

# Corporate Information

## Board of Directors

### *Executive Directors*

Mr. Wong Fong Kim (*Chairman*)

Mr. Lee Wa Lun, Warren

Mr. Tai Ah Lam, Michael

Mr. Chan Cheong Yee

### *Non-executive Director*

Mr. Chang Hang Vai

### *Independent Non-executive Directors*

Mr. Hui Hung, Stephen

Dr. Wong Yun Kuen, Edward

Mr. Hsieh Dominick

## Company Secretary

Mr. Lee Yip Wah, Peter

## Investment Manager

Haywood Investment Management Limited

## Directors of Investment Manager

Mr. Lee Fong Lit, David

Dr. Chow Pok Yu, Augustine

## Principal Bankers

Wing Hang Bank, Limited

CITIC Ka Wah Bank Limited

Dao Heng Bank Limited

## Custodian

Wing Hang Bank, Limited

## Auditors

Deloitte Touche Tohmatsu

## Legal Advisers

### *Hong Kong Law*

Kwok & Yih

### *Cayman Islands Law*

Maples and Calder Asia

## Principal Registrars

Bank of Butterfield International (Cayman) Limited

Butterfield House

P. O. Box 705

George Town

Grand Cayman

Cayman Islands

## Branch Registrars

Secretaries Limited

G/F., Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

## Registered Office

Ugland House

P. O. Box 309

George Town

Grand Cayman

Cayman Islands

## Principal Place of Business

Unit A, 8th Floor, Wah Kit Commercial Centre

302 Des Voeux Road Central

Hong Kong

## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the annual general meeting of the Company will be held at Unit A, 8th Floor, Wah Kit Commercial Centre, 302 Des Voeux Road Central, Hong Kong on Monday, the 26th day of May, 2003 at 9:30 a.m. for the following purposes:-

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31st December, 2002.
2. To re-elect directors and to fix the remuneration of directors.
3. To re-appoint auditors and to authorise the directors to fix their remuneration.

By Order of the Board  
Peter Lee Yip Wah  
*Secretary*

Hong Kong, 28th April, 2003

*Notes:*

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and on a poll, vote in his stead. A proxy need not be a member of the Company.
2. To be valid, the proxy form, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the principal place of business of the Company in Hong Kong at Unit A, 8th Floor, Wah Kit Commercial Centre, 302 Des Voeux Road Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

# Chairman's Statement

## Results

For the year ended 31st December, 2002, the Group recorded a loss of HK\$27,223,000 that was mainly attributable to impairment losses totalled HK\$20,995,000 recognised for its equity investment in a building materials manufacturing company and certain of its investment in convertible loan notes.

## Business Review and Prospects

The overall investment environment facing by the Group continued to be difficult in 2002. For the Group's investments in two companies which are respectively engaged in property development and internet-related business in Hong Kong, their financial positions have deteriorated considerably during the year mainly as a result of the continuous slowdown of the local economy and the weak sentiment in investment market in general which have substantially reduced their abilities to raise further funding in achieving their business plans. As for the Group's investment in the Mainland, the investee company which holds equity interests in companies engaged in biotechnological production and the investee company in the business of building materials are both under-performing due to their difficulties in achieving the planned business targets. All these unfavourable performance of investee companies had resulted in impairment losses totalled HK\$20,995,000 being recognised by the Group for its investments in their convertible loan notes and equity interest. For 2003, it is determined that the priority task of the management is to step up its effort in monitoring the existing investment portfolio with a view to improve its performance.

As at 31st December, 2002, about 30% in value of the Group's investment portfolio was constituted by investments in convertible loan notes, 21% in Hong Kong listed securities, and 49% represented by an equity interest in a building materials manufacturing company in the Mainland. The Group's investment portfolio was financed by a short term loan of HK\$1,000,000 secured by certain of its equity securities with the balance of the portfolio mainly financed by shareholders' funds of HK\$22,831,000. Consolidated net asset value per share of the Company was HK\$0.19. Gearing ratio calculated on the basis of the amount of secured loan over shareholders' funds was at a low level of 4%.

A detailed description of the Group's investment portfolio is on pages 35 to 39.

In April 2003, the Company raised net proceeds of approximately HK\$850,000 following completion of a share placement of 24,000,000 new shares to independent investors and new fund raised is used as additional working capital. The Group's other liquid assets which can be utilised as working capital comprising mainly of listed securities in Hong Kong, the Directors are satisfied that given the cash and liquid assets on hand the Group has sufficient financial resources to meet its ongoing operational requirements.

