share capital of EganaGoldpfeil. Based on the second interim report of EganaGoldpfeil at December 31, 2001, the net assets of EganaGoldpfeil were approximately HK\$1,302,000,000.

Egana Jewellery & Pearls Limited (“Egana Jewellery”)

Egana Jewellery is principally engaged in the design, manufacture, distributing and trading of jewellery and pearl products.

The Group holds 82,000,000 shares in Egana Jewellery, representing 2.64% interest in the issued share capital of Egana Jewellery. Based on the second interim report of Egana Jewellery at December 31, 2001, the net assets of Egana Jewellery were approximately HK\$340,000,000.

Henderson Cyber Limited (“HCL”)

HCL is principally engaged in internet, data center, local wireless fixed telecommunications, network, intelligent building services and IT investments.

The Group holds 1,000,000 shares in HCL, representing 0.02% interest in the issued share capital of HCL. Based on the annual report of HCL at June 30, 2001, the net assets of HCL were approximately HK\$933,601,000.

Pacific Century Cyberworks Limited (“PCCW”)

PCCW is principally engaged in the provision of local and international voice, facsimile and data services, satellite services, telecommunications equipment and network services, mobile services, internet access and interactive home entertainment.

Notes to the Financial Statements

(13) Investments in securities (Continued)

(5) PARTICULARS OF MAJOR INVESTMENTS IN OTHER INVESTMENTS (CONTINUED)

The Group holds 3,611,327 shares in PCCW, representing 0.016% interest in the issued share capital of PCCW. Based on the annual report of PCCW at December 31, 2001, the net liabilities of PCCW were approximately HK\$7,097,000,000.

Peace Mark (Holdings) Limited ("Peace Mark")

Peace Mark is principally engaged in the design, manufacture and distribution of timepiece.

The Group holds 1,000,000 shares in Peace Mark, representing 0.54% interest in the issued share capital of Peace Mark. Based on the annual report of Peace Mark at March 31, 2001, the net assets of Peace Mark were approximately HK\$461,057,000.

Tonic Industries Holdings Limited ("Tonic")

Tonic is principally engaged in the design, manufacture and marketing of a wide range of consumer audio visual products, including CD portables, Dolby Prologic stereo receivers, portable CD/cassette/audio systems, portable cassette recorders, mini HiFis and music centres.

The Group holds 10,060,000 shares in Tonic, representing 1.58% interest in the issued share capital of Tonic. Based on the annual report of Tonic at March 31, 2001, the net assets of Tonic were approximately HK\$374,571,000.

Unlisted investments

Chief Finance Limited ("CFL")

CFL is principally engaged in money lending business.

The Group holds 2,600,000 shares in CFL, representing 26% interest in the issued share capital of CFL. CFL is not treated as an associate because the Group has no significant influence over its financial and operating decisions. No dividend was received during the year. Based on the financial statements at March 31, 2002, the Group's share of the net asset value of CFL was approximately HK\$4,332,000.

iD Innovation Limited ("iDIL")

iDIL is principally engaged in the design and manufacture of patented iD cards for the advertising and multimedia industries.

The Group holds 1,051 shares in iDIL, representing 5.2% interest in the issued share capital of iDIL. Based on the financial statements of iDIL at March 31, 2002, the Group's share of the net asset value of iDIL was approximately HK\$169,000.

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(14) Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, interest-free and with no fixed terms of repayment. In the opinion of the directors, the amounts are not expected to be realised within one year from the balance sheet date and are therefore shown as non-current assets. Comparative amounts for the prior year have been reclassified in order to achieve a consistent presentation.

(15) Amounts due from investee companies

The amounts due from investee companies are unsecured, interest-free and with no fixed terms of repayment.

(16) Deposit and other receivables

	The Group		The Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Interest receivable	130,000	—	—	—
Deposit (note)	500,000	—	—	—
	<u>630,000</u>	<u>—</u>	<u>—</u>	<u>—</u>

Note: As at March 31, 2002, a deposit of HK\$500,000 was paid for the acquisition of an investment.

(17) Amount due to a subsidiary

The amount due was unsecured, interest-free and with no fixed terms of repayment.

(18) Share capital

	2002 HK\$	2001 HK\$
<i>Authorised</i>		
2,000,000,000 ordinary shares of HK\$0.01 each	<u>20,000,000</u>	<u>20,000,000</u>
<i>Issued and fully paid</i>		
1,010,714,000 ordinary shares of HK\$0.01 each	<u>10,107,140</u>	<u>10,107,140</u>

As at March 31, 2002, the Company had outstanding warrants entitling the holders to subscribe HK\$22,714,320 (2001: HK\$22,714,320) in cash at any time on or after October 13, 2000 until June 30, 2002 for ordinary shares of the Company at a price of HK\$0.12 per share. If the warrants are fully exercised, the Company will be required to issue further 189,286,000 (2001: HK\$189,286,000) shares.

Notes to the Financial Statements

(19) Reserves

THE GROUP

	Share premium HK\$	Contributed surplus HK\$	Retained profits (Accumulated losses) HK\$	Total HK\$
Balance as at 31/3/2000	95,234,008	–	14,741,601	109,975,609
Premium on shares issued	1,178,540	–	–	1,178,540
Issue of bonus shares	(9,000,000)	–	–	(9,000,000)
Share issue expenses	(245,255)	–	–	(245,255)
Net loss for the year	–	–	(25,172,043)	(25,172,043)
Balance as at 31/3/2001	87,167,293	–	(10,430,442)	76,736,851
Net profit for the year	–	–	14,054,708	14,054,708
Balance as at 31/3/2002	87,167,293	–	3,624,266	90,791,559

THE COMPANY

	Share premium HK\$	Contributed surplus HK\$	Accumulated losses HK\$	Total HK\$
Balance as at 31/3/2000	95,234,008	4,187,723	(7,397)	99,414,334
Premium on shares issued	1,178,540	–	–	1,178,540
Issue of bonus shares	(9,000,000)	–	–	(9,000,000)
Share issue expenses	(245,255)	–	–	(245,255)
Net loss for the year	–	–	(814,493)	(814,493)
Balance as at 31/3/2001	87,167,293	4,187,723	(821,890)	90,533,126
Net loss for the year	–	–	(1,198,760)	(1,198,760)
Balance as at 31/3/2002	87,167,293	4,187,723	(2,020,650)	89,334,366

The contributed surplus of the Company represents the difference between the net assets of its subsidiary and the nominal amount of the share capital issued by the Company at the time of the group reorganisation.

