

---

---

---

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 14 May 2002 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 28 October 2002.

The principal place of business of the Company is located at Room 3308, 33rd Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.

The Company is principally engaged in investing in listed and unlisted companies established and/or doing business in the Asia Pacific Region, mainly the People’s Republic of China, excluding Hong Kong and Macau (the “PRC”) and Hong Kong, and other Asian countries. The principal activity of the subsidiary is set out in note 11 to the financial statements.

### 2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

SSAP 12 “Income taxes” is effective for the first time for the current year’s financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 8 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment securities and trading securities, as further explained in the respective accounting policies below.

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiary for the year ended 31 December 2003. The results of the subsidiary 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.

The result of the subsidiary is included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investment in the subsidiary is stated at cost less any impairment losses.

#### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) income from securities trading, on a trade date basis;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (c) dividend income, when the shareholders' right to receive payment has been established.

#### **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

---

---

---

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Retirement benefits scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

#### **Share option scheme**

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The financial impact of share options granted under the share option scheme is not recorded in the Company’s or the Group’s balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

#### **Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company’s memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

---

---

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for the revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

#### **Investment securities**

Investment securities are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis. These are determined by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases, or the projected cash flows of the securities, or comparison of price/revenue ratios, price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

---

---

---

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Investment securities (continued)**

The gains or losses arising from changes in the fair value of an investment security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises.

#### **Trading securities**

Trading securities are investments in securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

#### **Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

#### Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

---

---

---

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Foreign currencies (continued)**

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

#### **Related parties**

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.

#### **Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 4. TURNOVER AND REVENUE

Turnover represents the proceeds from the sale of trading securities. An analysis of turnover and other revenue is as follows:

	<b>Year ended 31 December 2003 HK\$'000</b>	Period from 14 May 2002 (date of incorporation) to 31 December 2002 HK\$'000
Turnover	57,701	–
Bank interest income	222	215
Dividend income from trading securities	194	–
Dividend income from investment securities	1,770	–
Other revenue	2,186	215
Total revenue	59,887	215

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 5. SEGMENT INFORMATION

The Group is principally engaged in investing in listed and unlisted companies. Accordingly, no further analysis by business segment is provided. In determining the Group's geographical segments, revenue and assets are attributed to the segments based on the location of assets.

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

**Group**

	Hong Kong		The PRC		Consolidated	
	Period from 14 May 2002 (date of incorporation)		Period from 14 May 2002 (date of incorporation)		Period from 14 May 2002 (date of incorporation)	
	Year ended 31 December 2003	to 31 December 2002	Year ended 31 December 2003	to 31 December 2002	Year ended 31 December 2003	to 31 December 2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

## Segment revenue:

Sales proceeds from trading securities	57,701	–	–	–	57,701	–
--	--------	---	---	---	--------	---

	Hong Kong		The PRC		Consolidated	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

## Other segment

information:						
Segment assets	44,416	62,097	35,797	34,027	80,213	96,124

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 6. LOSS FROM OPERATING ACTIVITIES AND BEFORE TAX

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

	<b>Year ended 31 December 2003 HK\$'000</b>	Period from 14 May 2002 (date of incorporation) to 31 December 2002 HK\$'000
Cost of sales	56,802	–
Minimum lease payments under operating leases in respect of land and buildings	141	30
Staff costs (excluding directors' remuneration – note 7):		
Wages, salaries and other allowances	720	120
Retirement benefits scheme contributions	12	2
	<b>732</b>	122
Depreciation	–	–
Auditors' remuneration	200	160

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	<b>Year ended 31 December 2003 HK\$'000</b>	Period from 14 May 2002 (date of incorporation) to 31 December 2002 HK\$'000
Fees	<b>95</b>	25
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	<b>1,680</b>	280
Retirement benefits scheme contributions	<b>36</b>	6
	<b>1,716</b>	286
	<b>1,811</b>	311

Fees include HK\$95,000 (period ended 31 December 2002: HK\$25,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (period ended 31 December 2002: Nil).

The remuneration of each of the directors fell within the nil to HK\$1,000,000 band for the year (period ended 31 December 2002: Nil to HK\$1,000,000).

There was no arrangement under which a director of the Group waived or agreed to waive any remuneration during the year (period ended 31 December 2002: Nil).