The Group's investment approach for 2003 will remain cautious in light of the uncertain investment environment in Hong Kong. Nevertheless, the management will continue to pursue attractive investment opportunities that will add value to the Group, particularly those that are China-related and well poised to take advantage of the country's continuous strong economic growth.

## Appreciation

On behalf of the Board of Directors, I like to thank the Investment Manager and staff for their hard work during this challenging year and look forward to their support in the years ahead.

**Wong Fong Kim**

*Chairman*

Hong Kong, 28th April, 2003

### Directors of the Company

#### Executive Directors

*Mr. Wong Fong Kim*, aged 50, has been the Chairman of the Company since April 1998. Mr. Wong has extensive experience in investing in Mainland China and management of industrial projects. In 1992, Mr. Wong joined Yun Nan Economic Trading and Development Company Limited as the vice managing director and was responsible for overseeing the operation and the administration of the company. During the years from 1994 to 1997, Mr. Wong held senior positions in companies of a listed ceramics manufacturing group in Hong Kong and was responsible for overseeing the management of the manufacturing plants in Mainland China. Owing to his position in the above companies, Mr. Wong developed a strong background in investing in projects in Mainland China. Mr. Wong graduated from Yun Nan University in 1982 with a Bachelor of Arts Degree in Economics. Mr. Wong wholly owns and controls Ever Harvest Investment Limited, which is a substantial shareholder of the Company.

*Mr. Lee Wa Lun, Warren*, aged 39, has been an executive director of the Company since April 1998. Mr. Lee has 15 years of experience in corporate finance of which 10 years were in the business of investment banking and investment management. Mr. Lee joined Sun Hung Kai International Limited in July 1992 and became a director of Sun Hung Kai International Limited in July 1996. He was the head of the corporate finance team supervising new listings, mergers and acquisitions, corporate finance advisory services and placing and underwriting of securities. Mr. Lee graduated with a Master of Science degree from The City University Business School in England in 1987. Mr. Lee is a director of Yu Ming Investment Management Limited.

*Mr. Tai Ah Lam, Michael*, aged 55, has been an executive director of the Company since December 2001. Mr. Tai is an accountant by training and has more than 20 years experience in corporate finance, and merger and acquisition transaction. Mr. Tai had been an executive director of a merchant bank, and had also been a partner of an international accounting firm involving in merger and acquisition transactions, both for a long term of nearly 10 years.

*Mr. Chan Cheong Yee*, aged 39, is an executive director of the Company since June 2002. Mr. Chan held a senior position in various financial institutions in Hong Kong and also years of experience in portfolio and fund management in both private and public companies in the past 10 years. From 2000 to 2002, he was the director of CCS Consultant Ltd which managed a fund that invested in listed and unlisted equities and properties investment. In 1999, Mr. Chan joined TSE Financial Group and was responsible for the overall management of the companies and managed and supervision of all teams of accounts including but not limited to supervision of their investment advisory services and management services. In addition, Mr. Chan also dealt with some high net-worth and high turnover clients by offering tailor made investment advisory services for their accounts as well. In 1996, Mr. Chan joined ABN AMRO Bank HK and was responsible for providing personal financial services advices to client. From 1988 to 1996, he was working with Sun Hung Kai Investment Services Ltd and his last position was executive vice president, he was also one of the investment committee which managed an authorized hedged fund. Mr. Chan graduated from the University of South Florida, Tampa, Florida, USA with a Bachelor of Science in Finance.

#### Non-executive Directors

*Mr. Chang Hang Vai*, aged 47, was appointed as an executive director in December 2001 and has been redesignated as a non-executive director of the Company in June 2002. Mr. Chang is a general merchant and a director of a food and beverage company.

