

# NOTES TO THE FINANCIAL STATEMENTS

## 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 were 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 as at 31 December 2002 and 2003.

## 2. IMPACT OF REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year the Company has adopted, for the first time, the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" issued by the Hong Kong Society of Accountants (the "HKSA") which is effective for accounting periods commencing on or after 1 January 2003.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous periods, partial provision was made for deferred tax using the profit and loss account liability method, i.e. a liability was recognised in respect of timing differences between taxable profit and accounting profit to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The adoption of the revised SSAP has had no material impact on the accounts of the Company for the current and prior accounting periods. Accordingly, no prior year adjustment has been required.

# NOTES TO THE FINANCIAL STATEMENTS

## 3. PRINCIPAL 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 HKSA. The financial statements are prepared under the historical cost convention as modified with respect to the measurement of investments in securities as explained in the respective accounting policies below. The principal accounting policies adopted are as follows:

### (a) Revenue recognition

Gains or losses on sale of other investments are recognised on the transfer of risks and rewards of ownership which generally coincides with the time when investments are delivered and title has passed.

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.

### (c) Impairment of assets

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 SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

# NOTES TO THE FINANCIAL STATEMENTS

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

### (c) Impairment of assets *(Continued)*

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) Taxation

Taxation charged to the profit and loss account comprises current and deferred tax.

Current tax is the expected tax payable on the taxable profit for the year. Profits tax is provided on the basis of the Company's profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes. The Company's liability for current tax is calculated using tax rate enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the accounting profit nor the tax profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### (e) 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. All exchange differences are dealt with in the profit and loss account.

# NOTES TO THE FINANCIAL STATEMENTS

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (f) Related parties

Two 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.

### (g) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

## 4. 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:

	<b>Year ended 31 December 2003 HK\$</b>	Period from 7 February 2002 (date of incorporation) to 31 December 2002 HK\$
Turnover		
Bank interest income	<b>43,886</b>	142,569
Interest on convertible loans receivable	<b>643,803</b>	–
Gain on sale of other investments	<b>247,141</b>	–
	<b>934,830</b>	142,569
Other revenues		
Other income	–	58,000
Total revenues	<b>934,830</b>	200,569

No segment information is presented as the entire turnover, contribution to operating results, assets and liabilities of the Company are attributable to investment activities which are carried out or originated principally in Hong Kong and the PRC.

# NOTES TO THE FINANCIAL STATEMENTS

## 5. LOSS BEFORE TAXATION

	<b>Year ended 31 December 2003 HK\$</b>	Period from 7 February 2002 (date of incorporation) to 31 December 2002 HK\$
Auditors' remuneration	<b>50,000</b>	40,000
Investment management fee	<b>247,778</b>	159,825
Provision for deposit of investment	<b>100,000</b>	–

## 6. TAXATION

- (a) No provision for Hong Kong profits tax has been made in the financial statements as the Company has no assessable profit for the year (2002: Nil).
- (b) As at 31 December 2003, the Company had unrecognised deferred tax asset of HK\$58,192 (2002: nil) which represents the tax effect of unused tax losses. Such deferred tax asset was not recognised in the financial statements as it is uncertain whether future taxable profits will be available against which deductible temporary differences can be utilised.

## 7. DIVIDEND

No dividend has been paid or declared by the Company during the year (2002: nil).

## 8. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$398,369 (2002: HK\$409,130) and the weighted average number of 199,965,786 (2002: 84,454,795) ordinary shares in issue.

Diluted loss per share for the year ended 31 December 2003 has not been presented as the effect of any dilution is anti-dilutive. Diluted loss per share for the period ended 31 December 2002 had not been disclosed as no diluting events existed during that period.

# NOTES TO THE FINANCIAL STATEMENTS

## 9. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

	<b>Year ended 31 December 2003 HK\$</b>	Period from 7 February 2002 (date of incorporation) to 31 December 2002 HK\$
Fees		
Executive directors	<b>10,239</b>	7,500
Independent non-executive directors	<b>6,110</b>	5,000
	<b>16,349</b>	12,500
Other emoluments of executive directors	-	-
	<b>16,349</b>	12,500

In addition to the above emoluments, 3,000,000 and 1,600,000 options were granted to the executive and independent non-executive directors respectively under the share option scheme adopted by the Company on 18 July 2002. Each of the options entitled the holders to subscribe for one ordinary share of HK\$0.01 each in the Company at an exercise price of HK\$0.25 per share at any time during the period from 28 August 2003 to 27 August 2013. During the year, no options were exercised by the directors.

No value in respect of the share options granted is included in the above director's emolument disclosure.

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

The five highest paid employees during the year included five directors (2002: five directors), details of whose emoluments are set out in above.