Notes to the Financial Statements

For the year ended March 31, 2002

(20)Deferred taxation

THE GROUP

There was no material unprovided deferred taxation at March 31, 2002.

THE COMPANY

The Company had no material deferred tax assets or liabilities at the balance sheet date.

(21)Net asset value per share

The calculation of net asset value per share is based on the net assets of HK\$100,898,699 (2001: HK\$86,843,991) and the 1,010,714,000 (2001: 1,010,714,000) ordinary shares in issue as at March 31, 2002.

(22)Reconciliation of profit (loss) before taxation to net cash outflow from operating activities

	2002 HK\$	2001 HK\$
Profit (Loss) before taxation	14,054,708	(25,991,616)
Loss in value of investments in unlisted equity securities	—	1,415,000
Interest income	(1,285,784)	(1,952,456)
Interest expenses	408	16,741
Net unrealised holding (gain) loss on other investments, listed	(12,674,237)	27,233,659
(Increase) Decrease in deposit and other receivables	(630,000)	1,478,942
Increase (Decrease) in accruals	12,000	(3,944,748)
Net cash outflow from operating activities	(522,905)	(1,744,478)

For the year ended March 31, 2002

Notes to the Financial Statements

(23) Major non-cash transaction

Details of a convertible bond held by the Group as at March 31, 2001 are as follows:

Name of issuer	Principal Amount HK\$	Annual interest rate	Maturity date
FGL	1,000,000	13%	October 11, 2001

On the maturity date, the Group did not exercise its conversion rights. Instead, the Group treated the principal amount as loan to an investee company. Details of FGL and the said loan are set out in notes (13)(3) and (15) to the financial statements respectively.

(24) Related party transactions

	Notes	2002 HK\$	2001 HK\$
Investment management fee paid to Upbest Assets Management Limited ("UAML")	(a)	1,343,368	454,649
Commission paid to Upbest Securities Company Limited ("USCL")	(b)	94,751	222,064
Investment management fee paid to Harmony Asset Management Limited ("HAML")	(c)	—	1,065,067
Disposal of interest in iDIL with Noble Way Development Limited ("Noble Way")	(d)	—	1,436,000
Variation of terms of a convertible bond issued by IT Star Limited	(e)	—	—

Notes:

- (a) On November 6, 2000, the Company entered into an investment management agreement with UAML, a company which is wholly-owned by Upbest Group Limited ("Upbest"), a company incorporated in the Cayman Islands with limited liability, the securities of which are listed on the Stock Exchange, for the period from December 1, 2000 to November 30, 2003 at annual fee of 1.5% on the net asset value of the Group. The beneficial owner, including Mr. Cheng Wai Lun, Andrew, a director of the Company, of Fung Fai Growth Limited, which is the substantial shareholder of the Company, holds indirectly 75 per cent beneficial interest in UAML. Also, Mr. Li Kwok Cheung, George, is a director of Upbest and UAML. UAML also performed certain administrative services and office support services on behalf of the Group, for which no charge was made.

Notes to the Financial Statements

For the year ended March 31, 2002

(24) Related party transactions (Continued)

- (b) USCL, a wholly-owned subsidiary of Upbest. The beneficial owner including Mr. Cheng Wai Lun, Andrew, a director of the Company, of Fung Fai Growth Limited, which is the substantial shareholder of the Company, holds indirectly 75 per cent beneficial interest in USCL. Also, Mr. Li Kwok Cheung, George, is a director of Upbest and USCL.
- (c) In the previous year, the Company entered into an investment management agreement with HAML, a company which is wholly-owned by Dr. Chow Pok Yu, Augustine ("Dr. Chow"), who is a former director of the Company. Under the agreement, HAML is responsible for analysing investment opportunities identified by it as well as those identified by the board of directors for a period from January 4, 2000 to January 4, 2003. In return, HAML is entitled to an annual fee equal 1.5% on the net asset value of the Group. The agreement was terminated on November 30, 2000.
- (d) On August 25, 2000, UBA Technologies Holdings Limited ("UBA Tech"), a wholly-owned subsidiary of the Company entered into an agreement with (i) Rising Top Limited ("Rising Top"), a wholly-owned subsidiary of Lamex. (ii) Noble Way, a wholly-owned subsidiary of Harmony Asset Limited ("Harmony"), and (iii) Rich Moment Limited ("Rich Moment"), pursuant to which Rising Top agreed to purchase and UBA Tech, Noble Way and Rich Moment agreed to sell 965, 965 and 1,396 shares of the issued share capital of iDIL respectively at the consideration of 95,700,000, 95,700,000 and 138,600,000 new shares at HK\$0.1 per share to be issued by Lamex to UBA Tech, Noble Way and Rich Moment respectively. The directors of Harmony are also the directors of HAML, the then investment manager of the Company.
- (e) On October 24, 2000, the Group signed a deed of variation in relation to convertible bond issued by IT Star Limited, a wholly-owned subsidiary of Harmony. Details of the variation are set out in note (13)(4) to the financial statements.