

Notes to the Financial Statements

30 June 2004

1. GENERAL

The Company was an exempted limited company incorporated in the Cayman Islands on 13 November 2002.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 27 October 2003.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice and Interpretations approved by the HKICPA.

INCOME TAXES

In the current year, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, 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 amounts 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 this standard has had no material effect on the results for the prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements comply with HKFRS issued by the HKICPA. The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:

MEASUREMENT BASIS

These financial statements are prepared using the historical cost accounting method.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Notes to the Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

INTERESTS IN ASSOCIATES

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of associates in so far as it has not already been written off, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

REVENUE RECOGNITION

Sales of investments in securities are recognised on a trade date basis.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives at 25% per annum using the straight line method.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

OTHER INVESTMENTS

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Notes to the Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

IMPAIRMENT

At each balance sheet date, the Group reviews the carrying amounts of its tangible 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. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but 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 accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that accounting standard.

TAXATION

Taxation represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts 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 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 tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group 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.

Notes to the Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

OPERATING LEASE

Rentals made under operating leases are recognised on straight-line basis over the relevant lease term.

CASH EQUIVALENTS

Cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

RETIREMENT BENEFIT COSTS

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

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.

4. TURNOVER AND REVENUE

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

	1.7.2003 to 30.6.2004 HK\$	13.11.2002 to 30.6.2003 HK\$
Turnover		
Proceeds from sale of investments in securities	102,732,059	—
Other revenue		
Dividend income from investments in listed securities	99,398	—
Interest income	2,277	—
Sundry income	56	—
	101,731	—
Total revenue	102,833,790	—

Notes to the Financial Statements

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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 table presents revenue and certain assets and expenditure information for the Group's geographical segments.

	Hong Kong		People's Republic of China		Consolidated	
	1.7.2003 to 30.6.2004 HK\$	13.11.2002 to 30.6.2003 HK\$	1.7.2003 to 30.6.2004 HK\$	13.11.2002 to 30.6.2003 HK\$	1.7.2003 to 30.6.2004 HK\$	13.11.2002 to 30.6.2003 HK\$
Segment revenue:						
Proceeds from sales of investments in securities	102,732,059	–	–	–	102,732,059	–
Segment results	(13,423,564)	–	–	–	(13,423,564)	–
Segment assets	21,426,149	55,432	12,000,000	–	33,426,149	55,432
Interests in associates	156,750	–	–	–	156,750	–
Total assets					<u>33,582,899</u>	<u>55,432</u>
Segment liabilities	363,552	20,000	–	–	363,552	20,000
Unallocated liabilities					–	186,760
Total liabilities					<u>363,552</u>	<u>206,760</u>
Other segment information:						
Depreciation	164,963	–	–	–	164,963	–

Notes to the Financial Statements

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6. LOSS FROM OPERATIONS

	1.7.2003 to 30.6.2004 HK\$	13.11.2002 to 30.6.2003 HK\$
The Group's loss from operations has been arrived at after charging:		
Directors' remuneration:		
Fees	702,075	—
Provident fund contributions	18,000	—
Other emoluments	96,000	—
Staff costs		
Salaries	1,071,200	—
Provident fund contributions	60,505	—
Other benefits	—	—
	<hr/>	<hr/>
Total staff costs (including directors' remuneration)	1,947,780	—
Auditors' remuneration	142,000	20,000
Depreciation on property, plant and equipment of owned assets	164,963	—
Operating lease rentals of land and buildings	220,000	—
Net unrealised losses on other investments	6,278,525	—
and after crediting:		
Net realised gain on other investments	854,626	—
Bank interest income	2,277	—
Dividend income from investments in listed securities	99,398	—
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7. FINANCE COSTS

	Group	
	1.7.2003 to 30.6.2004 HK\$	13.11.2002 to 30.6.2003 HK\$
Interest expense on:		
Bank overdrafts	155	—
Other loan wholly repayable within five years	55,606	—
	<hr/>	<hr/>
	55,761	—
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Notes to the Financial Statements