During the year ended 31 December 2003 and the period ended 31 December 2002, there were no amounts paid as compensation for loss of office and an inducement to join or upon joining the Company and no director waived any emoluments.

# NOTES TO THE FINANCIAL STATEMENTS

## 10. INVESTMENTS IN SECURITIES

	2003 HK\$	2002 HK\$
Unlisted equity securities, at fair value	18,000,000	18,000,000
Unlisted convertible loan notes, at cost	17,428,045	–
	<u>35,428,045</u>	<u>18,000,000</u>

The following is a list of the Company's investments as at 31 December 2003:

### (a) Unlisted equity securities

Name of investee company	Cost HK\$	2003 Loss in value HK\$	Carrying value HK\$	2002	% of total
				Cost HK\$	assets of the Company
Jinan LuGu (HK) Technology Development Limited (note (i))	9,000,000	–	9,000,000	9,000,000	19.7%
SNG Hong Kong Limited (note (ii))	9,000,000	–	9,000,000	9,000,000	19.7%

### (b) Unlisted convertible loan notes, unsecured:

Name of issuer	Principal amount HK\$	Interest rate	Maturity date	% of total assets of the Company
King Tiger Technology Company Limited – unsecured (note (iii))	8,928,045	6.5% p.a.	15 January 2006	19.5%
China Ibonline Holding Co., Ltd. – unsecured (note (iv))	8,500,000	2.5% p.a.	3 August 2006	18.6%

# NOTES TO THE FINANCIAL STATEMENTS

## 10. INVESTMENTS IN SECURITIES (Continued)

### (b) Unlisted convertible loan notes, unsecured: (Continued)

Note:

#### (i) Jinan LuGu (HK) Technology Development Limited (“LuGu”)

LuGu is incorporated in Hong Kong and 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 is not in a position to exercise any significant influence over its financial and operating decisions. Accordingly, LuGu is accounted for as an unlisted equity security. No dividend was received during the year (2002: nil).

#### (ii) SNG Hong Kong Limited (“SNG”)

SNG, which formerly known as Sino Net-Game Limited, is incorporated in Hong Kong and principally engaged in the distribution of internet games, delivering game information through various sources, such as internet, magazines, etc.

The Company holds 3,750 ordinary shares in SNG, representing 30% interest in the issued share capital of SNG. SNG is not treated as an associate as, in the opinion of the directors, the Company is not in a position to exercise any significant influence over its financial and operating decisions. Accordingly, SNG is accounted for as an unlisted equity security. No dividend was received during the year (2002: nil).

#### (iii) King Tiger Technology Company Limited (“King Tiger”)

King Tiger is incorporated in Taiwan ROC and principally engaged in investment holding. It indirectly holds 49% interest in 安徽精通科技有限公司 (「安徽精通」). 安徽精通 is registered in the PRC as foreign investment enterprises by equity joint venture and is principally engaged in the manufacturing of solder ball by the Ball Grid Array technology.

Pursuant to the subscription agreement entered into on 16 January 2003, the Company acquired a convertible loan note with principal amount of USD1,144,000 carrying the right to convert the loan note into shares, directly or indirectly, in 安徽精通. The loan note is unsecured, bears interest at 6.5% per annum and has a maturity date on 15 January 2006. At any date before the maturity, King Tiger has the right to redeem the whole or part of the loan note. On or before the 6 months ended after the maturity date, the Company has the right to convert the outstanding principal amount of the loan note into shares, directly or indirectly, in 安徽精通. Interest is calculated on 31 December of each year and payable in cash. Interest income recognised during the year amounted to HK\$556,474.

#### (iv) China Ibonline Holding Co., Ltd. (“China Ibonline”)

China Ibonline is incorporated in the British Virgin Islands principally engaged in investment holding. Through its current shareholders, China Ibonline currently holds 80% of 深圳市創銳實業有限公司 (「深圳市創銳」) which is incorporated in the PRC. China Ibonline is under a restructure process for acquiring 100% 深圳市創銳 as its wholly owned subsidiary. Up to the date of this report, the restructure process was not completed. 深圳市創銳 is principally engaged in the installation and adjusting of wiring for build-in internet service of buildings.

Pursuant to the subscription agreement entered into on 4 August 2003, the Company acquired a convertible loan note with principal amount of HK\$8,500,000 carrying the right to convert the loan note into shares in China Ibonline. The loan note is unsecured, bears interest at 2.5% per annum and has a maturity date on 3 August 2006. At any date before the maturity, China Ibonline has the right to redeem the whole or part of the loan note. The Company has the right on any day after the maturity date to convert the outstanding principal amount of the loan note into shares in China Ibonline. Interest is calculated on 31 December of each year and payable in cash. Interest income recognised during the year amounted to HK\$87,329.



