

# Notes to Financial Statements

30 June 2001

## 1. CORPORATE INFORMATION

Prime Investments Holdings Limited ("the Company") was incorporated on 12 July 2000 in the Cayman Islands under the Companies Law as an exempted company with limited liability. The address of the registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O.Box 2681, GT George Town, Grand Cayman, British West Indies, while its principal place of business is located at Room 2101, 21st Floor, Chekiang First Bank Centre, 1 Duddell Street, Central, Hong Kong.

The Company is an investment holding company while the Group is principally engaged in investing in listed and unlisted companies established and/or doing business in Hong Kong and other parts of the People's Republic of China ("the PRC").

The Group paid a deposit for its initial investment prior to the balance sheet date, and made further investments after the balance sheet date, as detailed in notes 10 and 17, respectively, to the financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period ended 30 June 2001. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been other than temporary diminutions in values, when they are written down to values determined by the directors.

### Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

# Notes to Financial Statements (Continued)

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture and fixtures	25%
Office equipment	33 $\frac{1}{3}$ %

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals on operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

### Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

### 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 decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

## Notes to Financial Statements (Continued)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

### 3. TURNOVER

Turnover represented interest income earned from bank deposits.

### 4. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	HK\$
Auditors' remuneration	100,000
Depreciation	5,523
Operating lease rentals on land and buildings	30,682
Staff costs (excluding directors' remuneration, see note 8)	<u>30,586</u>

### 5. TAX

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits during the period.

No provision for deferred tax has been made as there were no significant timing differences at the balance sheet date.

### 6. NET LOSS FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS

The net loss for the period dealt with in the financial statements of the Company is HK\$433,715.

### 7. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period attributable to shareholders of HK\$467,715 and the weighted average of 3,137,007 ordinary shares in issue during the period. No diluted loss per share is presented as there were no dilutive effects on the basic loss per share for the period.

## Notes to Financial Statements (Continued)

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### 8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

#### (a) Directors

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

	HK\$
Fees	7,500
Other emoluments:	
Basic salaries, housing allowances, other allowances and benefits in kind	50,000
	<u>57,500</u>

The directors' fees disclosed above include HK\$7,500 paid to the non-executive and independent non-executive directors.

The emoluments of each of the directors fell within the emolument band of Nil to HK\$1,000,000.

There was no arrangement under which a director waived or agreed to waive any remuneration during the period.

#### (b) Five highest paid individuals

The five highest paid individuals during the period included three directors, details of whose remuneration are set out in note 8(a) above. The details of the remuneration of the remaining two non-director, highest paid individuals are set out below:

	HK\$
Basic salaries, housing allowances, other allowances and benefits in kind	<u>30,586</u>

The emoluments of each of these two individuals fell within the emolument band of Nil to HK\$1,000,000.

## Notes to Financial Statements (Continued)

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### 9. FIXED ASSETS

	Group and Company		
	Furniture and fixtures	Office equipment	Total
	HK\$	HK\$	HK\$
Cost:			
Additions and at 30 June 2001	182,475	89,337	271,812
Accumulated depreciation:			
Charge for the period and at 30 June 2001	<u>3,041</u>	<u>2,482</u>	<u>5,523</u>
Net book value:			
At 30 June 2001	<u>179,434</u>	<u>86,855</u>	<u>266,289</u>

### 10. DEPOSIT FOR AN UNLISTED EQUITY INVESTMENT

On 22 June 2001, the Group entered into an agreement to invest HK\$5,000,000 for a 20% equity interest in Sunkock Development Limited ("Sunkock"), a company engaged in the development of medical products in the PRC, and a deposit of HK\$1,000,000 was paid by the Group on that date. Subsequent to the balance sheet date, the transaction was completed and the balance payment of HK\$4,000,000 was made by the Group on 20 August 2001 (see Note 17(d)).

### 11. INTERESTS IN SUBSIDIARIES

	Company HK\$
Unlisted shares, at cost	32
Due from subsidiaries	<u>1,033,968</u>
	<u>1,034,000</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

## Notes to Financial Statements (Continued)

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### 11. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Double Lucky Invest Co., Ltd.	The British Virgin Islands	US\$1.00	100	–	Investment holding
Sun Talent Investment Co., Ltd.	The British Virgin Islands	US\$1.00	100	–	Dormant
Sure Bright Investment Co., Ltd.	The British Virgin Islands	US\$1.00	100	–	Dormant
Market Place Investment Co., Ltd.	The British Virgin Islands	US\$1.00	100	–	Dormant

### 12. SHARE CAPITAL

HK\$

Authorised:

200,000,000 ordinary shares of HK\$0.10 each 20,000,000

Issued and fully paid:

40,000,000 ordinary shares of HK\$0.10 each 4,000,000

During the period, the following movements in share capital were recorded:

- Upon incorporation, the authorised share capital was HK\$380,000 divided into 3,800,000 ordinary shares of HK\$0.10 each, of which 2 subscriber shares were issued at par and at HK\$1.00, respectively, for cash.
- On 9 March 2001, the authorised share capital of the Company was increased from HK\$380,000 to HK\$20,000,000 by the creation of 196,200,000 ordinary shares with a par value of HK\$0.10 each.
- On 24 May 2001 and 6 June 2001, 8,499,998 and 31,500,000 ordinary shares of the Company were issued at HK\$1.00 each for cash, respectively.
- Under a share option scheme (the "Scheme") approved by the shareholders of the Company on 24 May 2001, the directors of the Company may, at their discretion, invite employees, including executive directors of the Company, to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated by the Scheme. As at 30 June 2001, no options have been granted under the Scheme.