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8. DIRECTORS' EMOLUMENTS

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	1.7.2003 to 30.6.2004 HK\$	13.11.2002 to 30.6.2003 HK\$
Non-executive directors		
– Fees	108,075	–
Executive directors		
– Fees	594,000	–
– Salaries, allowances and other allowances and benefits in kind	96,000	–
– Provident fund contributions	18,000	–
	816,075	–

The remuneration of all the 7 directors of the Company during the year fell within the band of Nil – HK\$1,000,000 (Period ended 30 June 2003: Nil – HK\$1,000,000).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (Period ended 30 June 2003: Nil).

During the year, no emoluments were paid to directors as an inducement to join the Group or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (Period ended 30 June 2003: Nil) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (Period ended 30 June 2003: Nil) highest paid, non-director employees are as follows:

	The Group	
	1.7.2003 to 30.6.2004 HK\$	13.11.2002 to 30.6.2003 HK\$
Basic salaries, housing benefits, other allowances and benefits in kind	326,000	–
Provident fund contributions	9,200	–
	335,200	–

Their emoluments were within the following band:

	Number of individuals	
	1.7.2003 to 30.6.2004	13.11.2002 to 30.6.2003
Nil to HK\$1,000,000	2	–

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join the Group or as compensation for loss of office.

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10. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the Group has no assessable profit during the year (Period ended June 30 2003: Nil).

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

	1.7.2003 to 30.6.2004 HK\$	13.11.2002 to 30.6.2003 HK\$
Loss before taxation	(13,479,325)	(151,328)
Tax at the domestic income tax rate of 17.5% (2003:16%)	(2,358,882)	(24,212)
Tax effect of expenses not deductible and income not taxable in determining taxable profit	128,818	3,307
Tax effect of tax losses not recognised	2,230,064	20,905
Taxation	-	-

Details of the potential deferred tax asset not recognised in the year are set out in note 25.

11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of HK\$13,479,325 (Period ended 30 June 2003: Loss of HK\$151,328) and the weighted average number of 36,117,487 (Period ended 30 June 2003: 1) ordinary share in issue during the year. The diluted earnings per share of the year is not calculated because there was no potential dilutive shares.

12. DIVIDENDS

The directors do not recommend the payment of final dividend for the year ended 30 June 2004 (Period ended 30 June 2003: Nil).

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement HK\$	Furniture and fixture HK\$	Office equipment HK\$	Computers HK\$	Total HK\$
The Group and the Company					
COST					
At 1 July 2003	-	-	-	-	-
Additions	371,550	250,050	66,989	111,676	800,265
At 30 June 2004	371,550	250,050	66,989	111,676	800,265
ACCUMULATED DEPRECIATION					
At 1 July 2003	-	-	-	-	-
Provided for the year	89,938	48,946	8,579	17,500	164,963
At 30 June 2004	89,938	48,946	8,579	17,500	164,963
NET BOOK VALUES					
At 30 June 2004	281,612	201,104	58,410	94,176	635,302
At 30 June 2003	-	-	-	-	-

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14. INTERESTS IN SUBSIDIARIES

	The Company	
	2004	2003
	HK\$	<i>HK\$</i>
Unlisted shares, at cost	324	–
Amounts due from subsidiaries	10,999,676	–
	11,000,000	–

The balances with subsidiaries are unsecured, interest-free and will not be demanded for repayment within 12 months.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
CNI Securities Limited	Hong Kong	HK\$100	100%	–	Dormant
CNI Finance Limited	Hong Kong	HK\$100	100%	–	Dormant
CNI Consultants Limited	Hong Kong	HK\$100	100%	–	Dormant
Yat Cheong Resources Limited	British Virgin Islands/ Hong Kong	US\$1	100%	–	Investment holding
Fairwood Capital Inc.	British Virgin Islands/ Hong Kong	US\$1	100%	–	Investment holding
Intellect Enterprise Limited	British Virgin Islands/ Hong Kong	US\$1	100%	–	Dormant

