

## 1. GENERAL

The Company was incorporated in the Cayman Islands on 7 February 2002 as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands. The shares of the Company are listed on the Stock Exchange of Hong Kong Limited on 28 August 2002.

The principal investment objective of the Company is to achieve medium-term capital appreciation by investing in listed and unlisted companies mainly in Hong Kong and the People's Republic of China (the "PRC"). The Company held no listed investment during the reporting period.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The financial statements are prepared under the historical cost convention as modified by revaluation of certain investment in securities. The principal accounting policies adopted are as follows:

### (a) Revenue recognition

Sales proceeds of investments in securities are recognised on a trade date basis.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### (b) Investment in securities

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

At subsequent reporting dates, debts securities that the Company has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investments.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (c) 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. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Statement of Standard Accounting Practice (the "SSAP"), in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so 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, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase.

### (d) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transactions 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 profit and loss account.

### (e) Cash and 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 cash balance represents assets which are not restricted as to use.

**3. TURNOVER AND REVENUES**

The principal activity of the Company is investment holding. An analysis of the turnover and revenue of the Company is as follows:

	HK\$
Turnover	
Bank interest income	142,569
Other revenues	
Other income	<u>58,000</u>
Total revenues	<u>200,569</u>

**4. OPERATING LOSS**

The operating loss is stated after charging auditors' remuneration of HK\$40,000 and investment management fee of HK\$159,825.

**5. TAXATION**

No provision for Hong Kong profits tax has been made in the financial statements as the Company has no assessable profit during the period.

**6. DIVIDEND**

No dividend has been paid or declared by the Company during the period.

**7. LOSS PER SHARE**

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$409,130 and the weighted average number of 84,454,795 shares in issue during the period.

**8. DIRECTORS' EMOLUMENTS**

	HK\$
Fees	
Executive directors	7,500
Independent non-executive directors	5,000
	<u>12,500</u>
Other emoluments of executive directors	–
	<u>12,500</u>

The aggregate emoluments of each of the directors during the period were within the band ranging from nil to HK\$1,000,000.

During the period ended 31 December 2002, there was no amount paid as an inducement to join or upon joining the Company and no director waived any emoluments.

**9. INVESTMENTS IN SECURITIES**

	HK\$
Other investments	
Unlisted equity securities	18,000,000
Less: Loss in value of investments	–
	<u>18,000,000</u>
Fair value as at 31 December 2002	<u>18,000,000</u>

The following is a list of the Company's investments as at 31 December 2002:

Name of investee company	Cost HK\$	Loss in value HK\$	Carrying value HK\$	% of total assets of the Company
Jinan LuGu (HK) Technology Development Limited (note (i))	9,000,000	–	9,000,000	19.5%
Sino Net-Game Limited (note (ii))	<u>9,000,000</u>	<u>–</u>	<u>9,000,000</u>	19.5%
	<u>18,000,000</u>	<u>–</u>	<u>18,000,000</u>	

**9. INVESTMENTS IN SECURITIES** *(Continued)*

Notes:

- (i) Jinan LuGu (HK) Technology Development Limited ("LuGu")

LuGu is principally engaged in research and development as well as the sales of biopharmaceutical products, biomaterials and bio-skincare products.

The Company holds 25 ordinary shares in LuGu, representing 25% interest in the issued share capital of LuGu. LuGu is not treated as an associate as, in the opinion of the directors, the Company has no significant influence over its financial and operating decisions. Accordingly, LuGu is accounted for as an unlisted equity security. No dividend was received during the period.

- (ii) Sino Net-Game Limited ("Net-Game")

Net-Game is principally engaged in the distribution of internet games, delivering game information through various sources, such as internet, magazines, etc., and operating a chain of large-scale cyber café.

The Company subscribes 2,500 newly issued ordinary shares and acquires 1,250 ordinary shares from another shareholder of Net-Game. The Company then holds an aggregate of 3,750 ordinary shares in Net-Game, representing 30% interest in the issued share capital of Net-Game. Net-Game is not treated as an associate as, in the opinion of the directors, the Company has no significant influence over its financial and operating decisions. Accordingly, Net-Game is accounted for as an unlisted equity security. No dividend was received during the period.

**10. SHARE CAPITAL**

	HK\$
<i>Authorised:</i>	
2,000,000,000 ordinary shares of HK\$0.01 each	20,000,000
<i>Issued and fully paid:</i>	
200,000,000 ordinary shares of HK\$0.01 each	2,000,000

- (a) The Company was incorporated in the Cayman Islands on 7 February 2002 with an authorised share capital of HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each of which 1 share was allotted, issued and fully paid to the subscriber on 28 February 2002.
- (b) On 18 July 2002, the authorised share capital of the Company increased to HK\$20,000,000 by the creation of an additional 1,961,000,000 shares of HK\$0.01 each. On the same date, 134,000,000 shares of HK\$0.01 each were issued and allotted at a price of HK\$0.25 per share for cash consideration of HK\$33,500,000.
- (c) The Company had purchased and cancelled 1 share held by one of the executive directors on 18 July 2002.
- (d) On 26 August 2002, 66,000,000 shares of HK\$0.01 each were issued and allotted by way of initial public offer at a price of HK\$0.25 per share for cash.

