

Notes to the Financial Statements

For the year ended 31st December, 2002

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 (the "Hong Kong Stock Exchange") 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. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities of approximately HK\$561,000 at 31st December, 2002.

As explained in note 26, subsequent to 31st December, 2002, the Company placed 24,000,000 placing shares at a price of HK\$0.04 per placing share for net proceeds of approximately HK\$850,000. In addition, the Company disposed of certain listed equity securities at net cash consideration of approximately HK\$1,390,000. The directors are satisfied that following the above arrangements, the Group has sufficient financial resources to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. The adoption of these revised SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required. Further details of the effect on the adoption of these revised SSAPs are as follows:

Cash Flow Statements

Under SSAP No. 15 (Revised) "Cash Flow Statements", cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

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For the year ended 31st December, 2002

4. 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.

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 accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items 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.

Notes to the Financial Statements

For the year ended 31st December, 2002

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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. An 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.

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, as follows:

- 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.

Notes to the Financial Statements

For the year ended 31st December, 2002

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

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 contributions payable in respect the Group's Mandatory Provident Fund Scheme are charged as an expense as they fall due.

5. TURNOVER

	2002 HK\$'000	2001 HK\$'000
An analysis of the Group's turnover is as follows:		
Dividend income (<i>Note 6</i>)	178	104
Interest income	698	265
	876	369

Notes to the Financial Statements

For the year ended 31st December, 2002

6. DIVIDEND INCOME

	2002 HK\$'000	2001 HK\$'000
Listed investments:		
Champion Technology Holdings Limited	1	1
Kowloon Development Company Limited	63	–
Matrix Holdings Limited	114	–
Tonic Industries Holdings Limited	–	103
	178	104

7. LOSS ON DISPOSAL OF LISTED INVESTMENTS

The loss on disposal of listed investments arose from the disposal of investments in equity securities listed in Hong Kong. For the year ended 31st December, 2002, included in the loss on disposal is an amount of HK\$270,000 (2001: HK\$26,395,000) in respect of amounts released from the investment revaluation reserve at the time of the disposal as set out in statement of changes in equity.

Notes to the Financial Statements

For the year ended 31st December, 2002

8. 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 PRC. These geographical markets are the basis on which the Group reports its primary segment information.

Segment information about these geographical markets is presented below:

	Hong Kong		PRC		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
TURNOVER	598	344	278	25	876	369
RESULTS						
Segment results	(12,058)	(30,227)	(10,839)	(7,758)	(22,897)	(37,985)
Unallocated corporate expenses					(4,326)	(2,636)
Loss for the year					(27,223)	(40,621)
ASSETS						
Segment assets	8,473	17,496	17,005	26,986	25,478	44,482
Unallocated corporate assets					154	271
Consolidated total assets					25,632	44,753
LIABILITIES						
Segment liabilities	(1,776)	(542)	–	–	(1,776)	(542)
Unallocated corporate liabilities					(1,025)	(609)
Consolidated total liabilities					(2,801)	(1,151)
OTHER INFORMATION						
Capital additions	208	–	–	–	208	–
Depreciation	(107)	(151)	–	–	(107)	(151)
Impairment loss recognised in income statement	(10,495)	–	(10,500)	(6,750)	(20,995)	(6,750)

Notes to the Financial Statements

For the year ended 31st December, 2002

9. LOSS FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Loss from operations has been arrived at after charging:		
Auditors' remuneration:		
- current year	217	254
- underprovision in prior year	–	15
Depreciation	107	151
Investment management fee (Note 23(a))	691	822
Loss on disposal of property, plant and equipment	267	–
Allowance for bad and doubtful debt	420	1,015
Retirement benefits scheme contributions	33	9
Staff costs including directors' remuneration	1,308	264

10. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive Directors	965	60
Non-executive Directors	147	40
	1,112	100
Other emoluments:		
Retirement benefits scheme contributions	23	–
Total emoluments	1,135	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, 2002

10. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES (continued)

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

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	107	164
Retirement benefits scheme contributions	5	9
	112	173

11. TAXATION

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

At 31st December, 2002, a deferred tax asset of approximately HK\$3,593,000 (2001: HK\$1,729,000) 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.

12. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the year of HK\$27,223,000 (2001: HK\$40,621,000) and on the weighted average number of 115,342,466 (2001: 100,000,000) shares in issue during the year.

Notes to the Financial Statements

For the year ended 31st December, 2002

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP AND THE COMPANY			
COST			
At 1st January, 2002	574	180	754
Additions	123	85	208
Disposals	(697)	(86)	(783)
At 31st December, 2002	–	179	179
DEPRECIATION			
At 1st January, 2002	402	109	511
Provided for the year	62	45	107
Eliminated on disposal	(464)	(44)	(508)
At 31st December, 2002	–	110	110
NET BOOK VALUE			
At 31st December, 2002	–	69	69
At 31st December, 2001	172	71	243

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unlisted shares, at cost	–	–
Amounts due from subsidiaries	48,857	50,976
Less: impairment loss recognised	(31,304)	(31,304)
	17,553	19,672

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, 2002

14. INTERESTS IN SUBSIDIARIES (continued)

Details of the Company's subsidiaries at 31st December, 2002 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 debt security outstanding at the end of the year or at any time during the year.

15. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Equity securities listed in Hong Kong, at cost	5,288	351	5,288	–
Unrealised loss	(426)	(270)	(428)	–
Market value at 31st December	4,862	81	4,860	–
Unlisted equity security, at fair value	11,461	17,461	–	–
Unlisted convertible loan notes, at fair value	7,000	21,995	7,000	21,995
	23,323	39,537	11,860	21,995

Notes to the Financial Statements

For the year ended 31st December, 2002

15. INVESTMENTS IN SECURITIES (continued)

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	2002 HK\$'000	2001 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	11,461	17,461

(b) Unlisted convertible loan notes

Issuer	Principal amount		Impairment loss recognised		Fair value		Interest rate	Maturity date
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000		
(a) Assets Planning Limited ("Assets Planning") - unsecured (Notes ii and iii)	9,500	9,500	(7,500)	-	2,000	9,500	5% per annum	31st December, 2003, default on interest
(b) Dynamic Venture Enterprises Limited ("Dynamic Venture") - secured (Note iv)	13,500	13,500	(13,500)	(13,500)	-	-	8% per annum	On default
(c) Kellerton Industries Limited ("Kellerton") - unsecured (Notes ii and v)	9,500	9,500	(4,500)	-	5,000	9,500	5% per annum	31st December, 2003
(d) JRB 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 and vii)	2,995	2,995	(2,995)	-	-	2,995	5% per annum	31st December, 2003, default on interest
	44,495	44,495	(37,495)	(22,500)	7,000	21,995		

Notes to the Financial Statements

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15. INVESTMENTS IN SECURITIES (continued)

(b) Unlisted convertible loan notes (continued)

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.
- (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. The first interest payment date was 31st December, 2002, but on which date, Assets Planning defaulted on the payment of interest.
- (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. On 15th April, 2003, the Group entered into an agreement with Kellerton to change the interest rate from 5% per annum to 2.5% per annum.
- (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 formula. 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 25.

Notes to the Financial Statements

For the year ended 31st December, 2002

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. The first interest payment date was 31st December, 2002, but on which date, IPO43.com defaulted on the payment of interest.

16. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables of the Group at 31st December, 2002 are trade receivables of HK\$25,000 (2001: HK\$65,000) which was aged within 0 – 60 days.

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

17. AMOUNT DUE FROM A RELATED COMPANY

	At 31.12.2002 HK\$'000	At 1.1.2002 HK\$'000	Maximum balance outstanding during the year HK\$'000
SAR Capital Limited	178	–	293

Mr. Tai Ah Lam, Michael, a director of the Company, is a director of and has beneficial interests in the above company.

18. SECURED LOAN – DUE WITHIN ONE YEAR

The loan was secured by certain of the Group's equity securities listed in Hong Kong with market value of approximately HK\$1,389,000 and was interest bearing at 24% per annum. The loan is fully repaid subsequent to year end.