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15. INTERESTS/INVESTMENTS IN ASSOCIATES

	The Group		The Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Share of net assets	14,220	—	—	—
Unlisted shares at cost	—	—	14,220	—
Advance to an associate	142,530	—	142,530	—
	156,750	—	156,750	—

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Class of share held	% equity interest held directly	Nature of business
China Northern Enterprises Investment Group Limited	Incorporated	Hong Kong	Hong Kong	Ordinary share	30	Dormant
China Northern Enterprises Investment Fund(s) Pte Limited	Incorporated	Singapore	Singapore	Ordinary share	30	Dormant

The advance to an associate is unsecured, interest-free and will not be demanded for repayment within 12 months.

16. OTHER INVESTMENTS

THE GROUP

	2004 HK\$	2003 HK\$
Equity securities:		
Listed, in Hong Kong (Note)	12,913,320	—
Unlisted	7,000,000	—
	19,913,320	—
Market value of listed securities	12,913,320	—
Carrying amount analysed for reporting purpose as:		
Current (Note)	12,913,320	—
Non-current	7,000,000	—
	19,913,320	—

Notes to the Financial Statements

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16. OTHER INVESTMENTS (Cont'd)

THE COMPANY

	2004 HK\$	2003 HK\$
Equity securities:		
Listed, in Hong Kong (Note)	12,913,320	—
Unlisted	1,000,000	—
	13,913,320	—
Market value of listed securities	12,913,320	—
Carrying amount analysed for reporting purpose as:		
Current (Note)	12,913,320	—
Non-current	1,000,000	—
	13,913,320	—

Note: Included above is an equity security with carrying amount of HK\$147,900 (2003: Nil) which was pledged to a broker to secure the securities margin financing facility granted to the Company and the Group.

Particulars of the Group's other investments holding as at 30 June 2004, major listed and unlisted investments are as follows:

LISTED

Name	Place of Incorporation	Particulars of equity interest held	Acquisition cost HK\$	Market value as at 30 June 2004 HK\$	% equity interest
Sinotronic Holdings Limited (i)	Cayman Islands	Ordinary Share	5,703,818	3,104,400	0.85%
China Star Entertainment Limited (ii)	Bermuda	Ordinary Share	2,287,743	1,357,500	0.60%
Omicorp Limited (iii)	Bermuda	Ordinary Share	1,746,308	1,266,000	1.70%
Asia Standard International Group Limited (iv)	Bermuda	Ordinary Share	2,250,000	1,250,000	0.12%
Shandong Weigao Group Medical Polymer Company Limited (v)	PRC	H Share	1,018,500	910,000	1.62%
Ming Fung Jewellery Group (vi)	Cayman Islands	Ordinary Share	744,291	710,500	0.41%
Huaneng Power International, Inc. (vii)	PRC	H Share	647,200	639,400	0.003%
Orient Overseas (International) Limited (viii)	Bermuda	Ordinary Share	656,400	608,520	0.005%

Notes to the Financial Statements

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16. OTHER INVESTMENTS (Cont'd)

Notes:

- (i) Sinotronic Holdings Limited is principally engaged in provision of electronic manufacturing services in the PRC and offering of solutions to electronics ODMs and CEMs. No dividend was received during the year (Period ended 30 June 2003: Nil).
- (ii) China Star Entertainment Limited is principally engaged in distribution of films, drama series and videos. No dividend was received during the year (Period ended 30 June 2003: Nil).
- (iii) Omnicorp Limited is principally engaged in manufacture and sale of electronic components, contactless smart card readers and related products, property holding and investment holding. No dividend was received during the year (Period ended 30 June 2003: Nil).
- (iv) Asia Standard International Group Limited is principally engaged in property investment and development, hotel, travel agency and catering operations. No dividend was received during the year (Period ended 30 June 2003: Nil).
- (v) Shandong Weigao Group Medical Polymer Company Limited is principally engaged in the research, development, production and sale of single-use medical devices. No dividend was received during the year (Period ended 30 June 2003: Nil).
- (vi) Ming Fung Jewellery Group is principally engaged in design, manufacture and sale of a broad range of gem-set jewellery products. No dividend was received during the year (Period ended 30 June 2003: Nil).
- (vii) Huaneng Power International, Inc. is principally engaged in development, construction, ownership and operation of large coal-fired power plants throughout China. Dividend at amount HK\$14,070 was received during the year (Period ended 30 June 2003: Nil) with dividend cover at 0.026 (Period ended 30 June 2003: Nil).
- (viii) Orient Overseas (International) Ltd. is principally engaged in the international transportation and logistics, container terminals operations, commercial property, businesses in China and securities investment. Dividend at amount HK\$24,000 was received during the year (Period ended 30 June 2003: Nil) with dividend cover at 0.009 (Period ended 30 June 2003: Nil).

