

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The Interim Financial Statements of the Group for the Period have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants.

The accounting policies adopted in the preparation of these Interim Financial Statements are consistent with those used in the Company’s audited financial statements for the year ended 31st December 2002 except for the adoption of SSAP 12 (Revised) “Income taxes” which is effective for the first time for the accounting period commencing on or after 1st January 2003.

The adoption of SSAP 12 (Revised) has had no significant effect on the results for the current or prior accounting periods.

Basis of consolidation

The Interim Financial Statements include the financial statements of the Company and its subsidiary for the six months ended 30th June 2003. The results of subsidiaries acquired or disposed of during the year 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.

Subsidiary

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

2. TURNOVER AND REVENUE

The Group is principally engaged in the investment in listed and unlisted companies. An analysis of turnover and other revenue is as follows:

| | Six months ended 30th June 2003 (Unaudited) HK\$ | Period from 14th May 2002 (date of incorporation) to 30th June 2002 (Unaudited) HK\$ |
|------------------------------------------|---------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| Turnover | | |
| Proceeds from sale of trading securities | 26,199,230 | – |
| Other revenue | | |
| Interest income | 163,163 | – |
| Dividend income from trading securities | 178,307 | – |
| | 341,470 | – |
| | 26,540,700 | – |

3. SEGMENT INFORMATION

The Group is principally engaged in investing in listed and unlisted companies. Accordingly, no further analysis by business segment is provided. No geographical analysis is presented as none of the Group's turnover, contribution to operating loss, assets or liabilities is attributable to locations other than the People's Republic of China (the "PRC") and Hong Kong.

4. LOSS FROM OPERATING ACTIVITIES BEFORE TAX

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

| | Six months ended 30th June 2003 (Unaudited) HK\$ | Period from 14th May 2002 (date of incorporation) to 30th June 2002 (Unaudited) HK\$ |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| Staff costs, excluding directors' remuneration | | |
| Wages, salaries and other allowances | 360,000 | - |
| Retirement benefits scheme contributions | 6,000 | - |
| | <u>366,000</u> | - |
| Minimum lease payments under operating leases in respect of land and buildings | <u>90,000</u> | - |

5. TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the Period (2002: 16%).

No provision for deferred tax had been made as the Group did not have any significant unprovided deferred tax in respect of the Period (2002: Nil).

6. DIVIDEND

The Board resolved not to declare the payment of any interim dividend in respect of the Period (2002: Nil).

7. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the Period of HK\$10,310,440 (2002: Nil) and the weighted average of 105,420,000 (2002: 3,800,000) ordinary shares in issue during the Period.

Diluted loss per share for the six months ended 30th June 2003 and period ended 30th June 2002 had not been disclosed as no diluting events existed during these periods.

8. INVESTMENT SECURITIES

| | | |
|----------------------------------------------------------------|----------------------------------------------------|--------------------------------------------|
| | 30th June 2003 (Unaudited) HK\$ | 31st December 2002 (Audited) HK\$ |
| Unlisted equity securities outside Hong Kong, at fair value | 34,026,660 | 15,500,160 |

| Name | Place of establishment | Particulars of equity interest held | Investment value | | Percentage of interest held |
|----------------------------------|---------------------------|-------------------------------------------|-----------------------------|-----------------------------------------------------|--------------------------------|
| | | | Acquisition cost HK\$ | Fair value estimated by the directors HK\$ | |
| 南通毅能達智能卡製造 有限公司 ("南通毅能達")* | PRC | Registered capital | 15,500,160 | 15,500,160 | 24.00 |
| 北京綜藝達軟件技術 有限公司 ("北京綜藝達")# | PRC | Registered capital | 18,526,500 | 18,526,500 | 13.09 |

* 南通毅能達 is principally engaged in the production of Sim cards for use in credit cards and data storage cards. The investment in 南通毅能達 is not equity accounted for under SSAP 10 "Accounting for investments in associates". This is because the directors of the Company (the "Directors") are of the opinion that the Company is not in a position to exercise significant influence over the financial and operating policies of 南通毅能達.

北京綜藝達 is principally engaged in the research, development and manufacture of network commercial management software. The Company's equity interest in 北京綜藝達 has been properly registered with the relevant PRC authority on 9th June 2003 (Note 9).