19. AMOUNTS DUE TO DIRECTORS/A RELATED COMPANY

The amounts are unsecured, non-interest bearing and have no fixed repayment terms.

Notes to the Financial Statements

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20. SHARE CAPITAL

	Number of ordinary shares		Share capital	
	2002	2001	2002 HK\$'000	2001 HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised	200,000,000	200,000,000	2,000	2,000
Issued and fully paid:				
At 1st January	100,000,000	100,000,000	1,000	1,000
Shares issued on 15th March, 2002	20,000,000	–	200	–
At 31st December	120,000,000	100,000,000	1,200	1,000

On 15th March, 2002, 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 a 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 Limited in the Company's enlarged issued capital became 20.83%. The net proceeds of the subscription were approximately HK\$6.6 million which would be used for making investments and working capital purposes. The new shares ranked pari passu with the existing shares in all respects.

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21. RESERVES

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Accu- mulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY					
At 1st January, 2001	1,000	94,117	(6,770)	(29,550)	58,797
Unrealised loss arising on revaluation of investments	-	-	(892)	-	(892)
Loss released on disposal of non-trading investments	-	-	7,662	-	7,662
Loss for the year	-	-	-	(21,838)	(21,838)
At 1st January, 2002	1,000	94,117	-	(51,388)	43,729
Unrealised loss arising on revaluation of investments	-	-	(428)	-	(428)
Shares issued at premium	200	6,800	-	-	7,000
Share issue expenses	-	(392)	-	-	(392)
Loss for the year	-	-	-	(20,848)	(20,848)
At 31st December, 2002	1,200	100,525	(428)	(72,236)	29,061

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 less accumulated losses.

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

22. 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, 2002 of HK\$22,831,000 (2001: HK\$43,602,000) and 120,000,000 (2001: 100,000,000) ordinary shares in issue as at that date.

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23. RELATED PARTY TRANSACTION

During the year, the Company entered into the following transactions with related parties:

	Management fee expenses		Rental income	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Haywood Investment Management Limited (<i>Note a</i>)	691	822	–	–
SAR Capital Limited (<i>Note b</i>)	–	–	81	–

Notes:

- (a) The management fee was charged in accordance with the management agreement dated 6th July, 1998 (the "Agreement"). 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 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 a director of the Company, Mr. Chan Cheong Yee, was also its director as at 31st December, 2002 and Mr. Wong Fong Kim and Dr. Chow Pok Yu, Augustine, a director and a former director of the Company respectively, had beneficial interests as at 31st December, 2002.

- (b) The rental income was earned on the lease of furniture, fixtures and equipment to SAR Capital Limited of which Mr. Tai Ah Lam, Michael, a director of the Company, is also a director and has beneficial interest. The transaction was carried out on terms similar to those applicable to transaction with unrelated parties.

Details of the balances with related parties at the balance sheet date are set out in the balance sheet and notes 17 and 19.

24. OPERATING LEASE COMMITMENTS

	2002 HK\$'000	2001 HK\$'000
Minimum lease payments paid under an operating lease during the year in respect of rented premises	339	155

At 31st December, 2001, the Company had commitments of HK\$78,000 (2002: Nil) for future minimum lease payments under a non-cancellable operating lease in respect of rented premises which fall due within one year. The lease was entered into for a term of two years with fixed monthly rental.

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25. 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. The trial hearings and pre-trial review are fixed by no later than 31st May, 2003.

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.

26. POST BALANCE SHEET EVENT

Subsequent to 31st December, 2002, the Company placed, through a placing agent, Upbest Securities Company Limited ("Upbest"), 24,000,000 placing shares to more than six professional investors who were not connected persons of the Company (as defined under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, at a price of HK\$0.04 per placing share (the "Placement"). The Placement was fully underwritten by Upbest. The placing shares represented 20% of the then existing issued share capital of the Company and approximately 16.67% of the issued share capital of the Company as enlarged by the issue of 24,000,000 placing shares. The placing shares, when fully paid, ranked pari passu in all respects with the existing issued share capital of the Company. The Placement was completed in April 2003. The net proceeds from the Placement of approximately HK\$850,000 will be used for additional working capital of the Company and will not be utilised for investment.