Notes to Financial Statements

31 December 2003

1. CORPORATE INFORMATION

The Company was incorporated on 28 June 2002 as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The principal activity of the Company is investment in listed and unlisted companies in Hong Kong and in the PRC.

The shares of the Company were listed on the Stock Exchange with effect from 27 September 2002.

2. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

In the current year, the Company adopted the following revised SSAP issued by the Hong Kong Society of Accountants ("HKSA") which is effective for accounting periods commencing on or after 1 January 2003:

SSAP 12 (revised): Income taxes

The revised SSAP prescribes new accounting measurement and disclosure practices. The major effects on the Company's accounting policies and on the amounts disclosed in these financial statements of adopting this revised SSAP are summarised as follows:

The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In previous year, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse 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 amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (revised), the new accounting policy has been applied retrospectively.

The adoption of SSAP 12 (revised) has no material impact on the Company's financial statements for the period/year ended 31 December 2002 and 2003.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable SSAPs and Interpretations issued by the HKSA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

A summary of the significant accounting policies followed by the Company in the preparation of the financial statements is set out below:

(a) Basis of Preparation

The measurement basis used in the preparation of the financial statements is historical cost as modified by the marking-to-market of certain investments in securities as explained in Note 3(b) to financial statements below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Investment in Securities

Non-trading Securities:

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the income statement.

Where there is objective evidence that individual investments are impaired the cumulative loss recorded in the revaluation reserve is taken to the income statement.

Investment Securities:

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair value have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Trading Securities:

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the income statement. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

Held-to-maturity Securities:

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the income statement. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the income statement as an expense immediately.

Notes to Financial Statements

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3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(c) **Current Assets and Liabilities**

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Company's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Company's operating cycle.

(d) **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, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(e) **Turnover**

Turnover represents dividend income received and receivable for the year.

(f) **Revenue Recognition**

Provided it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably, revenue is recognised in the income statement as follows:

i. Dividend income is recognised when the right to receive payment is established.

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

(g) **Operating Leases**

Leases where substantially all risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

(h) **Translation of Foreign Currencies**

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction 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 income statement.

(i) **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Taxation *(Continued)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases 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 to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(j) Preliminary Expenses

Preliminary expenses are written off in the period incurred.

(k) Impairment of Assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties under construction, other properties and other fixed assets are impaired. If any such indicate exists, the recoverable amount of the assets is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

Reversal of impairment loss recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. A reversal of an impairment loss is recognised as income immediately.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Provision

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligations.

(m) Contingent Liabilities and Contingent Assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company.

Contingent assets are not recognised but are disclosed in the notes to financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(n) Employee Benefits

i. Employee Leave Entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

ii. Profit Sharing and Bonus Plans

The expected cost of profit sharing and bonus payments are recognised as a liability when the Company has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plan are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Employee Benefits *(Continued)*

iii. Retirement Benefits Scheme Contributions

The Company has participated in the Mandatory Provident Fund Scheme (the "Scheme") under the Mandatory Provident Fund Scheme Ordinance. The assets of the Scheme are held separately from those of the Company in an independently administered fund. The Scheme is generally funded by payments from employees and by the Company. The Company's contributions to the Scheme are expensed as incurred in accordance with the rules of the Scheme and are not reduced by contributions forfeited by those employees who leave the Scheme prior to vesting fully in the contributions.

(o) Related Parties Transactions

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 decision. Parties are also considered to be related if they are subject to common control or common significant influence. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(p) Segment Reporting

In accordance with the Company's internal financial reporting, the Company has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investment in securities and investment properties. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisition through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

Notes to Financial Statements

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4. TURNOVER AND OTHER REVENUE

Turnover represents dividend received and receivable during the year/period. The amount of each significant category of revenue recognised during the year/period are as follows:

	01/01/2003 to 31/12/2003	28/06/2002 to 31/12/2002
	HK$'000	*HK$'000*
Turnover:		
Dividend income from investment in listed securities	**100**	131
Other Revenue:		
Bank interest income	**–**	4
Other interest income	**4**	15
Sundry income	**40**	–
	44	19
Total revenue	**144**	150

5. SEGMENT INFORMATION

No business or geographical analysis of the Company's performance for the year/period is provided as all of the turnover and contributions to operating results of the Company are attributable to investment in equity securities listed in Hong Kong. In addition, the assets and liabilities are located and arose in Hong Kong respectively.

6. (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/Profit on ordinary activities before taxation is stated after charging/(crediting) the following:

	01/01/2003 to 31/12/2003	28/06/2002 to 31/12/2002
	HK$'000	*HK$'000*
Auditors' remuneration	**120**	30
Total staff costs, excluding directors' remuneration	**321**	80
Preliminary expenses	**–**	16
Net unrealised holding loss/(gain) on trading securities	**7,529**	(3,027)
Net realised loss on disposal of trading securities	**1,004**	–

Notes to Financial Statements

31 December 2003

7. TAXATION

Current Taxation

No provision for Hong Kong profits tax has been made as the Company incurred a taxation loss for the year (2002: Nil).