### Independent Non-executive Directors

*Mr. Hui Hung, Stephen*, aged 45, has been an independent non-executive director of the Company since April 1998. Mr. Hui is the managing director of Federal Glory Industrial Limited and Federal Glory Investment Consultancy Company. Mr. Hui has extensive experience in banking and investment in Mainland China. Mr. Hui joined the Far East Regional Office of the Bank of Credit and Commerce International in Hong Kong in 1983 and was the manager of the China Division. Mr. Hui was responsible for credit analysis and marketing of products of the bank among Chinese corporations, major local companies and financial institutions in Hong Kong and in Mainland China. Owing to his position in the bank, Mr. Hui developed a strong background in credit risk analysis, particularly in credit risks involved in investment in Mainland China and provision of financial advice to clients of the bank, including structuring of project financing for projects in Mainland China and financing investments in Mainland China. In 1992, Mr. Hui became the managing director of Golden Sea International Development Limited, a joint venture with the Guangdong Engineering Industries Company Limited. Since then, Mr. Hui has been engaged in investment in property development in various part of Mainland China, including Dongguan, Punyu and Shanghai. As a result, Mr. Hui has gained extensive experience in investments and financing investments in various parts of Mainland China. Mr. Hui graduated from Middlesex Polytechnic in the United Kingdom in 1982 with a Bachelor of Arts Degree in Economics and Geography. Mr. Hui has also furthered his studies and has been conferred a Master of Business Administration in 2001 by the Barrington University of the United States.

*Dr. Wong Yun Kuen, Edward*, aged 45, has been an independent non-executive director of the Company since June 1998. Dr. Wong received a Ph.D degree from Harvard University. Dr. Wong was a "Distinguished Visiting Scholar" at the Wharton School of the University of Pennsylvania and a consultant at AIG Financial Products Corporation of the United States.

*Mr. Hsieh Dominick*, aged 33, has been an independent non-executive director of the Company since December 2001. Mr. Hsieh has over 8 years experience in securities trading, investment and advisory business. He graduated from the University of Wisconsin in the United States with a bachelor's degree in finance.

### Directors of Investment Manager

*Mr. Lee Fong Lit, David*, aged 56, has been a director of the Company's Investment Manager since June 1998. Mr. Lee obtained his BSc degree from McGill University in Montreal and his MBA degree from Columbia University, New York. He has over 30 years of experience in the international financial and investment industry. Mr. Lee has been involved in investing in equity markets of Singapore, Malaysia and Hong Kong. He is the chairman of Harmony Asset Limited, a listed investment company in Hong Kong.

*Dr. Chow Pok Yu, Augustine*, aged 50, has been a director of the Company's Investment Manager since June 1998. Dr. Chow holds a MSc degree from London Business School and a Ph.D degree from University of South Australia. Dr. Chow is a director of Harmony Asset Limited, which is a listed investment company in Hong Kong. Dr. Chow has vast experience in managing public listed companies engaged in manufacturing, marketing and financial services, and specialises in corporate merger and acquisitions.

The directors present their annual report and the audited financial statements for the year ended 31st December, 2002.

## Principal Activities

The Company is an investment holding company. The Company and its principal subsidiaries invest in listed and unlisted companies in Hong Kong and in other parts of the People's Republic of China (the "PRC").

## Results

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 13 of the financial statements.

The directors do not recommend the payment of a dividend for the year.

## Property, Plant and Equipment

Details of movements during the year in the property, plant and equipment of the Group and the Company are set out in note 13 to the financial statements.

## Share Capital

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.

Other details of the share capital of the Company are set out in note 20 to the financial statements.

## Share Option Scheme

The Company has adopted a share option scheme ("the Scheme") on 23rd May, 2002. The purpose of the Scheme is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Participants include (a) any full-time employee, director (including any non-executive director or independent non-executive director) and part time employee of the Company or of any of its subsidiaries; (b) any advisor or consultant (in the areas of financial or corporate managerial) to the Company or to any of its subsidiaries; and (c) any adviser, consultant, agent, business affiliates or any person or entity who provides research or other support directly or indirectly to the Group, and any employee, adviser or consultant to the investment management company for the Company.

## Share Option Scheme (continued)

The directors may, at their absolute discretion, made an offer to any participant to take up options. An offer is deemed to have been accepted by the grantee upon the duplicate of the offer letter comprising acceptance of the offer duly signed by the grantee and paying HK\$1 by way of consideration for the grant thereof.

The subscription price for shares in the Company under the Scheme shall be no less than the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date on which an option is granted, (ii) the average closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which an option is granted, and (iii) the nominal value of a share of the Company on the date on which an option is granted.

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 12,000,000 shares of the Company, being 10% of the total number of shares of the Company in issue as at the date of approval of the Scheme. An option may be exercised during a period to be notified by the directors but may not be exercised after the expiry of 10 years after the date of grant of the option.