## Notes to Financial Statements (Continued)

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### 13. RESERVES

<b>Group</b>	<b>Share premium HK\$</b>	<b>Accumulated losses HK\$</b>	<b>Total HK\$</b>
Issue of shares	36,000,000	–	36,000,000
Share issue expenses	(5,055,113)	–	(5,055,113)
Loss for the period	–	(467,715)	(467,715)
	<u>30,944,887</u>	<u>(467,715)</u>	<u>30,477,172</u>
At 30 June 2001	<u>30,944,887</u>	<u>(467,715)</u>	<u>30,477,172</u>
	<b>Share premium HK\$</b>	<b>Accumulated losses HK\$</b>	<b>Total HK\$</b>
Issue of shares	36,000,000	–	36,000,000
Share issue expenses	(5,055,113)	–	(5,055,113)
Loss for the period	–	(433,715)	(433,715)
	<u>30,944,887</u>	<u>(433,715)</u>	<u>30,511,172</u>
At 30 June 2001	<u>30,944,887</u>	<u>(433,715)</u>	<u>30,511,172</u>

At 30 June 2001, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$30,511,172. Under the Companies Law (2000 Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

### 14. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of loss before tax to net cash outflow from operating activities

	HK\$
Loss before tax	(467,715)
Interest income	(51,846)
Depreciation	5,523
Increase in deposit for an unlisted equity investment	(1,000,000)
Increase in rental deposit	(109,266)
Increase in other receivables	(33,534)
Increase in other payables and accrued liabilities	663,978
	<u>(992,860)</u>
Net cash outflow from operating activities	<u>(992,860)</u>

## Notes to Financial Statements (Continued)

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### 15. COMMITMENTS

(a) Capital commitments for investments of the Group

	HK\$
Contracted but not provided for	<u>4,000,000</u>

(b) Commitments under operating leases

	HK\$
Annual commitments under non-cancellable operating leases of land and buildings expiring: In the second to fifth years, inclusive	<u>368,184</u>

### 16. RELATED PARTY TRANSACTIONS

	HK\$
Investment management fee paid to a related company	<u>14,000</u>

The investment management fee was calculated based on the terms stipulated in the Interim Investment Management Agreement dated 24 May 2001 entered into between the Company and Pegasus Fund Managers Limited (the "Interim Investment Manager"). Pursuant to this agreement, the Interim Investment Manager agreed to provide interim investment management services to the Company for a monthly management fee payable in advance, calculated at 0.5% per annum of the net asset value of the Group as at the end of the preceding month on the basis of the actual number of days in the relevant calendar month over a year of 365 days. The Interim Investment Management Agreement commenced on 8 June 2001, the date of the commencement of the trading of the Company's shares on the Stock Exchange, and expired subsequent to the balance sheet date, on 4 July 2001, when it was replaced by the Investment Management Agreement between the Company and Glory Investment Assets Limited (the "Investment Manager").

Mr. Pong Po Lam, an executive director, has a 91.57% equity interest in the issued share capital of the Interim Investment Manager. During the period, an investment management fee of HK\$14,000 was payable to the Interim Investment Manager for services rendered.

Ms. Chiu Kam Hing, Kathy, an executive director, has a 30% equity interest in the Investment Manager.



## Notes to Financial Statements (Continued)

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### 17. POST BALANCE SHEET DATE EVENTS

- (a) On 4 July 2001, Glory Investment Assets Limited succeeded Pegasus Fund Managers Limited as the Investment Manager of the Group.
- (b) On 10 July 2001, the Group entered into an agreement to invest HK\$5,000,000 for a 30% equity interest in China Legal Network.com Limited ("China Legal"). China Legal is engaged in the development of a website providing legal information in the PRC.
- (c) On 18 July 2001, the Group entered into an agreement to invest HK\$5,000,000 for a 5% equity interest in Zhongshan Chinese Standard Building Materials Company Limited ("Zhongshan Chinese Standard"). Zhongshan Chinese Standard is engaged in the production and distribution of window frames in the PRC.
- (d) On 20 August 2001, the balance payment of HK\$4,000,000 for the acquisition of a 20% equity interest in Sunkock was paid by the Group.
- (e) On 25 September 2001, the Group entered into an agreement to invest HK\$5,000,000 for a 2.5% equity interest in Auto System Limited ("Auto System"). Auto System is engaged in the development and installation of household automated surveillance systems in Hong Kong and the PRC.
- (f) On 27 September 2001, the Group entered into an agreement to invest HK\$5,000,000 for a 1.5% equity interest in China Link Investment Group Limited ("China Link"). China Link is engaged in the development of a website providing on-line professional consultancy services in the PRC.

### 18. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 16 October 2001.