	01/01/2003 to 31/12/2003	28/06/2002 to 31/12/2002
	HK$'000	*HK$'000*
Deferred Taxation		
(Credit)/charge for the year/period	**(484)**	484

The (credit)/charge for the year/period can be reconciled to the (loss)/profit per the income statement as follows:

	01/01/2003 to 31/12/2003		28/06/2002 to 31/12/2002	
	HK$'000	*%*	*HK$'000*	*%*
(Loss)/Profit before tax	**(12,580)**		2,146	
Tax at Hong Kong profit tax rate of 17.5% (2002: 16%)	**(2,201)**	**17.5**	343	16.0
Estimated tax effect of expenses that are not deductible for tax in determining taxable profit	**–**	**–**	3	0.1
Estimated tax effect on income that are not taxable in determining taxable profit	**(18)**	**0.1**	(22)	(1.0)
Tax effect of unrecognised deductible temporary differences	**304**	**(2.4)**	–	–
Tax effect of unrecognised tax losses	**1,431**	**(11.4)**	160	7.5
Tax (income)/expenses and effective tax rate for the year/period	**(484)**	**3.8**	484	22.6

8. NET (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The (loss)/profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of the loss of HK$12,096,000 (2002: Profit of HK$1,662,000).

9. DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2003 (2002: Nil).

10. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the Company's net loss attributable to the shareholders of HK$12,096,000 (2002: net profit of HK$1,662,000) and the 50,000,000 ordinary shares (2002: weighted average of 26,219,000 ordinary shares) in issue during the year/period.

There were no dilutive potential shares during the year/period, therefore, no diluted (loss)/earnings per share has been presented.

11. STAFF COSTS

The aggregate amounts of emoluments payable to individuals employed by the Company during the year/period are as follows:

	01/01/2003 to 31/12/2003	28/06/2002 to 31/12/2002
	HK$'000	*HK$'000*
Salaries and allowances	**246**	60
Bonus	**62**	16
Contributions to retirement benefits scheme	**13**	4
	321	80

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year/period are as follows:

	01/01/2003 to 31/12/2003	28/06/2002 to 31/12/2002
	HK$'000	*HK$'000*
Fees	–	–
Other emoluments:		
Basic salaries	**1,250**	396
Contributions to retirement benefits scheme	**27**	9
	1,277	405

Directors' basic salaries disclosed above included HK$120,000 (2002: HK$35,000) paid to independent non-executive directors.

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

Directors' emoluments *(Continued)*

The emoluments of the directors fell within the following bands:

	Number of directors	
	2003	2002
Emoluments band:		
Nil to HK$1,000,000	**5**	5

Five highest paid individuals

The five individuals whose emoluments were the highest in the Company for the year included three executive directors (2002: three) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals during the year/period are as follows:

	01/01/2003 to 31/12/2003	28/06/2002 to 31/12/2002
	HK$'000	*HK$'000*
Salaries and allowances	**246**	60
Bonus	**62**	16
Contributions to retirement benefits scheme	**13**	4
	321	80

The emoluments fell within the following bands:

	Number of individuals	
	2003	2002
Emoluments band:		
Nil to HK$1,000,000	**2**	2

13. INVESTMENT SECURITIES

	2003	2002
	HK$'000	*HK$'000*
Unlisted, at cost	**5,000**	–

Name of securities	Place of incorporation and kind of legal entity	Number of shares held	Interest held *(%)*	Net assets attributable to the Company *HK$'000*
Hong Xiang Petroleum International Holdings Limited	the British Virgin Islands, limited liability company	2,136,800 ordinary shares	1.95	5,000

14. TRADING SECURITIES

	2003 HK$'000	2002 HK$'000
Equity securities:		
Listed in Hong Kong, at market value	**6,675**	19,753

The following is a list of the trading securities as at 31 December 2003:

Equity securities listed on the Stock Exchange of Hong Kong Limited

Name of equity securities	Place of incorporation and kind of legal entity	Number of shares held	Interest held (%)	Net assets attributable to the Company HK$'000	Cost of investment HK$'000	Market value HK$'000	Unrealised loss arising on revaluation HK$'000
i. Changchun Da Xing Pharmaceutical Co., Ltd. ("Changchun Da Xing")	the PRC, a joint stock limited company	90,000 ordinary shares (H shares)	0.02	39	46	31	(15)
ii. Global Link Communications Holdings Limited ("Global Link")	the Cayman Islands, limited liability company	13,550,000 ordinary shares	2.08	553	4,343	2,100	(2,243)
iii. Thiz Technology Group Limited ("Thiz Technology")	the Cayman Islands, limited liability company	19,430,000 ordinary shares	1.18	286	860	389	(471)
iv. WLS Holdings Limited ("WLS")	the Cayman Islands, limited liability company	34,100,000 ordinary shares	7.45	2,960	5,053	3,376	(1,677)
v. Argos Enterprise Holdings Limited ("Argos")	Hong Kong, limited liability company	3,798,000 ordinary shares	1.01	1,014	875	779	(96)
					11,177	6,675	(4,502)