UNLISTED

Name	Place of Incorporation	Particulars of equity interest held	Acquisition cost HK\$	Fair value estimated by the directors HK\$	% equity interest held
Connelly Investments Limited (i)	British Virgin Islands	Registered capital	6,000,000	6,000,000	12%
Beijing Illumination (Hong Kong) Limited (ii)	Hong Kong	Registered capital	1,000,000	1,000,000	0.5%

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16. OTHER INVESTMENTS (Cont'd)

Notes:

- (i) Connelly Investments Limited holds 100% equity interest in Mellow Anti-Counterfeit Net System Company Limited ("Mellow"), which is a company established in the PRC and principally engaged in the development and application of a digit anti-counterfeiting business, and the provision of digital anti-counterfeiting services for consumables, such as cigarettes, wine and retail goods in the PRC. No dividend was received during the year (Period ended 30 June 2003: Nil).
- (ii) Beijing Illumination (Hong Kong) Limited is principally engaged in the provision of illumination products. No dividend was received during the year (Period ended 30 June 2003: Nil).

17. AMOUNT DUE TO A SHAREHOLDER

The amount was unsecured, non-interest bearing and had no fixed repayment terms.

18. SHARE CAPITAL

	Number of shares		Amount	
	2004	2003	2004 HK\$	2003 HK\$
Ordinary shares of HK\$0.01 each				
Authorised				
At beginning of year/period	38,000,000	38,000,000	380,000	380,000
Increase of authorised share capital on 30 September 2003	162,000,000	—	1,620,000	—
At end of year/period	200,000,000	38,000,000	2,000,000	380,000
Issued and fully paid				
At beginning of year/period	1	1	—	—
Issue of shares	52,999,999	—	530,000	—
At end of year/period	53,000,000	1	530,000	—

At date of incorporation, the Company's authorised share capital was \$380,000 divided into 38,000,000 shares of HK\$0.01 each, of which one subscriber share was issued for cash at par to the subscriber.

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18. SHARE CAPITAL (Cont'd)

On 2 October 2003 the existing shareholder passed a resolution to increase the authorised share capital of the Company from HK\$380,000 divided into 38,000,000 to HK\$2,000,000 divided into 200,000,000 shares of HK\$0.01 each. On 2 October 2003, 2,999,999 shares were allotted and issued fully paid to the then existing shareholder at the consideration of HK\$1.0 each.

On 27 October 2003, a total of 50,000,000 ordinary shares of HK\$0.01 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\$50,000,000. 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 27 October 2003.

These shares rank *pari passu* in all respects with other shares in issue.

19. SHARE OPTION SCHEME

Pursuant to the written resolutions passed by all of the then shareholders of the Company on 30 September 2003 (the "Adoption Date"), the Company adopted a share option scheme (the "Scheme"). Under the Scheme, the directors of the Company may, at their absolute discretion, invite any employee (whether full-time or part time, including any executive director), any non-executive director (including independent non-executive directors), any supplier of goods or services, any customer and any person or entity that provides research, development or other technological support to the Group maximum of 10% of the shares in issue as at the date of commencement of listing of shares of the Company on the Stock Exchange and subject to renewal with shareholders' approval.

The Scheme became unconditional 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.

