

Notes to the Financial Statements

For the year ended 31 December 2003

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is principally engaged in investing in listed and unlisted companies established in the People's Republic of China (the "PRC"), Hong Kong, Taiwan and Macau, which have substantial operations in the PRC, in order to achieve medium to long term capital appreciation.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Company has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income Taxes
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The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Income taxes

In the current year, the Company has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Revenue recognition

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

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3. SIGNIFICANT ACCOUNTING POLICIES – continued

Investments in securities

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

Investments in securities are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

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.

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 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 to the extent that it is probable that taxable profits will be available against which deductible temporary differences 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 in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting 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 profit 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 is realised. Deferred tax is charged or credited to 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.

Retirement benefit costs

Payments to the Mandatory Provident Fund scheme are charged as expenses as they fall due.

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4. TURNOVER

Turnover represents interest income received and receivable from investments in debt securities during the year.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Company is principally engaged in investing in listed and unlisted companies in the PRC and Hong Kong during the year.

All of the activities of the Company are based in Hong Kong and all of the Company's turnover and operating loss are derived from Hong Kong.

6. LOSS FROM OPERATIONS

	2003	2002
	HK\$	HK\$
Loss from operations has been arrived at after charging:		
Auditors' remuneration	112,850	112,698
Operating lease payments in respect of rented premises	70,000	160,000
Staff costs, including directors' emoluments	1,667,951	2,441,200

7. DIRECTORS' EMOLUMENTS

	2003	2002
	HK\$	HK\$
Directors' fees	315,000	–
Other emoluments		
Salaries and other benefits	700,000	1,100,000
Contributions to Mandatory Provident Fund scheme	7,000	12,000
Performance related incentive payments	–	640,000
	1,022,000	1,752,000

Notes to the Financial Statements*For the year ended 31 December 2003***7. DIRECTORS' EMOLUMENTS – continued**

The emoluments of the directors were within the following bands:

	2003	2002
	No. of	No. of
	directors	directors
Nil to HK\$1,000,000	8	5
HK\$1,500,001 to HK\$2,000,000	–	1
	8	6

The amounts disclosed above include directors' fees of HK\$155,000 payable to independent non-executive directors.

No director waived any emoluments during the year.

8. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Company, three (2002: one) were directors of the Company whose emoluments are included in the disclosures in note 7 above. The emoluments of the remaining two (2002: four) individuals were as follows:

	2003	2002
	HK\$	HK\$
Salaries and other benefits	390,950	662,697
Contributions to Mandatory Provident Fund scheme	16,750	26,503
Bonus	42,208	–
	449,908	689,200

The aggregate emoluments of each of the above two (2002: four) highest paid employees during the year were within the emoluments band ranging from nil to HK\$1,000,000.

9. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company incurred a tax loss for both years.

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 31 December 2003.

Notes to the Financial Statements

For the year ended 31 December 2003

9. TAXATION – continued

The tax charge for the year can be reconciled to the loss per income statement as follows:

	2003		2002	
	HK\$	%	HK\$	%
Loss before taxation	(44,137,775)		(1,258,317)	
Tax at the domestic income tax rate of 17.5% (2002: 16%)	(7,224,111)	17.5	(201,331)	16.0
Tax effect of income not taxable for tax purpose	(78,145)	0.2	(607,746)	48.3
Tax effect of expenses not deductible for tax purpose	6,918,233	(15.7)	–	–
Tax effect of tax loss not recognised	884,023	(2.0)	809,077	(64.3)
Tax effect and effective tax rate for the year	–	–	–	–

10. DIVIDEND

	2003	2002
	HK\$	HK\$
Interim, paid – Nil per ordinary share (2002: HK\$0.05 per ordinary share)	–	5,150,000

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$44,137,775 (2002: HK\$1,258,317) and 103,000,000 (2002: weighted average number of 87,109,589) ordinary shares in issue during the year.

No diluted loss per share is presented as the Company did not have any potential ordinary shares in issue during the year.

Notes to the Financial Statements*For the year ended 31 December 2003***12. INVESTMENTS IN SECURITIES**

	2003	Total
	HK\$	2002 HK\$
Equity securities:		
Listed	11,240,000	22,199,000
Unlisted	8,000,000	36,573,758
	19,240,000	58,772,758
Debt securities:		
Unlisted	-	29,414,139
Total:		
Listed		
Hong Kong	11,240,000	22,199,000
Unlisted	8,000,000	65,987,897
	19,240,000	88,186,897
Market value of listed securities	11,240,000	22,199,000
Carrying amount analysed for reporting purposes as:		
Current	11,240,000	38,113,139
Non-current	8,000,000	50,073,758
	19,240,000	88,186,897

The Company has pledged investments in securities with an aggregate carrying amount of HK\$19,240,000 (2002: Nil) to secure general banking facilities granted to the Company.