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

The five highest paid employees during the year included four (period ended 31 December 2002: four) directors, details of whose remuneration are disclosed above. Details of the remuneration of the remaining non-director (period ended 31 December 2002: one), highest paid employee for the year, which fell within the nil to HK\$1,000,000 band (period ended 31 December 2002: Nil to HK\$1,000,000), are as follows:

	<b>Year ended</b> <b>31 December</b> <b>2003</b> <b>HK\$'000</b>	Period from 14 May 2002 (date of incorporation) to 31 December 2002 HK\$'000
Basic salary, housing benefits, other allowances and benefits in kind	720	120
Retirement benefits scheme contributions	12	2
	<b>732</b>	<b>122</b>

During the year, no emoluments were paid by the Group to the directors or the non-director, highest paid employee as an inducement to join, or upon joining the Group, or as compensation for loss of office (period ended 31 December 2002: Nil).

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

**8. TAX**

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong for the year (period ended 31 December 2002: Nil).

A reconciliation of the tax expense applicable to the loss from operating activities and before tax using the statutory rate for the country in which the Company and its subsidiary are domiciled to the tax expense at the effective tax rates are as follows:

	<b>Year ended 31 December 2003 HK\$'000</b>	Period from 14 May 2002 (date of incorporation) to 31 December 2002 HK\$'000
Loss from operating activities and before tax	<b>(13,033)</b>	(4,546)
Tax at the statutory rate of 17.5% (2002: 16%)	<b>(2,280)</b>	(727)
Income not subject to tax	<b>(73)</b>	(34)
Expenses not deductible for tax	<b>390</b>	90
Tax losses not recognised	<b>1,963</b>	671
Tax charge at the Group's effective rate	–	–

The Group has tax losses arising in Hong Kong of HK\$14,752,000 (period ended 31 December 2002: HK\$4,196,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in companies that have been loss-making.

**9. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK\$13,026,000 (period ended 31 December 2002: HK\$4,546,000).

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 10. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's net loss attributable to shareholders for the year of HK\$13,033,000 (period ended 31 December 2002: HK\$4,546,000) and the weighted average number of 105,420,000 (period ended 31 December 2002: 34,665,605) ordinary shares in issue during the year.

Diluted loss per share amounts for the year ended 31 December 2003 and for the period ended 31 December 2002 have not been disclosed as there were no potential ordinary shares in existence for the year/period.

### 11. INVESTMENT IN A SUBSIDIARY

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	1	–
Due from a subsidiary	6	–
	7	–

The amount due from a subsidiary included in the Company's current assets is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the Company's subsidiary is as follows:

Name	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company Direct	Principal activities
Golden 21 (BVI) Limited	British Virgin Islands	US\$1	100%	Dormant

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 12. INVESTMENT SECURITIES

	Group and Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted equity securities outside Hong Kong, at fair value	34,027	15,500

Name	Notes	Place of establishment	Particulars of equity interest held	Investment value		Percentage of interest held
				Acquisition cost	Fair value estimated by the directors	
				HK\$'000	HK\$'000	
南通毅能達智能卡製造有限公司 ("南通毅能達")	(i)	PRC	Registered capital	15,500	15,500	24.00
北京綜藝達軟件技術有限公司 ("北京綜藝達")	(ii)	PRC	Registered capital	18,527	18,527	13.09

## Notes:

- (i) 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 are of the opinion that the Group is not in a position to exercise significant influence over the financial and operating policies of 南通毅能達.
- (ii) 北京綜藝達 is principally engaged in the research, development and manufacture of network commercial management software. The Group's equity interest in 北京綜藝達 has been properly registered with the relevant PRC authority on 9 June 2003 (note 13).

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 13. DEPOSIT FOR THE ACQUISITION OF INVESTMENT SECURITIES

	Group and Company	
	2003	2002
	HK\$'000	HK\$'000
Deposit for the acquisition of investment securities	–	18,527

During the year, on 9 June 2003, the registration of the Company's equity interest in 北京綜藝達 with the relevant PRC authority was completed (note 12).

