

Notes to the Financial Statements

For the year ended 31 December 2002

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 28 February 2002.

The Company commenced its operations after the listing of its shares on the Stock Exchange on 28 February 2002 and is 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. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Company has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants. The adoption of these 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.

Cash flow statements

In the current year, the Company has adopted SSAP 15 (Revised) “Cash Flow Statements”. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest received and dividends paid, which were previously presented under a separate heading, are classified as investing and financing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Revenue recognition

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

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3. SIGNIFICANT ACCOUNTING POLICIES – continued

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments in securities are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

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 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 an asset will crystallise in the foreseeable future.

Retirement benefit costs

Payments to the Mandatory Provident Fund scheme are charged as an expense as they fall due.

4. TURNOVER

Turnover represents interest income received and receivable from investments in debt securities during the year.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Company is principally engaged in investing in listed and unlisted companies in the PRC and Hong Kong during the year.

All of the activities of the Company are based in Hong Kong and all of the Company's turnover and operating loss are derived from Hong Kong.

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6. LOSS BEFORE TAXATION

| | 1.1.2002 to 31.12.2002 HK\$ | 14.9.2001 to 31.12.2001 HK\$ |
|--|--|---------------------------------------|
| Loss before taxation has been arrived at after charging: | | |
| Auditors' remuneration | 112,698 | 120,000 |
| Operating lease payments in respect of rented premises | 160,000 | – |
| Staff costs, including directors' emoluments | 2,441,200 | – |

7. DIRECTORS' EMOLUMENTS

| | 1.1.2002 to 31.12.2002 HK\$ | 14.9.2001 to 31.12.2001 HK\$ |
|--|--|---------------------------------------|
| Directors' fees | – | – |
| Other emoluments | | |
| Salaries and other benefits | 1,100,000 | – |
| Contributions to Mandatory Provident Fund scheme | 12,000 | – |
| Performance related incentive payments | 640,000 | – |
| | 1,752,000 | – |

The emoluments of the directors were within the following bands:

| | 1.1.2002 to 31.12.2002 No. of directors | 14.9.2001 to 31.12.2001 No. of directors |
|--------------------------------|--|--|
| HK\$nil to HK\$1,000,000 | 5 | 2 |
| HK\$1,500,001 to HK\$2,000,000 | 1 | – |
| | 6 | 2 |

During the year, no emoluments were paid by the Company to the directors as an inducement to join or upon joining the Company. None of the directors has waived any emoluments during the year.

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8. EMPLOYEES' EMOLUMENTS

None of the employees of the Company received any remuneration in respect of the services rendered to the Company during the period from 14 September 2001 to 31 December 2001.

Of the five individuals with the highest emoluments in the Company, one was a director of the Company whose emoluments are included in the disclosures in note 7 above. The emoluments of the remaining four individuals were as follows:

| | 1.1.2002 to 31.12.2002 HK\$ | 14.9.2001 to 31.12.2001 HK\$ |
|--|--|---------------------------------------|
| Salaries and other benefits | 662,697 | – |
| Contributions to Mandatory Provident Fund scheme | 26,503 | – |
| | 689,200 | – |

The aggregate emoluments of each of the above four highest paid employees during the year were within the emoluments band ranging from HK\$nil to HK\$1,000,000.

9. TAXATION

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

No provision for Hong Kong Profits Tax has been made in the financial statements in the prior period as the Company had no assessable profits during that period.

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

10. DIVIDEND

| | 1.1.2002 to 31.12.2002 HK\$ | 14.9.2001 to 31.12.2001 HK\$ |
|--|--|---------------------------------------|
| Interim, paid – HK\$0.05 per ordinary share (14.9.2001 – 31.12.2001: Nil) | 5,150,000 | – |

An interim dividend was declared by the Board of Directors of the Company on 26 August 2002 out of the unaudited net profit for the period from 1 January 2002 to 30 June 2002 of HK\$11,385,552.

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11. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$1,258,317 (14.9.2001 to 31.12.2001: HK\$280,000) and the weighted average number of 87,109,589 (14.9.2001 to 31.12.2001: 871,233) ordinary shares in issue during the year.

No diluted loss per share is presented as the Company did not have any potential ordinary shares in issue during the year/period.