Notes to the Financial Statements

For the year ended 31 December 2003

12. INVESTMENTS IN SECURITIES – continued

Included above are the Company's investments in the following companies:

Name of company	Country of incorporation	Proportion of nominal value of issued capital held by the Company %
Korning Investments Limited ("Korning")	British Virgin Islands	13 (note)
Modern Vocal Limited	British Virgin Islands	19
Yanion International Holdings Limited	Bermuda	4.9

Note: The proportion of nominal value of issued capital held by the Company was diluted from 13% to 6% subsequent to 31 December 2003 since the Company declined to subscribe for additional shares for financing Korning in order to avoid the Company's interest in Korning exceeding 20% of the Company's net asset value as restricted under the Company's articles of association.

The Company's investments in these companies represent more than one tenth of the assets in the Company's balance sheet as at 31 December 2003.

13. SHARE CAPITAL

	Number of shares		Share capital	
	2003	2002	2003 HK\$	2002 HK\$
Ordinary shares of HK\$0.10 each				
Authorised	2,000,000,000	2,000,000,000	200,000,000	200,000,000
Issued				
At beginning of year	103,000,000	3,000,000	10,300,000	300,000
Issue of shares by placing and public offer	-	100,000,000	-	10,000,000
At end of year	103,000,000	103,000,000	10,300,000	10,300,000

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14. DEFERRED TAXATION

No deferred tax and liabilities have been recognised by the Company during the current and prior reporting periods.

At the balance sheet date, the Company has unused tax losses of approximately HK\$10,108,000 (2002: HK\$5,057,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams.

15. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 8 February 2002, and revised pursuant to a resolution passed on 6 December 2002, for the primary purpose of providing incentives to Directors and eligible participants (as defined in the Scheme), and will expire on 7 February 2012. Under the Scheme, the Board of Directors of the Company may grant options to Directors of the Company (including non-executive Directors and independent non-executive Directors) and its eligible participants to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 7 days of the date of grant, upon payment of HK\$1.00 per option. Options may be exercised at any time from the date of grant of the share option to a period to be notified by the Board of Directors of the Company to each grantee at the time of making such offer, which shall not expire later than 10 years from the date of grant. The exercise price is determined by the Board of Directors of the Company at its absolute discretion and will not be less than the higher of (a) the closing price of the shares of the Company 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 of the Company 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 of the Company on the date of grant.

No option has been granted under the share option scheme since its adoption.

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16. OPERATING LEASE COMMITMENTS

At 31 December 2003, the Company had no commitments under non-cancellable operating lease.

At 31 December 2002, the Company had commitments for future minimum lease payments under a non-cancellable operating lease in respect of land and buildings which fall due within one year of HK\$80,000.

Operating lease payments represent rentals payable by the Company for its office premises. Lease is negotiated for an average term of one year and rentals are fixed for an average of one year.

17. RETIREMENT BENEFITS PLAN

The Company operates a Mandatory Provident Fund scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Company, in funds under the control of trustees. The Company contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The total cost charged to income statement of approximately HK\$27,000 (2002: HK\$39,000) represents contributions payable to this scheme by the Company in respect of the current accounting year.

18. RELATED PARTY TRANSACTIONS

During the year, the Company paid investment management fees of HK\$1,925,549 (2002: Nil) to China Core Capital Management Limited ("China Core"), Messrs. Chan Yan Ming, Michael, an Executive Director of the Company who resigned on 26 September 2003 ("Mr. Michael Chan") and Ma Kam Fook, Robert, an Executive Director of the Company ("Mr. Robert Ma") own 25% and 37.5% respectively of China Core up to 7 October 2003. Starting from 8 October 2003, China Core is wholly-owned by Mr. Robert Ma.

During the prior year, the Company paid investment management fees of HK\$2,058,634 to AsiaVest Investment Advisory Limited ("AsiaVest"), a company which is wholly-owned by Mr. Andrew Nan Sherrill, an Executive Director of the Company who resigned on 4 April 2003. Mr. Andrew Nan Sherrill is also a director of AsiaVest. The fee was charged at an agreed percentage of the monthly net asset value of the Company.

During the year, the Company paid rental expenses for office premises of HK\$70,000 (2002: HK\$160,000) to Kinvick Limited, a company which is wholly-owned by Mr. Michael Chan. The rental expenses were charged at market price.

During the year, Jensmart International Limited, a company which is wholly-owned by Mr. Robert Ma, performed certain office administrative services for the Company, for which a management fee of HK\$25,000 (2002: Nil) was charged. The fee was charged at an agreed price.