The maximum entitlement for any one participant is that the total number of shares issued and to be issued upon exercise of the options granted or to be granted to each participant under the Scheme in any 12-month period must not exceed 1 per cent. of the total number of shares in issue of the Company. Any further grant of options in excess of the 1 per cent. limit shall be subject to shareholders' approval in general meeting with such participant and his associates abstaining from voting. The Scheme will remain in force for a period of 10 years from 23rd May, 2002.

No option was granted since adoption of the Scheme.

## Directors

The directors of the Company during the year and up to the date of this report were:

### Executive Directors:

Mr. Wong Fong Kim

Mr. Lee Wa Lun, Warren

Mr. Tai Ah Lam, Michael

Mr. Chan Cheong Yee

*(appointed on 1st June, 2002)*

Dr. Chow Pok Yu, Augustine

*(resigned on 1st June, 2002)*

### Non-executive Director:

Mr. Chang Hang Vai

### Independent Non-executive Directors:

Mr. Hui Hung, Stephen

Dr. Wong Yun Kuen, Edward

Mr. Hsieh Dominick

# Directors' Report

## Directors (continued)

In accordance with Article 123 of the Company's Articles of Association, Mr. Chan Cheong Yee retires and, being eligible, offers himself for re-election.

In accordance with Article 157 of the Company's Articles of Association, Mr. Wong Fong Kim and Mr. Hui Hung, Stephen retire by rotation and, being eligible, offers themselves for re-election.

No director being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each of the Independent Non-executive Directors is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

## Directors' Interests in Shares

At 31st December, 2002, the interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interest) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Nature of interest	Number of shares of the Company
Mr. Wong Fong Kim ( <i>Note 1</i> )	Corporate	25,000,000
Mr. Tai Ah Lam, Michael ("Mr. Tai") ( <i>Note 2</i> )	Corporate	25,000,000

### Notes:

1. These shares were held by Ever Harvest Investment Limited, a company wholly owned by Mr. Wong Fong Kim, who was deemed to be interested in those shares.
2. These shares were held by Fortuna Alliance Limited, a company wholly owned by Mr. Lam Andy Siu Wing ("Mr. Lam"), who was also deemed to be interested in those shares at 31st December, 2002.

On 11th December, 2001, Mr. Tai entered into a sale and purchase agreement (the "S & P Agreement") with Mr. Lam whereby Mr. Lam agreed to sell and Mr. Tai agreed to purchase the entire issued share capital of and shareholder's loan to Fortuna Alliance Limited for a total consideration of HK\$11,687,100. According to the S & P Agreement, the transaction should have been completed on or before 30th June, 2002. Pursuant to two supplemental agreements entered into between Mr. Tai and Mr. Lam, the completion date of the S & P Agreement was finally extended to be on or before 31st December, 2002. On 8th January, 2003, the Company was informed by Mr. Lam that the transaction was cancelled as Mr. Tai had not completed the transaction on the agreed extended completion date of 31st December, 2002 and a cancellation agreement had been entered into between the two parties. After the entering of the cancellation agreement, Mr. Lam continued to be a substantial shareholder of the Company.

## Arrangements to Purchase Shares or Debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company.

# Directors' Report

## Substantial Shareholders

As at 31st December, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the share capital of the Company:

Name of shareholders	Number of shares held
Ever Harvest Investment Limited ( <i>Note 1</i> )	25,000,000
Fortuna Alliance Limited ( <i>Note 2</i> )	25,000,000

### Notes:

1. These shares were held by Ever Harvest Investment Limited, a company wholly owned by Mr. Wong Fong Kim, who was deemed to be interested in those shares.
2. These shares were held by Fortuna Alliance Limited, a company wholly owned by Mr. Lam, who was also deemed to be interested in those shares at 31st December, 2002.

On 11th December, 2001, Mr. Tai entered into a sale and purchase agreement (the "S & P Agreement") with Mr. Lam whereby Mr. Lam agreed to sell and Mr. Tai agreed to purchase the entire issued share capital of and shareholder's loan to Fortuna Alliance Limited for a total consideration of HK\$11,687,100. According to the S & P Agreement, the transaction should have been completed on or before 30th June, 2002. Pursuant to two supplemental agreements entered into between Mr. Tai and Mr. Lam, the completion date of the S & P Agreement was finally extended to be on or before 31st December, 2002. On 8th January, 2003, the Company was informed by Mr. Lam that the transaction was cancelled as Mr. Tai had not completed the transaction on the agreed extended completion date of 31st December, 2002 and a cancellation agreement had been entered into between the two parties. After the entering of the cancellation agreement, Mr. Lam continued to be a substantial shareholder of the Company.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 2002.

