

1. CORPORATE INFORMATION

The Company was incorporated on 28 June 2002 as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The principal activity of the Company is investment in listed and unlisted companies in Hong Kong and in the People's Republic of China (the "PRC").

The Company was established on 28 June 2002 in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the placing and new issue of the Company's shares are set out in the Prospectus dated 17 September 2002.

The shares of the Company were listed on the Stock Exchange with effect from 27 September 2002.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable Statements of Standards Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants (the "HKSA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

A summary of the significant accounting policies followed by the Company in the preparation of the financial statements is set out below:

(a) Basis of Preparation

The measurement basis used in the preparation of the financial statements is historical cost as modified by the marking-to-market of certain investments in securities as explained in Note 2(b) to financial statements below.

(b) Investment in Securities

Non-trading Securities:

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the income statement.

Where there is objective evidence that individual investments are impaired the cumulative loss recorded in the revaluation reserve is taken to the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Investment in Securities (Continued)

Investment Securities:

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair value have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Trading Securities:

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the income statement. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

Held-to-maturity Securities:

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the income statement. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the income statement as an expense immediately.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Current Assets and Liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Company's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Company's operating cycle.

(d) Cash and Cash Equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(e) Turnover

Turnover represents dividend income received and receivable for the period.

(f) Revenue Recognition

Provided it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably, revenue is recognised in the income statement as follows:

- i. Dividend income is recognised when the right to receive payment is established.
- ii. Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rate applicable.

(g) Operating Leases

Leases where substantially all risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

(h) Translation of Foreign Currencies

Transactions in foreign currencies during the period are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

(i) Taxation

The charge for taxation is based on the results for the period after adjusting for items which are non-assessable or disallowed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) **Deferred Taxation**

Deferred taxation is provided on material timing differences, using the liability method, to the extent that there is a reasonable probability that a liability will arise in the foreseeable future.

(k) **Preliminary Expenses**

Preliminary expenses are written off in the period incurred.

(l) **Impairment of Assets**

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties under construction, other properties and other fixed assets are impaired. If any such indication exists, the recoverable amount of the assets is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

Reversal of impairment loss recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. A reversal of an impairment loss is recognised as income immediately.

(m) **Provision**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) **Contingent Liabilities and Contingent Assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company.

Contingent assets are not recognised but are disclosed in the notes to financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(o) **Employee Benefits**

i. Employee Leave Entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

ii. Profit Sharing and Bonus Plans

The expected cost of profit sharing and bonus payments are recognised as a liability when the Company has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plan are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

iii. Retirement Benefits Scheme Contributions

The Company has participated in the Mandatory Provident Fund Scheme (the "Scheme") under the Mandatory Provident Fund Scheme Ordinance. The assets of the Scheme are held separately from those of the Company in an independently administered fund. The Scheme is generally funded by payments from employees and by the Company. The Company's contributions to the Scheme are expensed as incurred in accordance with the rules of the Scheme and are not reduced by contributions forfeited by those employees who leave the Scheme prior to vesting fully in the contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decision. Parties are also considered to be related if they are subject to common control or common significant influence.

(q) Related Party Transactions

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(r) Segment Reporting

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

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investment in securities and investment properties. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisition through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

3. TURNOVER AND REVENUE

Turnover represents dividend received and receivable during the period. The amount of each significant category of revenue recognised during the period are as follows:

	28/06/2002 to 31/12/2002 HK\$'000
Turnover:	
Dividend income from investment in listed securities	131
Other Revenue:	
Bank interest income	4
Other interest income	15
	19
Total revenue	150

4. SEGMENT INFORMATION

No business or geographical analysis of the Company's performance for the period is provided as all of the turnover and contributions to operating results of the Company are attributable to investment in equity securities listed in Hong Kong. In addition, the assets and liabilities are located and arose in Hong Kong respectively.

5. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	28/06/2002 to 31/12/2002 <i>HK\$'000</i>
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<i>Charging:</i>	
Auditors' remuneration	30
Total staff costs, excluding directors' remuneration	80
Preliminary expenses	<u>16</u>
 <i>Crediting:</i>	
Net unrealised gains on trading securities	<u>3,027</u>

6. TAXATION

Current Taxation

No provision for Hong Kong profits tax has been made as the Company incurred a taxation loss for the period.

	2002 <i>HK\$'000</i>
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Deferred taxation	<u>484</u>

Deferred Taxation

Deferred taxation is calculated on material timing differences under the liability method using a taxation rate of 16%.

7. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$1,662,000.

8. DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the period ended 31 December 2002.

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Company's net profit attributable to the shareholders of HK\$1,662,000 divided by the weighted average number of shares outstanding during the period, being 26,219,000.

There were no dilutive potential shares during the period end, therefore, no diluted earnings per share have been presented.

10. STAFF COSTS

The aggregate amounts of emoluments payable to individuals employed by the Company during the period are as follows:

	28/06/2002 to 31/12/2002 <i>HK\$'000</i>
Salaries and allowances	60
Bonus	16
Contributions to retirement benefits scheme	4
	<hr/> 80 <hr/>

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the period are as follows:

	28/06/2002 to 31/12/2002 HK\$'000
Fees	–
Other emoluments:	
Basic salaries	396
Contributions to retirement benefits scheme	9
	<u>405</u>

The emoluments of the directors fell within the following bands:

	Number of directors
Emoluments band:	
Nil to HK\$1,000,000	<u>5</u>

Five highest paid individuals

The five individuals whose emoluments were the highest in the Company for the period included three executive directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals during the period are as follows:

	28/06/2002 to 31/12/2002 HK\$'000
Salaries and allowances	60
Bonus	16
Contributions to retirement benefits scheme	4
	<u>80</u>

The emoluments fell within the following bands:

	Number of individuals
Emoluments band:	
Nil to HK\$1,000,000	<u>2</u>

12. TRADING SECURITIES

2002
HK\$'000

Equity securities listed in Hong Kong 19,753

The following is a list of the trading securities as at 31 December 2002:

Equity securities listed on the Stock Exchange of Hong Kong Limited

Name of equity securities	Place of incorporation and kind of legal entity	Number of shares held	Interest held (%)	Net assets attributable to the Company HK\$'000	Cost of investment HK\$'000	Market value HK\$'000	Unrealised gain/(loss) arising on revaluation HK\$'000
i. Changchun Da Xing Pharmaceutical Co., Ltd. ("Changchun Da Xing")	the PRC, a joint stock limited company	8,000,000 ordinary shares (H shares)	1.43%	8,715	4,064	3,160	(904)
ii. Global Link Communications Holdings Limited ("Global Link")	the Cayman Islands, limited liability company	9,400,000 ordinary shares	1.45%	502	3,940	6,204	2,264
iii. Hua Lien International Holdings Co., Limited ("Hua Lien")	the Cayman Islands, limited liability company	1,000,000 ordinary shares	0.15%	944	397	810	413
iv. Thiz Technology Group Limited ("Thiz Technology")	the Cayman Islands, limited liability company	4,000,000 ordinary shares	0.24%	93	197	196	(1)
v. WLS Holdings Limited ("WLS")	the Cayman Islands, limited liability company	26,130,000 ordinary shares	5.71%	2,784	4,122	3,083	(1,039)
vi. Warderly International Holdings Limited ("Warderly")	the Cayman Islands, limited liability company	10,000,000 ordinary shares	2.67%	2,874	4,006	6,300	2,294
					<u>16,726</u>	<u>19,753</u>	<u>3,027</u>

12. TRADING SECURITIES (Continued)

A brief description of the business and financial information of the above listed equity securities, based on their latest published annual reports or interim financial reports, is as follows:

- i. Changchun Da Xing is principally engaged in the manufacture and sale of Chinese medicines and Western medicines in the PRC under the brand name Chunyan (春燕). It is also engaged in the research and development of Chinese medicines, Western medicines and biochemical medicines.

The audited net profit attributable to shareholders of Changchun Da Xing for the year ended 31 December 2002 was RMB34,669,000.

- ii. Global Link is principally engaged in the research and development and provision of telecommunications software solutions for new telecommunications services and value-added telecommunications services as well as provision of other communication network solutions.

The unaudited net profit attributable to shareholders of Global Link for the nine months ended 31 December 2002 was HK\$3,678,000.

- iii. Hua Lien is principally engaged in the processing of raw hides and skins into leather. It is also engaged in selling of wet blue and crust, being semi-finished products, and focus on upholstery leather for sofas and car seats.

The unaudited interim profit attributable to shareholders of Hua Lien for the six months ended 30 June 2002 was HK\$10,711,000.

- iv. Thiz Technology is a developer and provider of a range of Linux solutions including Linux operating systems (which may be bundled with PCs provided by hardware vendors), application systems run on Linux and related services such as software installation, training and education.

The unaudited profit attributable to shareholders of Thiz Technology for the nine months ended 31 December 2002 was HK\$15,583,000.

- v. WLS is principally engaged in the provision of scaffolding for construction and building works in Hong Kong.