## 14. TRADING SECURITIES

	Group and Company	
	2003	2002
	HK\$'000	HK\$'000
Listed securities in Hong Kong, at market value	15,793	24,162
Provision for impairment	(1,209)	–
	14,584	24,162

Particulars of the trading securities holding as at 31 December 2003, disclosed pursuant to Section 129 of the Hong Kong Companies Ordinance, are as follows:

Name	Place of establishment/ incorporation	Particular of equity interests held	Acquisition cost HK\$'000	Market value as at 31 December 2003 HK\$'000	Percentage of interest held
Jiangsu Nandasoft Company Limited ("Jiangsu Nandasoft")	PRC	H shares	11,146	10,466	11.04
AKuP International Holding Limited ("AKuP")*	Cayman Islands	Ordinary shares	11,981	1,209	6.19

\* Subsequent to the balance sheet date, on 5 February 2004, trading in shares of AKuP was suspended due to the fact that the management of AKuP could not be contacted for clarification of unusual movements in price and trading volume of AKuP's shares. The market value of the listed securities of AKuP was approximately HK\$429,000 at the date of the trading suspension. Having regard to the fact that the trading of the listed securities is still suspended and the management of AKuP cannot be contacted at the date of this report, the directors consider that a full provision for impairment is necessary.

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 15. SHARE CAPITAL

	2003 HK\$'000	2002 HK\$'000
Authorised:		
3,000,000,000 ordinary shares of HK\$0.10 each	<b>300,000</b>	300,000
Issued and fully paid:		
105,420,000 ordinary shares of HK\$0.10 each	<b>10,542</b>	10,542

The following changes in the Company's authorised and issued share capital took place during the period from 14 May 2002 (date of incorporation) to 31 December 2002:

- (i) On incorporation, the authorised share capital of the Company was HK\$380,000 divided into 380,000 ordinary shares of HK\$1.00 each, all of which were allotted and issued for cash at par to Megabase Developments Limited, Asset Home Group Limited, Wise Guard Enterprises Limited and Market Concord Holdings Limited (the "Shareholders") for general working capital purposes.  
  
Megabase Developments Limited, Wise Guard Enterprises Limited and Asset Home Group Limited are beneficially owned by Mr. Chang Chu Fai, Johnson Francis ("Mr. Chang"), Mr. Lim Siang Kai ("Mr. Lim") and Mr. See Lee Seng, Reason ("Mr. See"), the executive directors of the Company, respectively. Market Concord Holdings Limited is owned by an independent third party.
- (ii) On 13 June 2002, the authorised share capital of the Company was increased from HK\$380,000 to HK\$300,000,000 by the creation of a further 299,620,000 ordinary shares of HK\$1.00 each. Each of the then issued ordinary shares in the share capital of the Company, having a par value of HK\$1.00 each, was sub-divided into 10 ordinary shares of HK\$0.10 each, ranking pari passu with the existing share capital of the Company.
- (iii) On 24 July 2002, each of the Shareholders subscribed for 405,000 shares, having a par value of HK\$0.10, for cash at the subscription price of HK\$1.00 each, for a total consideration of HK\$1,620,000. The proceeds of the shares issued were used for the Company's general working capital purposes.
- (iv) On 24 October 2002, a total of 100,000,000 ordinary shares of HK\$0.10 each were issued at a price of HK\$1.00 per share to the public for a total cash consideration, before the related issue expenses, of HK\$100,000,000. The net proceeds will be applied to purchase investments according to the investment objectives and investment policies adopted by the Company from time to time. Dealings in the shares of the Company on the Stock Exchange commenced on 28 October 2002.

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 15. SHARE CAPITAL (continued)

The excess of the proceeds over the par value of the shares issued was credited to the share premium account.

A summary of the above movements in the issued share capital of the Company is as follows:

	Notes	Number of shares issued	Nominal value of shares issued HK\$'000
Shares allotted and issued fully paid on incorporation	(i)	380,000	380
Sub-division of each of the shares of HK\$1.00 each of the Company into 10 shares of HK\$0.10 each	(ii)	3,800,000	380
New issue prior to listing	(iii)	1,620,000	162
New issue upon listing	(iv)	100,000,000	10,000
Share capital as at 31 December 2002 and 2003		105,420,000	10,542

### 16. SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the "SO Scheme") on 7 October 2002 (the "Adoption Date") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the SO Scheme include any persons being employees, officers, agents, consultants or representatives of the Group. The SO Scheme became unconditional on 28 October 2002 upon the listing of the Company's shares on the Stock Exchange and, unless otherwise cancelled or amended, will remain in force for 10 years from the Adoption Date.

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

**16. SHARE OPTION SCHEME (continued)**

The maximum number of shares issuable under share options to each eligible participant in the SO Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options to any eligible participant in excess of this limit is subject to shareholders' approval in a general meeting. The total number of shares which may be issued upon exercise of all share options to be granted must not represent more than 10% of the nominal amount of all the issued shares of the Company (the "10% Limit") as at the date on which trading in the shares of the Company on the Stock Exchange first commenced. The Company may seek approval from its shareholders in a general meeting to refresh the 10% Limit at any time in accordance with the Listing Rules.