9. DEPOSIT FOR THE ACQUISITION OF INVESTMENT SECURITIES

| | 30th June 2003 | 31st December 2002 |
|------------------------------------------------------|---------------------------|-----------------------|
| | (Unaudited) | (Audited) |
| | HK\$ | HK\$ |
| Deposit for the acquisition of investment securities | – | 18,526,500 |

In December 2002, the Company entered into a sale and purchase agreement with a PRC company with A shares listed on the Shanghai Stock Exchange (the “Vendor”) for the acquisition of a 13.09% equity interest (the “Interest”) in 北京綜藝達, a company established in the PRC at a consideration of HK\$17,900,000 (the “Agreement”). As part of the terms of the Agreement, the Company has been granted a put option which confers on the Company a right to request the Vendor to buy back the Interest at the original acquisition cost of HK\$17,900,000 plus annual interest based on the PRC bank lending rate within three years after the completion of the transaction, in the case of any reasons affecting the legal status of the Interest or the inability of the Company to remit the dividends distributed by 北京綜藝達 out of the PRC. Further, the Vendor has also guaranteed that the profit after tax of 北京綜藝達 will not be less than RMB16,500,000 for each of the three years ending 31st December 2003, 2004 and 2005. Any shortfall will be compensated to the Company through the pre-determined adjustment mechanism stipulated in the Agreement governing the Interest acquired by the Company. 北京綜藝達 is principally engaged in the research, development and sale of network commercial management software.

During the Period, on 9th June 2003, the registration of the Company’s equity interest in 北京綜藝達 with the relevant PRC authority is completed.

10. TRADING SECURITIES

| | 30th June 2003 | 31st December 2002 |
|--------------------------------------------------------|---------------------------|-----------------------|
| | (Unaudited) | (Audited) |
| | HK\$ | HK\$ |
| Listed equity securities in Hong Kong, at market value | 12,696,480 | 24,162,070 |

11. CONTINGENT LIABILITIES

At 30th June 2003, the Group had no significant contingent liabilities.

12. OPERATING LEASE ARRANGEMENT

The Group leases certain of its leasehold land and buildings as office premises under an operating lease arrangement. The lease term for this property is 2 years.

At 30th June 2003, the Group had total future minimum lease payments under a non-cancellable operating lease falling due as follows:

| | 30th June 2003 (Unaudited) HK\$ | 31st December 2002 (Audited) HK\$ |
|----------------------------------------|----------------------------------------------------|--------------------------------------------|
| Within one year | 93,500 | 90,000 |
| In the second to fifth year, inclusive | 102,000 | – |
| | 195,500 | 90,000 |

13. RELATED PARTY AND CONNECTED TRANSACTIONS

During the Period, the Group had the following significant related party and connected transactions:

| | <i>Notes</i> | Six months ended 30th June 2003 (Unaudited) HK\$ | Period from 14th May 2002 (date of incorporation) to 30th June 2002 (Unaudited) HK\$ |
|-----------------------------------------------------------------------------------|--------------|---------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| Investment management fee paid/payable to Golden Honour Assets Management Limited | (i) | 1,047,377 | – |
| Rental expenses paid to Ceres Capital Limited | (ii) | 90,000 | – |

Notes:

- (i) Pursuant to an investment management agreement dated 7th October 2002 (the “IM Agreement”) entered into between the Company and Golden Honour Assets Management Limited (the “Investment Manager”), the Investment Manager has agreed to provide the Company with investment management services (excluding general administrative services) for a three-year period commencing on 28th October 2002, the date of the commencement of the trading of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The IM Agreement will continue for successive periods of three years unless terminated at any time by either the Company or the Investment Manager serving not less than six months’ notice in writing to the other party to expire on the last day of the three-year period or any of the relevant successive periods.

Under the IM Agreement, the Investment Manager is entitled to a monthly management fee equivalent to 2.5% per annum of the net assets value of the Company as at the last dealing day on the Stock Exchange in each calendar month (or such other dealing day as considered appropriate by the Board for the purpose of calculating the net assets value of the Company), calculated on the basis of the actual number of days in the relevant calendar month over a year of 365 days. In addition, the Investment Manager is also entitled to an annual incentive fee equivalent to 15% of the surplus in the net assets value of the Company over a financial year or period.

Mr. Chang Chu Fai, Johnson Francis and Mr. Lim Siang Kai each have a 15% equity interest in the Investment Manager. Mr. See Lee Seng, Reason has a 35% equity interest in the Investment Manager and is one of the directors of the Investment Manager.

- (ii) Pursuant to a sub-tenancy agreement dated 30th August 2002 (as amended by a supplemental agreement dated 8th October 2002) entered into between the Company and Ceres Capital Limited (“Ceres”), the Company agreed to sublet its office premises from Ceres, which is owned as to approximately 33% by Mr. Chang Chu Fai, Johnson Francis, for a period commencing on 1st November 2002 to 2nd July 2003 (both dates inclusive) at HK\$15,000 per month.

On 10th June 2003, the Company entered into a new sub-tenancy agreement with Ceres to sublet its office premises from Ceres for a period of 2 years commencing from 1st July 2003 at HK\$8,500 per month.

The related party transactions set out above also constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The IM Agreement is covered by the waiver granted by the Stock Exchange dated 28th October 2002. The sub-tenancy agreement falls under Rule 14.24(5) of the Listing Rules which does not require any disclosure or shareholders approval.