## Investment Management Contract

Pursuant to an agreement dated 6th July, 1998 (the "Agreement"), the Company has appointed Haywood Investment Management Limited, a company of which a director of the Company, Mr. Chan Cheong Yee was also a director as at 31st December, 2002 and in which Mr. Wong Fong Kim and Dr. Chow Pok Yu, Augustine, a director and a former director of the Company had a 9% and 91% beneficial interests respectively as at 31st December, 2002, as its manager for the purpose of investment management and administration of the Company. In return, Haywood Investment Management Limited will be entitled to a monthly fee at 1.5% per annum of the net asset value of the Company at each preceding month end as defined in the Agreement and an incentive fee equivalent to 10% of the surplus in net asset value (with appropriate adjustment) over the previous financial year. During the year, the Company paid a management fee amounting to approximately HK\$691,000 to Haywood Investment Management Limited. In the opinion of the Independent Non-executive Directors, the payment of management fee was:

- (i) in the ordinary and usual course of the Company's business and was in accordance with the terms of the relevant agreement;
- (ii) on normal commercial terms and on an arm's length basis; and

## Investment Management Contract (Continued)

(iii) fair and reasonable so far as the shareholders of the Company are concerned.

Save as disclosed, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Purchase, Sale or Redemption of the Company's Listed Shares

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

## Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## Directors' Interest in Competing Business

Dr. Chow Pok Yu, Augustine, a former director of the Company and currently a director of its Investment Manager-Haywood Investment Management Limited, is also a director of Harmony Asset Limited. Harmony Asset Limited is a company principally engaged in the investments in listed and unlisted securities, and its business is deemed to constitute a competing business to the Group.

The Board of Directors of the Group has established procedures to identify any conflict of interests due to Dr. Chow Pok Yu, Augustine's directorship in Harmony Asset Limited. If a conflict of interest arises, Dr. Chow Pok Yu, Augustine will abstain from participating in making investment decisions. The Group is therefore capable of carrying on its business independent of that of Harmony Asset Limited.

## Post Balance Sheet Event

Details of a significant event occurring after the balance sheet date are set out in note 26 to the financial statements.

## Corporate Governance

The Company has complied throughout the year ended 31st December, 2002 with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

## Auditors

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board  
Tai Ah Lam, Michael  
*Executive Director*

Hong Kong, 28th April, 2003

## 德勤·關黃陳方會計師行

Certified Public Accountants  
26/F, Wing On Centre  
111 Connaught Road Central  
Hong Kong

香港中環干諾道中111號  
永安中心26樓

**Deloitte  
Touche  
Tohmatsu**

TO THE SHAREHOLDERS OF HAYWOOD INVESTMENTS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 13 to 34 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu  
*Certified Public Accountants*

Hong Kong, 28th April, 2003

# Consolidated Income Statement

For the year ended 31st December, 2002

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	5	876	369
Loss on disposal of listed investments	7	(481)	(30,381)
Other operating income		84	-
Administrative expenses		(6,559)	(3,859)
Impairment loss recognised in respect of investments in securities		(20,995)	(6,750)
Loss from operations	9	(27,075)	(40,621)
Interest on bank overdrafts and secured loan wholly repayable within five years		(148)	-
Loss for the year		(27,223)	(40,621)
Loss per share	12	(23.60 cents)	(40.62 cents)

# Consolidated Balance Sheet

At 31st December, 2002

	Notes	2002 HK\$'000	2001 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
Non-current assets			
Property, plant and equipment	13	69	243
Investments in securities	15	23,323	39,537
		23,392	39,780
Current assets			
Trade and other receivables	16	1,948	335
Amount due from a related company	17	178	-
Bank balances and cash		114	4,638
		2,240	4,973
Current liabilities			
Other payables		1,541	999
Secured loan – due within one year	18	1,000	-
Amounts due to directors	19	94	100
Amount due to a related company	19	114	-
Taxation payable		52	52
		2,801	1,151
Net current (liabilities) assets		(561)	3,822
Net assets		22,831	43,602
<b>CAPITAL AND RESERVES</b>			
Share capital	20	1,200	1,000
Reserves		21,631	42,602
		22,831	43,602
<b>NET ASSET VALUE PER SHARE</b>	22	<b>HK\$0.19</b>	<b>HK\$0.44</b>

The financial statements on pages 13 to 34 were approved and authorised for issue by the Board of Directors on 28th April, 2003 and are signed on its behalf by:

Wong Fong Kim  
Director

Tai Ah Lam, Michael  
Director

# Balance Sheet

At 31st December, 2002

	Notes	2002 HK\$'000	2001 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
Non-current assets			
Property, plant and equipment	13	69	243
Interests in subsidiaries	14	17,553	19,672
Investments in securities	15	11,860	21,995
		29,482	41,910
Current assets			
Trade and other receivables	16	1,948	331
Amount due from a related company	17	178	-
Bank balances and cash		108	2,513
		2,234	2,844
Current liabilities			
Other payables		1,447	925
Secured loan – due within one year	18	1,000	-
Amounts due to directors	19	94	100
Amount due to a related company	19	114	-
		2,655	1,025
Net current (liabilities) assets		(421)	1,819
Net assets		29,061	43,729
<b>CAPITAL AND RESERVES</b>			
Share capital	20	1,200	1,000
Reserves	21	27,861	42,729
		29,061	43,729

Wong Fong Kim  
Director

Tai Ah Lam, Michael  
Director

# Statement of Changes in Equity

For the year ended 31st December, 2002

	Share capital HK\$'000 (Note 20)	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>THE GROUP</b>					
At 1st January, 2001	1,000	94,117	(25,518)	(10,624)	58,975
Unrealised loss arising on revaluation of investments not recognised in the income statement	-	-	(1,147)	-	(1,147)
Loss released on disposal of non-trading investments not recognised in the income statement	-	-	26,395	-	26,395
Loss for the year	-	-	-	(40,621)	(40,621)
At 1st January, 2002	1,000	94,117	(270)	(51,245)	43,602
Unrealised loss arising on revaluation of investments not recognised in the income statement	-	-	(426)	-	(426)
Loss released on disposal of non-trading investments	-	-	270	-	270
Shares issued at premium	200	6,800	-	-	7,000
Share issue expenses	-	(392)	-	-	(392)
Loss for the year	-	-	-	(27,223)	(27,223)
<b>At 31st December, 2002</b>	<b>1,200</b>	<b>100,525</b>	<b>(426)</b>	<b>(78,468)</b>	<b>22,831</b>

# Consolidated Cash Flow Statement

For the year ended 31st December, 2002

	2002 HK\$'000	2001 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Loss from operations	(27,075)	(40,621)
Adjustments for:		
Depreciation	107	151
Loss on disposal of listed investments	481	30,381
Loss on disposal of property, plant and equipment	267	-
Allowance for bad and doubtful debt	420	1,015
Impairment loss recognised in respect of investments in securities	20,995	6,750
Operating cash flows before movements in working capital	(4,805)	(2,324)
Increase in trade and other receivables	(2,033)	(225)
Increase in amount due from a related company	(178)	-
Increase in other payables	502	74
Decrease in amounts due to directors	(6)	-
Increase in amount due to a related company	114	-
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(6,406)</b>	<b>(2,475)</b>
<b>FINANCING ACTIVITIES</b>		
Interest paid	(108)	-
Proceeds from issue of ordinary shares	6,608	-
New loan raised	1,000	-
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>7,500</b>	<b>-</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of investments in securities	(13,978)	(21,995)
Proceeds from sales of investments in securities	8,560	21,996
Purchase of property, plant and equipment	(208)	-
Proceeds from disposal of property, plant and equipment	8	-
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>	<b>(5,618)</b>	<b>1</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(4,524)</b>	<b>(2,474)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>4,638</b>	<b>7,112</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash</b>	<b>114</b>	<b>4,638</b>

# 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.

# Notes to the Financial Statements

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
<b>TURNOVER</b>	<b>598</b>	<b>344</b>	<b>278</b>	<b>25</b>	<b>876</b>	<b>369</b>
<b>RESULTS</b>						
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)
<b>ASSETS</b>						
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
<b>LIABILITIES</b>						
Segment liabilities	(1,776)	(542)	-	-	(1,776)	(542)
Unallocated corporate liabilities					(1,025)	(609)
Consolidated total liabilities					(2,801)	(1,151)
<b>OTHER INFORMATION</b>						
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>
<b>THE GROUP AND THE COMPANY</b>			
<b>COST</b>			
At 1st January, 2002	574	180	754
Additions	123	85	208
Disposals	(697)	(86)	(783)
At 31st December, 2002	–	179	179
<b>DEPRECIATION</b>			
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
<b>NET BOOK VALUE</b>			
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	2001	2002	2001	2002	2001		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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

For the year ended 31st December, 2002

## 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

For the year ended 31st December, 2002

## 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.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 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>
<b>THE COMPANY</b>					
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)
<b>At 31st December, 2002</b>	<b>1,200</b>	<b>100,525</b>	<b>(428)</b>	<b>(72,236)</b>	<b>29,061</b>

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.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 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.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 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.

