

Notes to Financial Statements

31 December 2001

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 14 September 2001.

During the period ended 31 December 2001, the Company had not commenced operations. The Company commenced its operations after the listing of its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 February 2002, and is now principally engaged in investing in listed and unlisted companies established in the People's Republic of China (the "PRC"), Hong Kong, Taiwan and Macau which have substantial operations in the PRC, in order to achieve medium to long term capital appreciation.

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.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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.

Cash equivalents

For the purpose of the 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. For the purpose of balance sheet classification, cash and bank balances represent assets which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

3. TURNOVER

The Company did not generate any turnover during the period.

4. LOSS FOR THE PERIOD

Loss for the period is arrived at after charging auditors' remuneration of HK\$120,000.

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5. TAX

No Hong Kong profits tax has been provided as the Company 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. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of HK\$280,000 and the weighted average of 871,233 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.

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Neither the Directors nor the senior management of the Company received any remuneration in respect of their services rendered to the Company during the period.

8. DUE FROM A SHAREHOLDER

The balance was unsecured, interest-free and was fully settled subsequent to the balance sheet date on 11 February 2002.

9. SHARE CAPITAL

	HK\$
Authorised:	
2,000,000,000 ordinary shares of HK\$0.10 each	<u>200,000,000</u>
Issued share capital:	
Fully paid up:	
2,000,000 ordinary shares of HK\$0.10 each	200,000
Unpaid:	
1,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>
	<u>300,000</u>

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

- (a) On incorporation, the authorised share capital of the Company was HK\$200,000,000 divided into 2,000,000,000 ordinary shares of HK\$0.10 each, and one subscriber share was issued at HK\$1.00 for cash; and
- (b) On 17 September 2001, 2,999,999 ordinary shares of HK\$0.10 each were issued at HK\$1.00 out of which, 1,999,999 ordinary shares were fully paid up before the period end. The remaining 1,000,000 ordinary shares were paid up subsequent to the balance sheet date on 11 February 2002.

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10. RESERVES

	Share premium HK\$	Accumulated loss HK\$	Total HK\$
Issue of shares	2,700,000	—	2,700,000
Loss for the period	—	(280,000)	(280,000)
	<u>2,700,000</u>	<u>(280,000)</u>	<u>2,420,000</u>
At 31 December 2001	<u>2,700,000</u>	<u>(280,000)</u>	<u>2,420,000</u>

11. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of loss for the period to net cash outflow from operating activities

	HK\$
Loss for the period	(280,000)
Increase in prepayments and other deposits	(710,304)
Increase in amount due from a shareholder	(579,785)
Increase in accrued liabilities	280,000
Net cash outflow from operating activities	<u>(1,290,089)</u>

(b) Analysis of changes in financing during the period

	Issued capital and share premium HK\$
Ordinary shares issued, but not paid	1,000,000
Net cash inflow from financing activities	<u>2,000,000</u>
Balance as at 31 December 2001	<u>3,000,000</u>

(c) Major non-cash transaction

As detailed in note 9(b) to the financial statements, out of the 2,999,999 ordinary shares of the Company issued at HK\$1.00 per share on 17 September 2001, 1,000,000 ordinary shares with a total amount of HK\$1,000,000 had not been paid up as at the balance sheet date.

12. COMMITMENTS

The Company leases its office property under operating lease arrangement, as detailed in note 13 below. As at 31 December 2001, the Company had total future minimum lease payments of HK\$120,000 under non-cancellable operating leases falling due within one year.

13. RELATED PARTY TRANSACTIONS

During the period, the Company entered into a tenancy agreement with a company which is wholly-owned by Mr. Chan Yan Ming, Michael, an Executive Director of the Company, in respect of the provision of the principal place of business of the Company for a term of one year for a monthly rental of HK\$10,000. The Company commenced the payment of the monthly rental upon the listing of its shares on the Stock Exchange on 28 February 2002. In the opinion of the Directors, the rental was charged by reference to the rental of similar properties in the open market. Further related party transactions entered into after the balance sheet date are detailed in notes 14(a) and (b) below.

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14. POST BALANCE SHEET EVENTS

In addition to the events set out in notes 8 and 9(b) to the financial statements, the Company had the following post balance sheet events:

- (a) On 18 February 2002, the Company entered into an agreement with AsiaVest Investment Advisory Limited ("AsiaVest"). Pursuant to the agreement, AsiaVest will act as the interim investment manager of the Company with a service agreement for an initial term of six months commencing from the date of the listing of the Company's shares on 28 February 2002. This service agreement will lapse in the event that China Core Capital Management Limited ("China Core") fails to obtain approval of its registration as an investment adviser under the Securities Ordinance within 12 months from the date of the listing of the Company's shares on 28 February 2002. Mr. Andrew Nan Sherrill, an Executive Director of the Company, owns 100% of AsiaVest.
- (b) On 18 February 2002, the Company entered into an agreement with China Core. Pursuant to the agreement, China Core will act as the investment manager of the Company with a service agreement for an initial term of three years commencing on the date immediately after the expiration of the interim investment management agreement between the Company and AsiaVest. The agreement with China Core will continue for successive periods of three years each, subject to the approval of the independent shareholders of the Company. Mr. Chan Yan Ming, Michael and Mr. Ma Kam Fook, Robert, being the Executive Directors of the Company, own 25% and 37.5%, respectively, of China Core.
- (c) On 28 February 2002, the Company placed 70,000,000 ordinary shares of HK\$0.10 each to professional, institutional and selected investors and issued 30,000,000 ordinary shares of HK\$0.10 each to the public, upon the listing of its shares on the Stock Exchange, at HK\$1.00 per share for a total consideration, before related expenses, of HK\$100,000,000.

Upon the listing of the Company's shares on the Stock Exchange on 28 February 2002, the pro forma balance sheet of the Company is as follow:

	Audited balances as at 31 December 2001	Net proceeds on placement and issue of new shares	Pro forma balances as at 28 February 2002
	HK\$'000	HK\$'000	HK\$'000
Current assets	3,000	92,812	95,812
Current liabilities	280	—	280
	<u>2,720</u>	<u>92,812</u>	<u>95,532</u>
Capital and reserves	<u>2,720</u>	<u>92,812</u>	<u>95,532</u>

15. SEGMENT INFORMATION

No analysis of segment information is presented as the Company had not commenced its operations during the period. The Company's results and assets/liabilities are based in Hong Kong.

16. COMPARATIVE AMOUNTS

This is the first set of financial statements prepared by the Company and, accordingly, there are no comparative amounts.

17. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 16 April 2002.