# NOTES TO THE FINANCIAL STATEMENTS

## 11. SHARE CAPITAL

	Number of shares	Amount HK\$
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At 31 December 2002 and 2003	2,000,000,000	20,000,000
<i>Issued and fully paid:</i>		
At 1 January 2003	200,000,000	2,000,000
Repurchase of issued shares	(56,000)	(560)
<b>At 31 December 2003</b>	<b>199,944,000</b>	<b>1,999,440</b>

During the year, the Company repurchased 56,000 ordinary shares on the Stock Exchange of Hong Kong Limited at an aggregate consideration of HK\$49,840. All of the shares were subsequently cancelled. The nominal value of the cancelled shares of HK\$560 during the year was set off with the issued share capital and the balance of HK\$49,280 was paid out from the Company's share premium. Details of the repurchases are as follows:

Month of the repurchases	Total			Aggregate consideration
	Number of the ordinary shares repurchased	Highest price paid per share	Lowest price paid per share	
May 2003	56,000	HK\$0.95	HK\$0.80	HK\$49,840

The directors considered that the purchases were made for the benefit of the shareholders as a whole.

## 12. SHARE OPTIONS

Under the share option scheme approved by the sole shareholder of the Company on 18 July 2002 (the "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 adviser, consultant, agent or business affiliates who has contributed to the Company to subscribe for shares in the Company.

# NOTES TO THE FINANCIAL STATEMENTS

## 12. SHARE OPTIONS (Continued)

Pursuant to the Scheme, 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 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.

Details of the options granted under the Scheme and outstanding at 31 December 2003 are as follows:

Date of grant	Option period	Number of share options			Price per share to be paid on exercise of options HK\$
		Outstanding as at 1 January 2003	Granted during the year	Outstanding as at 31 December 2003	
29/1/2003	28/8/2003-27/8/2013	-	20,000,000	20,000,000	0.25

As at 31 December 2003, the number of shares issuable under the Scheme represented approximately 10% of the Company's shares in issue as at that date.

During the year, no share options were exercised, cancelled or lapsed.

## 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 2003 of HK\$45,612,046 (2002: HK\$46,078,325) and 199,944,000 (2002: 200,000,000) ordinary shares in issue at that date.

# NOTES TO THE FINANCIAL STATEMENTS

## 14. CONNECTED AND RELATED PARTY TRANSACTIONS

	<b>Year ended 31 December 2003 HK\$</b>	Period from 7 February 2002 (date of incorporation) to 31 December 2002 HK\$
Investment management fee paid to		
Hua Yu Investment Management Limited ( <i>note a</i> )	<b>190,746</b>	159,825
China Everbright Securities (HK) Limited ( <i>note b</i> )	<b>57,032</b>	–
	<b>247,778</b>	159,825
Custodian fee paid to		
Standard Chartered Bank ( <i>note c</i> )	<b>1,560</b>	3,123
Brokerage commission paid to		
China Everbright Securities (HK) Limited ( <i>note d</i> )	<b>41,722</b>	–
Amount due from substantial shareholders ( <i>note e</i> )		
Harvest Rise Investment Limited	<b>30,403</b>	–
WYSE Technology (Far East) Limited	<b>30,402</b>	–
	<b>60,805</b>	–

*Note:*

- (a) The Company has 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. 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. The management agreement was terminated on 1 June 2003.

# NOTES TO THE FINANCIAL STATEMENTS

## 14. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*

*Note: (Continued)*

- (b) On 23 May 2003, the Company entered into another investment management agreement with China Everbright Securities (HK) Limited ("CES") for a period of three years commencing from 1 June 2003 in consideration of a payment of a fee calculated at 0.25% per annum of the net asset value of the Company as at the last dealing date on the Stock Exchange in each calendar month or such other valuation date as considered appropriate by the Board and payable on a monthly basis on a business date immediately after each valuation date. In addition, CES is entitled to a bonus fee equivalent to 10% of the audited profit before tax of each financial year of the Company payable on the business date immediately after the publication of the Company's final audited result for the year. CES is regarded as a connected person of the Company for the purpose of the Listing Rules.
- (c) Pursuant to a custodian agreement dated 10 July 2002 between the Company and Standard Chartered Bank (the "Custodian"), the Custodian agrees to provide securities custodian services to the Company including the safe custody of the Company's securities and the settlement of the securities of the Company, the collection of dividends and other entitlements on behalf of the Company. The appointment of the Custodian commenced on the date of the commencement of trading of the Company's shares on the Stock Exchange. The custodian agreement was terminated with the written notice given by the Custodian during the year.
- (d) Brokerage commission rate is charged at the rate ranged from 0.25% to 1% of the value of the transactions.
- (e) The amounts represent stamp duty paid on behalf of the two substantial shareholders with regard to a transfer of the Company's shares between them. The amount was subsequently settled on 12 March 2004.

## 15. APPROVAL OF ACCOUNTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 25 March 2004.