# Investment Portfolio

At 31st December, 2002

Particulars of the Group's investments are as follows:

(1) Equity securities listed on The Stock Exchange of Hong Kong Limited:

Name of investee company	Place of incorporation	Number of shares/ warrants held	Proportion of investee's capital owned	Cost HK\$'000	Market value HK\$'000	Unrealised (loss) gain arising on revaluation HK\$'000	Net assets attributable to the Group HK\$'000
At 31st December, 2002							
DIGITALHONGKONG.COM	Cayman Islands	648	0.0004%	-	-	-	- (Note i)
Kin Don Holdings Limited	Cayman Islands	28,400,000	0.477%	1,151	539	(612)	165 (Note i)
Kowloon Development Company Limited	Hong Kong	241,000	0.05%	1,067	850	(217)	1,624 (Note i)
Riche Multi-Media Holdings Limited	Bermuda	960,000	0.202%	2,982	2,976	(6)	520 (Note i)
				5,200	4,365	(835)	
Warrants							
Champion Technology Holdings Limited		200,000		-	2	2	
renren Holdings Limited		44,000,000		88	440	352	
Riche Multi-Media Holdings Limited		220,000		-	55	55	
				88	497	409	
				5,288	4,862	(426)	
At 31st December, 2001							
Shares							
Champion Technology Holdings Limited	Cayman Islands	1,000,000	0.007%	351	81	(270)	205 (Note i)
DIGITALHONGKONG.COM	Cayman Islands	648	0.0004%	-	-	-	- (Note i)
				351	81	(270)	

# Investment Portfolio

At 31st December, 2002

## (2) 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 ii)	The People's Republic of China (the "PRC")	11,461	17,461

## (3) Unlisted convertible loan notes

Issuer	Principal amount		Impairment loss recognised		Fair value		Interest rate	Maturity date
	2002	2001	2002	2001	2002	2001		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Assets Planning Limited ("Assets Planning") - unsecured*	9,500	9,500	(7,500)	-	2,000	9,500	5% per annum	31st December, 2003, default on interest (Note iii)
Dynamic Venture Enterprises Limited ("Dynamic Venture") - secured	13,500	13,500	(13,500)	(13,500)	-	-	8% per annum	On default (Note iv)
Kellerton Industries Limited ("Kellerton") - unsecured*	9,500	9,500	(4,500)	-	5,000	9,500	5% per annum	31st December, 2003 (Note v)
JRB Limited ("JRB") - unsecured*	9,000	9,000	(9,000)	(9,000)	-	-	16% per annum	On default (Note vi)
IPO43.com Limited ("IPO43.com") - unsecured*	2,995	2,995	(2,995)	-	-	2,995	5% per annum	31st December, 2003, default on interest (Note vii)
	44,495	44,495	(37,495)	(22,500)	7,000	21,995		

\* held directly by the Company.

### Notes:

- (i) The calculation of net assets attributable to the Group is based on the latest published interim reports or annual reports of the respective investee companies as available at the report date.

# Investment Portfolio

At 31st December, 2002

- (ii) Pursuant to various agreements entered into in December 2000, the Group acquired all the issued share capital of Gold Canal International Limited ("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.
- (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 convertible loan note was secured, bore interest at 15% per annum and had a maturity date on 31st December, 2000. 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. At 31st December, 2001, Dynamic Venture defaulted on the repayment of its convertible loan note held by the Company. 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) The Group currently has legal proceedings against JRB in relation to its default in payment for the principal amount and the related interest of a convertible loan note held by the Group. Full provision has been made against the principal amount of convertible loan note of HK\$9,000,000 and the accrued interest receivable of HK\$363,000.
- (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.

## (4) Cash and cash equivalents

	2002 HK\$'000	2001 HK\$000
Cash and cash equivalents	114	4,638

# Investment Portfolio

At 31st December, 2002

A brief description of the business and financial information of the listed investee companies, based on their published interim reports or annual reports, is as follows:

- (a) DIGITALHONGKONG.COM ("Digital") is principally engaged in facilitating web-based transactions by providing outsourcing services for an integrated e-commerce solution designed to enable any company to extend its business to the Internet.