14. TRADING SECURITIES *(Continued)*

A brief description of the business and financial information of the above listed and unlisted equity securities, based on their latest published annual reports or interim financial reports, is as follows:

i. Changchun Da Xing is principally engaged in the manufacture and sale of Chinese medicines and Western medicines in the PRC under the brand name Chunyan (春燕). It is also engaged in the research and development of Chinese medicines, Western medicines and biochemical medicines.

   The audited net profit attributable to shareholders of Changchun Da Xing for the year ended 31 December 2003 was RMB21,334,000 (2002: RMB34,669,000).

ii. Global Link is principally engaged in the research and development and provision of telecommunications software solutions for new telecommunications services and value-added telecommunications services as well as provision of other communication network solutions.

   The unaudited net loss attributable to shareholders of Global Link for the nine months ended 31 December 2003 was HK$8,878,000 (2002: Profit of HK$3,678,000).

iii. Thiz Technology is a developer and provider of a range of Linux solutions including Linux operating systems (which may be bundled with PCs provided by hardware vendors), application systems run on Linux and related semies such as software installation, training and education.

   The unaudited net loss attributable to shareholders of Thiz Technology for the nine months ended 31 December 2003 was HK$9,916,000 (2002: Profit of HK$15,583,000).

iv. WLS is principally engaged in the provision of scaffolding for construction and building works in Hong Kong.

   The unaudited net loss attributable to shareholders of WLS for the nine months ended 31 January 2004 was HK$2,290,000 (31 January 2003: HK$4,843,000).

v. Argos is principally engaged in investment holding in Hong Kong and in the PRC.

   The audited net profit attributable to shareholders of Argos for the year ended 31 December 2003 was HK$148,000 (2002: HK$3,056,000).

15. DIVIDENDS RECEIVABLES

	2003	2002
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong:		
WLS Holdings Limited	–	131

16. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company is unsecured, interest-free and repayable on demand.

17. DEFERRED TAXATION

	2003 HK$'000	2002 HK$'000
Deferred tax liabilities at the beginning of the year/period	**(484)**	–
Credit/(charge) to the income statement for the year/period	**484**	(484)
Deferred tax liabilities at the end of the year/period	**–**	(484)

Deferred taxation is calculated in full on temporary differences under the balance sheet liability method using a principal taxation rate of 17.5% (2002: 16%).

As at the balance sheet date, the Company has estimated tax losses of approximately HK$9,176,000 (2002: HK$999,000) and deductible temporary differences of approximately HK$1,475,000 (2002: Nil) that are available indefinitely for offsetting against future taxable profits of the Company. Part of the deferred tax assets have not been provided for due to the unpredictability of the future profit streams.

18. SHARE CAPITAL

	2003 HK$'000	2002 HK$'000
Authorised:		
200,000,000 ordinary shares of HK$0.01 each	**2,000**	2,000
Issued and fully paid:		
50,000,000 ordinary shares of HK$0.01 each	**500**	500

	2003	2002
Number of ordinary shares of HK$0.01 each at the beginning of the year/period	**50,000,000**	–
Ordinary shares issued and fully paid	**–**	50,000,000
Number of ordinary shares of HK$0.01 each at the end of the year/period	**50,000,000**	50,000,000

Notes to Financial Statements

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19. RESERVES

	Share premium *HK$'000*	Retained profits/ (Accumulated losses) *HK$'000*	Total *HK$'000*
Issuance of shares at premium	24,500	–	24,500
Share issue expenses	(3,409)	–	(3,409)
Profit for the period	–	1,662	1,662
At 31 December 2002	21,091	1,662	22,753
Loss for the year	–	(12,096)	(12,096)
At 31 December 2003	**21,091**	**(10,434)**	**10,657**

20. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on the net assets of HK$11,157,000 (2002: HK$23,253,000) and the 50,000,000 (2002: 50,000,000) ordinary shares in issue as at 31 December 2003 and 31 December 2002.

21. MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2003, the Company had entered into transactions with a related party which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary course of the Company's business.

Nature of related party relationship	**Nature of transactions**	**01/01/2003 to 31/12/2003** ***HK$'000***	28/06/2002 to 31/12/2002 *HK$'000*
Company with common director:			
Hantec Asset Management Limited ("Hantec Asset")	Investment management fee – paid	**420**	183

Mr Tang Yu Lap had beneficial interests in the company above.

22. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 27 April 2004.