The unaudited profit attributable to shareholders of WLS for the nine months ended 31 January 2003 was HK\$4,843,000. An interim dividend of HK\$0.005 per share were declared and paid for the six months ended 31 October 2002.

- vi. Warderly is principally engaged in the design, manufacture and sale of household electrical appliances and other electrical products.

The unaudited profit attributable to shareholders of Warderly for the six months ended 31 October 2002 was approximately HK\$21,230,000. An interim dividend of HK\$0.01 per share for the six months ended 31 October 2002 were declared on 21 February 2003.

13. DIVIDEND RECEIVABLES

	2002 HK\$'000
<i>Equity securities listed in Hong Kong:</i>	
WLS Holdings Limited	<u>131</u>

14. SHARE CAPITAL

	Note	Number of shares	Share Capital HK\$'000	Share Premium HK\$'000
<i>Authorised:</i>				
Ordinary shares authorised at par on incorporation	<i>i</i>	38,000,000	380	–
Increase in authorised share capital	<i>iii</i>	<u>162,000,000</u>	<u>1,620</u>	<u>–</u>
At 31 December 2002		<u>200,000,000</u>	<u>2,000</u>	<u>–</u>
<i>Issued and fully paid:</i>				
Ordinary shares allotted and issued at HK\$0.01 each	<i>ii, iv</i>	10,000	1	–
Ordinary shares allotted and issued at premium	<i>v</i>	5,990,000	59	2,940
Placing and new issue of shares to the public	<i>vi</i>	<u>44,000,000</u>	<u>440</u>	<u>21,560</u>
		50,000,000	500	24,500
Expenses incurred in issuance of shares		<u>–</u>	<u>–</u>	<u>(3,409)</u>
At 31 December 2002		<u>50,000,000</u>	<u>500</u>	<u>21,091</u>

14. SHARE CAPITAL (Continued)

The following movements in the Company's authorised and issued share capital took place during the period from 28 June 2002 (date of incorporation) to 31 December 2002:

- i. Upon incorporation, the authorised share capital of the Company was HK\$380,000,000 divided into 38,000,000 ordinary shares of HK\$0.01 each.
- ii. On 4 July 2002, one share of HK\$0.01 was allotted and issued, credited as fully paid, to the initial subscriber and was immediately transferred to Mr Li Sze Tang. On the same day, 9,999 further shares were allotted and issued at par to him.
- iii. By a special resolution passed on 10 September 2002, the authorised ordinary share capital of the Company was increased from HK\$380,000 to HK\$2,000,000 by the creation of 162,000,000 additional shares of HK\$0.01 each, ranking pari passu with the then existing share capital of the Company.
- iv. On 10 September 2002, Mr Li Sze Tang transferred the aggregate 10,000 shares then held by him to First Asia International Holdings Limited ("First Asia International") at nil consideration.
- v. On the same day, the issued share capital of the Company was increased to HK\$3,000,000 by allotting and issuing 5,990,000 shares of HK\$0.01 each at an aggregate consideration of HK\$2,999,900 to First Asia International for working capital of the Company. All the shares rank pari passu in all respect with the existing shares of the Company.
- vi. On 26 September 2002, a total of 44,000,000 shares of HK\$0.01 each were issued to the public at a price of HK\$0.50 each at a premium of HK\$0.49 each for a total cash consideration, before related expenses, of HK\$22,000,000 for funding of future investments.

15. RESERVES

	Share premium HK\$'000	Retained profits HK\$'000	Total HK\$'000
Issuance of shares at premium	24,500	–	24,500
Share issue expenses	(3,409)	–	(3,409)
Profit for the period	–	1,662	1,662
As at 31 December 2002	21,091	1,662	22,753

16. RELATED PARTY TRANSACTIONS

During the period ended 31 December 2002, the Company had entered into transactions with related parties which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary course of the Company's business.

Nature of related party relationship	Nature of transactions	28/06/2002 to 31/12/2002 HK\$'000
Company with common director:		
Hantec Asset Management Limited ("Hantec Asset")	Investment management fee – paid	<u>183</u>

Mr Tang Yu Lap has beneficial interests in the company above.

17. POST BALANCE SHEET EVENTS

On 16 April 2003, the Company has entered into a revised investment management agreement with Hantec Asset to reduce the investment management fee to HK\$280,000 per annum from 1 May 2003 to 26 September 2004. Apart from the foregoing, there was no other change in the terms of the Investment Management Agreement dated 10 September 2002.

18. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company to be First Asia International Holdings Limited, a company incorporated in the British Virgin Islands.

19. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 22 April 2003.