The maximum number of unexercised share options currently permitted to be granted under the SO Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue from time to time.

Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their respective associates, are subject to the approval of the independent non-executive directors (excluding any independent non-executive director who is a proposed grantee of the share options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to the shareholders' approval in a general meeting in accordance with the Listing Rules.

The offer of a grant of share options shall remain open for acceptance for a period of 28 days from the date of the offer of the grant. The grant of share options is effective upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the share options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the share options; and (iii) the nominal value of the Company's shares.

Further details of the SO Scheme are disclosed in the prospectus of the Company dated 15 October 2002.

At 31 December 2003 and up to the date of approval of these financial statements, no share options have been granted under the SO Scheme.

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 17. RESERVES

#### (a) Group

The amounts of the Group's reserves and the movements therein for the current year and prior period are presented in the consolidated statement of changes in equity.

#### (b) Company

	<b>Share premium account</b>	<b>Accumulated losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
New issue of shares prior to listing – note 15	1,458	–	1,458
New issue of shares upon listing – note 15	90,000	–	90,000
Share issue expenses	(6,181)	–	(6,181)
Net loss for the period	–	(4,546)	(4,546)
At 31 December 2002	85,277	(4,546)	80,731
Net loss for the year	–	(13,026)	(13,026)
At 31 December 2003	<b>85,277</b>	<b>(17,572)</b>	<b>(67,705)</b>

In accordance with the Companies Law (2002 Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

### 18. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group, nor the Company had any significant contingent liabilities.

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

**19. 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 two years.

At 31 December 2003, the Group and the Company had total future minimum lease payments under the non-cancellable operating lease falling due as follows:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>94</b>	90
In the second to fifth years, inclusive	<b>51</b>	–
	<b>145</b>	90

**20. RELATED PARTY AND CONNECTED TRANSACTIONS**

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

		<b>Year ended</b>	Period from
		<b>31 December</b>	14 May 2002
		<b>2003</b>	(date of
		<b>HK\$'000</b>	incorporation)
	Notes	<b>HK\$'000</b>	to 31 December
		<b>2003</b>	2002
		<b>HK\$'000</b>	HK\$'000
Investment management fee paid/payable to Golden Honour Assets Management Limited	(i)	<b>2,056</b>	419
Rental expenses paid to Ceres Capital Limited	(ii)	<b>141</b>	30

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 20. RELATED PARTY AND CONNECTED TRANSACTIONS (continued)

*Notes:*

- (i) Pursuant to the investment management agreement dated 7 October 2002 (the "Investment Management 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 28 October 2002, the date of the commencement of the trading of the Company's shares on the Stock Exchange. The Investment Management 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 Investment Management Agreement, the Investment Manager is entitled to a monthly management fee equivalent to 2.5% per annum of the net asset 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 of directors for the purpose of calculating the net asset 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 asset value of the Company over a financial year or period.

Mr. Chang and Mr. Lim each have a 15% equity interest in the Investment Manager. Mr. See has a 35% equity interest in the Investment Manager and is one of the directors of the Investment Manager.

- (ii) Pursuant to the sub-tenancy agreement dated 30 August 2002 (as amended by a supplemental agreement dated 8 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, for a period commencing from 1 November 2002 to 2 July 2003 (both dates inclusive) at HK\$15,000 per month.

On 10 June 2003, the Company entered into a new agreement with Ceres to sublet its office premises from Ceres for a period of two years commencing from 1 July 2003 at HK\$8,500 per month, with a rent free period of one month in May 2004.

- (iii) In December 2002, the Group acquired 13,326,000 shares in Jiangsu Nandasoft, a company listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange from a non-director, senior management employee, who is also a shareholder of the Company, at a price of HK\$0.43 per share. The consideration represented an approximate 12% discount to the then average closing market price of the shares of Jiangsu Nandasoft for the last four trading days before the date of the transaction, as quoted on the GEM of the Stock Exchange. The 13,326,000 shares acquired by the Company represented approximately 1.43% of the issued share capital of Jiangsu Nandasoft. The above transaction was approved by the board of directors, including the independent non-executive directors. The total consideration for the acquisition was approximately HK\$5,730,000 and the investment was included in the Company's and the Group's trading securities as at the balance sheet date.

The related party transactions set out in (i) and (ii) above also constitute connected transactions under the Listing Rules.

### 21. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 April 2004.