12. INVESTMENTS IN SECURITIES

| | Total | |
|---|-------------------|-------------|
| | 2002 | 2001 |
| | HK\$ | HK\$ |
| Equity securities: | | |
| Listed | 22,199,000 | – |
| Unlisted | 36,573,758 | – |
| | 58,772,758 | – |
| Debt securities: | | |
| Unlisted | 29,414,139 | – |
| Total: | | |
| Listed | | |
| Hong Kong | 22,199,000 | – |
| Unlisted | 65,987,897 | – |
| | 88,186,897 | – |
| Market value of listed securities | 22,199,000 | – |
| Carrying amount analysed for reporting purposes as: | | |
| Current | 38,113,139 | – |
| Non-current | 50,073,758 | – |
| | 88,186,897 | – |

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12. INVESTMENTS IN SECURITIES – continued

Included above is the Company's investment in the following companies:

| Name of company | Country of incorporation | Proportion of nominal value of issued capital held by the Company % |
|-----------------------------|--------------------------|---|
| Korning Investments Limited | British Virgin Islands | 13 |
| Modern Vocal Limited | British Virgin Islands | 19 |

The Company's investments in these companies represent more than one tenth of the assets in the Company's balance sheet as at 31 December 2002.

13. AMOUNT DUE FROM A SHAREHOLDER

The amount was unsecured and interest-free.

14. SHARE CAPITAL

| | Number of shares | | Share capital | |
|---|----------------------|---------------|--------------------|--------------|
| | 2002 | 2001 | 2002 HK\$ | 2001 HK\$ |
| Ordinary shares of HK\$0.10 each | | | | |
| Authorised | 2,000,000,000 | 2,000,000,000 | 200,000,000 | 200,000,000 |
| Issued | | | | |
| At beginning of year/period (note a) | 3,000,000 | 1 | 300,000 | – |
| Issue of shares (note b) | – | 2,999,999 | – | 300,000 |
| Issue of shares by placing and public offer (note c) | 100,000,000 | – | 10,000,000 | – |
| At end of year/period | 103,000,000 | 3,000,000 | 10,300,000 | 300,000 |

Notes:

- (a) At the date of incorporation, one subscriber share was issued at HK\$1.00 for cash.
- (b) On 17 September 2001, 2,999,999 ordinary shares of HK\$0.10 each were issued at HK\$1.00.
- (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.

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15. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 8 February 2002, and revised pursuant to a resolution passed on 6 December 2002, for the primary purpose of providing incentives to Directors and eligible participants (as defined in the Scheme), and will expire on 7 February 2012. Under the Scheme, the Board of Directors of the Company may grant options to Directors of the Company (including non-executive Directors and independent non-executive Directors) and its eligible participants to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 7 days of the date of grant, upon payment of HK\$1.00 per option. Options may be exercised at any time from the date of grant of the share option to a period to be notified by the Board of Directors of the Company to each grantee at the time of making such offer, which shall not expire later than 10 years from the date of grant. The exercise price is determined by the Board of Directors of the Company at its absolute discretion and will not be less than the higher of (a) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (b) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a share of the Company on the date of grant.

No option has been granted under the share option scheme since its adoption.

16. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Company had commitments for future minimum lease payments under a non-cancellable operating lease in respect of land and buildings which fall due within one year of HK\$80,000 (2001: HK\$120,000).

Operating lease payments represent rentals payable by the Company for its office premises. Lease is negotiated for an average term of one year and rentals are fixed for an average of one year.

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17. RETIREMENT BENEFITS PLAN

The Company operates a Mandatory Provident Fund scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Company, in funds under the control of trustees. The Company contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The total cost charged to income statement of approximately HK\$39,000 (14.9.2001 to 31.12.2001: Nil) represents contributions payable to this scheme by the Company in respect of the current accounting period.

18. RELATED PARTY TRANSACTIONS

During the year, the Company paid investment management fees of HK\$2,058,634 (14.9.2001 to 31.12.2001: Nil) to AsiaVest Investment Advisory Limited ("AsiaVest"), a company which is wholly-owned by Mr. Andrew Nan Sherrill, an Executive Director of the Company and who resigned on 4 April 2003. Mr. Andrew Nan Sherrill is also a director of AsiaVest. The fee was charged at a certain percentage of the monthly net asset value of the Company.

During the year, the Company paid rental expenses for office premises of HK\$160,000 to Kinvick Limited, a company which is wholly-owned by Mr. Chan Yan Ming, Michael, an Executive Director of the Company. The rental expenses were charged at market price.