The unaudited consolidated profit attributable to shareholders of Digital for the six-month period ended 31st December, 2002 was approximately HK\$93,000 (31st December, 2001: HK\$203,000). As at 31st December, 2002, the unaudited consolidated net asset value of Digital was approximately HK\$16,035,000 (31st December, 2001: HK\$15,871,000).

- (b) Kin Don Holdings Limited ("Kin Don") is principally engaged in manufacturing, marketing and distribution of men apparel, including leather goods and accessories.

The audited consolidated profit attributable to shareholders of Kin Don for the year ended 30th November, 2002 was approximately HK\$19,625,000. As at 30th November, 2002, the audited consolidated net asset value of Kin Don was approximately HK\$34,585,000.

- (c) Kowloon Development Company Limited ("Kowloon Development") is principally engaged in property investment and development, investment in listed securities, film distribution and exhibition, and securities trading.

The audited consolidated profit attributable to shareholders of Kowloon Development for the year ended 31st December, 2002 was approximately HK\$161,025,000. As at 31st December, 2002, the audited consolidated net asset value of Kowloon Development was approximately HK\$3,248,609,000.

- (d) Riche Multi-Media Holdings Limited ("Riche") is principally engaged in distribution of video programmes, sub-licensing video programme rights, film exhibition and provision of video conversion services.

The unaudited consolidated profit attributable to shareholders of Riche for the six-month period ended 30th June, 2002 was approximately HK\$10,955,000. As at 30th June, 2002, the unaudited consolidated net asset value of Riche was approximately HK\$257,218,000.

- (e) Champion Technology Holdings Limited ("Champion") is principally engaged in the development of internet systems and networks, software and proprietary technologies, provision of telecommunications services and operation of telecommunications networks, manufacture of telecommunications equipment and investments in e-commerce and telecommunications projects.

The unaudited consolidated profit attributable to shareholders of Champion for the six-month period ended 31st December, 2001 was approximately HK\$101,485,000. As at 31st December, 2001, the unaudited consolidated net asset value of Champion was approximately HK\$2,928,511,000.

## Investment Portfolio

At 31st December, 2002

A brief description of the business of the issuers of the convertible loan notes is as follows:

- (a) Assets Planning Limited is principally engaged in property development in Hong Kong.
- (b) Dynamic Venture Enterprises Limited is principally engaged in investment holding. The company holds a 30% equity interest in Baoding Standard International Building Material Co. Ltd., a company established in the PRC which is principally engaged in the manufacture and trading of building materials.
- (c) Kellerton Industries Limited is principally engaged in investment holding . The company holds indirectly 40% and 50% equity interests in 大鷹葯業(開封)有限公司 and 新世界海天(信陽)豫南製葯有限公司 respectively. 大鷹葯業(開封)有限公司 and 新世界海天(信陽)豫南製葯有限公司 are registered in the PRC and are principally engaged in the biotechnological production.
- (d) JRB Limited is principally engaged in investment holding, financial and securities brokerage services and food-related business in Hong Kong.
- (e) IPO43.com Limited is principally engaged in facilitating web-based transactions by providing outsourcing information of public relation, financial intelligence, entertainment and investment and opportunity exchange service in Hong Kong.

## Summary of Financial Information

A summary of the results, assets and liabilities of the Group for the last five financial period/year, is as follows:

	21.4.1998	Year ended 31st December,			2002
	to 31.12.1998	1999	2000	2001	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Results</b>					
Turnover	4,463	6,698	4,460	369	876
Profit (loss) from operations	2,404	1,644	(14,330)	(40,621)	(27,075)
Finance costs	-	-	-	-	(148)
Profit (loss) before taxation	2,404	1,644	(14,330)	(40,621)	(27,223)
Taxation	(130)	(194)	(18)	-	-
Profit (loss) for the period/year	2,274	1,450	(14,348)	(40,621)	(27,223)
<b>As at 31st December,</b>					
	1998	1999	2000	2001	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Assets and liabilities</b>					
Property, plant and equipment	633	531	394	243	69
Investments in securities	60,421	93,721	51,421	39,537	23,323
Current assets	30,995	9,750	8,237	4,973	2,240
Current liabilities	(706)	(2,410)	(1,077)	(1,151)	(2,801)
Shareholders' funds	91,343	101,592	58,975	43,602	22,831