**11. SHARE OPTIONS**

Under the share option scheme approved by the sole shareholder of the Company on 18 July 2002 (the "Share Option Scheme"), the board of directors of the Company may, at their discretion, invite any full-time employee, director (including non-executive director and independent non-executive director), any part time employee with weekly working hours of 15 hours and above of the Company or its subsidiaries, any advisor or consultant to the Company or to any of its subsidiaries and advisor, consultant, agent or business affiliates who has contributed to the Company to subscribe for shares in the Company.

Pursuant to the Share Option Scheme, the shares which are subject of options that may be granted immediately after the adoption date of the Share Option Scheme must not exceed 10% of the issued share capital of the Company on the date the shares commence trading on the Stock Exchange of Hong Kong Limited ("Stock Exchange"), being 20,000,000 shares upon completion of the initial public offer of the Company on 28 August 2002. The overall limit on the number of shares which may be issued upon exercise of all options granted and yet to be exercised under the Share Option Scheme and other share options schemes of the Company must not exceed 30% of the shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each eligible participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue at any time. Any further grant of options in excess of this limit is subject to the shareholders' approval of the Company in a general meeting with such participant(s) and his associate(s) abstaining from voting.

The offer of a grant of share options may be accepted within 7 days from the date of the offer, upon payment of a consideration of HK\$1.00 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is not later than 10 years from the date of the offer of the share options.

The exercise price of the share options is determinable by the directors of the Company, but may not be less than the highest of (a) the closing price of the shares 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 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 on the date of grant.

No share option of the Company was granted to any eligible participant as at 31 December 2002.

**12. RESERVES**

	Share premium HK\$	Accumulated losses HK\$	Total HK\$
Issue of shares	48,000,000	–	48,000,000
Listing expenses	(3,512,545)	–	(3,512,545)
Loss for the period	–	(409,130)	(409,130)
	<u>44,487,455</u>	<u>(409,130)</u>	<u>44,078,325</u>
At 31 December 2002	<u>44,487,455</u>	<u>(409,130)</u>	<u>44,078,325</u>

Under Cayman Islands law, the share premium of the Company is available for paying distributions or dividends to the shareholders subject to the provisions of the Articles of Association of the Company and a statutory solvency test. Under the Articles of Association of the Company, dividend may be declared or payable out of the profits and reserves of the Company lawfully available for distribution with the sanction of an ordinary resolution. Dividend may also be declared out of share premium account of the Company. As at 31 December 2002, the Company's reserve available for distribution amounted to approximately HK\$44,080,000.

**13. NET ASSET VALUE PER SHARE**

The calculation of net asset value per share is based on the net asset value of the Company as at 31 December 2002 of HK\$46,078,325 and 200,000,000 ordinary shares in issue at that date.

**14. RELATED PARTY TRANSACTION**

On 18 July 2002, the Company entered into an investment management agreement with Hua Yu Investment Management Limited ("HYIM") for a period of three years commencing from 28 August 2002 and is to continue for successive periods of three years each unless terminate at any time by either the Company or HYIM serving not less than three months' notice in writing to the other party to expire on the last day of the three-year period or the relevant successive periods. According to the agreement, the Company will pay to HYIM a fee payable on a semi-annual basis in Hong Kong dollars in advance on 1 April and 1 October each year at 1% per annum of the net asset value as at the immediately preceding valuation date in March and September respectively of each year. HYIM is regarded as a connected person of the Company for the purpose of the Listing Rules. During the period, the Company paid HK\$159,825 to HYIM.

### 15. POST BALANCE SHEET EVENTS

On 14 January 2003, an agreement (the "First Agreement") was entered into between the Company and an unrelated third party (the "Party") whereby the Company had purchased from the Party a convertible bond with face value of HK\$8,500,000 (the "Amount"). A mutual agreement was entered between the Company and the Party for the surrender of the First Agreement. On 25 April 2003, the Amount paid by the Company was fully recovered.

On 16 January 2003, an agreement (the "Second Agreement") was entered into between the Company and King Tiger Technology Company Limited ("King Tiger") whereby the Company had purchased from King Tiger a convertible bond with face value of USD1,144,000 maturing on 16 January 2006 with an interest rate of 6.5% per annum. In accordance with the terms and conditions of the Second Agreement, upon maturity of the convertible bond, the Company has the right to convert the convertible bond to an equity interest of 13% of the then issued share capital of either King Tiger or a wholly owned subsidiary of King Tiger.

On 16 January 2003, an agreement (the "Third Agreement") was entered into between the Company and China Net-PC (Beijing) Limited ("CNP Beijing") whereby the Company had purchased from CNP Beijing a convertible bond with face value of HK\$8,500,000 maturing on 16 January 2006 with an interest rate of 2.5% per annum. In accordance with the terms and conditions of the Third Agreement, upon maturity of the convertible bond, the Company has the right to convert the convertible bond to an equity interest of 30% of the then issued share capital of CNP Beijing.

### 16. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 28 April 2003.