

## NOTES TO THE FINANCIAL STATEMENTS

*For the Period from 18th September, 2001 (Date of Incorporation) to 31st December, 2001*

### 1. GENERAL

The Company was incorporated on 18th September, 2001 as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands.

The Company is principally engaged in the investment in listed and unlisted companies in the People's Republic of China and Hong Kong. The Company has not commenced operation or business during the period.

The Company was established in preparation for the listing of the Company's shares on the Main Board of The Hong Kong Stock Exchange Limited (the "Stock Exchange"). Details of the placing and new issue of the Company's shares are set out in the prospectus dated 18th December, 2001.

The shares of the Company were listed on the Stock Exchange with effect from 2nd January, 2002.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

#### **Revenue recognition**

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

#### **Impairment**

At each balance sheet date, the Company 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. Impairment losses are 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, such 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.

#### **Taxation**

The charge for taxation is based on the results for the period 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 timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

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### 3. DIRECTORS' REMUNERATION

	HK\$
Directors' fees:	—
Other emoluments:	
Salaries and other benefits	292,000
Contributions to retirement benefits scheme	4,000
	<u>296,000</u>
Total	<u><u>296,000</u></u>

The amounts disclosed above represented Directors' remunerations payable to three executive Directors for the period. No staff costs other than the Directors' remunerations was incurred in the current period.

### 4. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company incurred a tax loss for the period.

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

### 5. LOSS PER SHARE

The calculation of basic loss per share for the period is based on the loss for the period of HK\$309,426 and on the weighted average number of 5,810,527 ordinary shares during the period.

No diluted loss per share is presented since the Company did not issue any dilutive potential ordinary shares during the period.

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### 6. SHARE CAPITAL

	Number of shares	HK\$
Ordinary shares of HK\$0.01 each		
Authorised:		
On date of incorporation	10,000,000	100,000
Increase during the period	<u>590,000,000</u>	<u>5,900,000</u>
At end of period	<u>600,000,000</u>	<u>6,000,000</u>
Issued and fully paid:		
Allotted and issued on 28th September, 2001	1	—
Issue of shares during the period	<u>19,999,999</u>	<u>200,000</u>
At end of period	<u>20,000,000</u>	<u>200,000</u>

The Company was incorporated on 18th September, 2001 with an authorised share capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each. On 28th September, 2001, one share of HK\$0.01 each was allotted and issued, credited as fully paid, to the initial subscriber, and was transferred to a Director of the Company on the same date.

Pursuant to a written resolution passed by the sole shareholder on 21st November, 2001, the authorised share capital of the Company was increased from HK\$100,000 to HK\$6,000,000 by the creation of an additional 590,000,000 shares of HK\$0.01 each.

On 30th November, 2001, the Company allotted and issued 11,999,999 new ordinary shares of HK\$0.01 each for cash at an aggregate consideration of HK\$6,000,000 to an executive Director, a non-executive Director and a third party.

On 11th December, 2001, the Company allotted and issued 8,000,000 new ordinary shares of HK\$0.01 each for cash at an aggregate consideration of HK\$4,000,000 to an executive Director of the Company.

All the shares which were issued during the period rank pari passu with the then existing shares in all respects.

### 7. SHARES TO BE ISSUED

The amount represents the proceeds received for subscriptions of shares under placing and new issue which is net off the related listing expenses of HK\$3,093,403 incurred prior to the balance sheet date. The amount shall be converted into share capital and share premium on the listing of the shares of the Company on 2nd January, 2002.

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### 8. RESERVES

	Share premium <i>HK\$</i>	Accumulated loss <i>HK\$</i>	Total <i>HK\$</i>
Shares issued at premium	9,800,000	—	9,800,000
Net loss for the period	—	(309,426)	(309,426)
	9,800,000	(309,426)	9,490,574

### 9. RECONCILIATION OF NET LOSS FOR THE PERIOD TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	<i>HK\$</i>
Net loss for the period	(309,426)
Interest income	(18,140)
Other receivables, prepayments and deposits	(163,756)
Accrued charges	57,000
Amount due to a Director	275,066
	(159,256)

### 10. ANALYSIS OF CHANGES IN FINANCING DURING THE PERIOD

	Share capital <i>HK\$</i>	Shares to be issued <i>HK\$</i>	Share premium <i>HK\$</i>
Proceeds from issue of shares at cash consideration	200,000	—	9,800,000
Net proceeds from subscription for shares to be issued	—	26,906,597	—
	200,000	26,906,597	9,800,000

### 11. POST BALANCE SHEET EVENT

On 2nd January, 2002, the Company became listed on the Stock Exchange and a total of 60,000,000 new ordinary shares of HK\$0.01 each were issued at a price of HK\$0.5 per share.