The maximum number of shares issuable under share options to each eligible participant in the 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 Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue from time to time.

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19. SHARE OPTION SCHEME (Cont'd)

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 Scheme are disclosed in the prospectus of the Company dated 8 October 2003.

At 30 June 2004 and up to the date of approval of these financial statements, no share options have been granted under the Scheme.

20. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH (USED IN)/ GENERATED FROM OPERATING ACTIVITIES

	1.7.2003 to 30.6.2004 HK\$	13.11.2002 to 30.6.2003 HK\$
Loss before taxation	(13,479,325)	(151,328)
Adjustments for:		
Depreciation of property, plant and equipment	164,963	–
Interest income	(2,277)	–
Interest on bank overdrafts and other loan	55,761	–
Dividend income	(99,398)	–
Unrealised holding loss on other investments, net	6,278,525	–
Operating profit before working capital charges	(7,081,751)	(151,328)
Increase in other investments	(26,191,845)	–
Increase in prepayment, deposits and other receivables	(9,362,101)	(50,000)
Increase in accrued liabilities	343,552	20,000
(Decrease)/increase in amount due to a shareholder	(186,760)	186,760
Cash (used in)/generated from operating activities	(42,478,905)	5,432
Dividend received from investments in securities	99,398	–
Interest received	2,277	–
Interest on bank overdrafts and other loan	(55,761)	–
Tax paid	–	–
Net cash (used in)/generated from operating activities	(42,432,991)	5,432

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21. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Company and the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2004 HK\$	2003 HK\$
Within one year	294,536	280,000
In the second to fifth year inclusive	3,512	180,000
	<u>298,048</u>	<u>460,000</u>

Operating lease payments represent rentals payable by the Company for director's quarter, office premises and office equipment. Leases are negotiated for an average term of 1 year and rentals are fixed for an average of 1 year.

22. CAPITAL COMMITMENTS

The Company and the Group has no significant capital commitments at the balance sheet date.

23. RELATED PARTY AND CONNECTED TRANSACTION

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

	<i>Notes</i>	1.7.2003 to 30.6.2004 HK\$	13.11.2002 to 30.6.2003 HK\$
Investment management fees paid to Pegasus Fund Managers Limited	<i>(i)</i>	702,104	—
Investment management fees paid to Guotai Junan Assets (Asia) Limited	<i>(ii)</i>	50,000	—
Company secretarial fee paid to Mr. Yau Chung Hong, executive director	<i>(iii)</i>	135,000	—
Custodian fee paid to Standard Chartered Bank	<i>(iv)</i>	<u>31,150</u>	<u>—</u>

Notes to the Financial Statements

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23. RELATED PARTY AND CONNECTED TRANSACTION (Cont'd)

Notes:

- (i) Pursuant to the investment management agreement dated 2 October 2003 (the "Ex-Investment Management Agreement") entered into between the Company and Pegasus Fund Managers Limited (the "Ex-Investment Manager"), the Ex-Investment Manager has agreed to provide the Company with investment management services (excluding general administrative services) for a two-year period commencing on date of agreement. The Ex-Investment Management Agreement will continue for successive periods of two years, unless terminated at any time by either the Company or the Ex-Investment Manager serving not less than one month's prior notice in writing.

Under the Ex-Investment Management, the Ex-Investment Manager is entitled to a fixed investment management fee of HK\$360,000 per annum or 2.5% per annum of the Net Asset Value as at the immediately preceding Valuation Day payable monthly in advance on the basis of the actual number of days in the relevant calendar months over a year of 365 days.

Mr. Pong Po Lam, the executive director of the Company was a director of the Ex-Investment Manager.

With effect from 31 May 2004, the Ex-Investment Management Agreement was terminated and Guotai Junan Assets (Asia) Limited was appointed as investment manager of the Company. Under the Ex-Investment Management Agreement, the Company was entitled to terminate the appointment with one month notice without compensation to the Ex-Investment Manager. Therefore, no compensation was payable by the Company for the termination.

- (ii) Upon termination of the Ex-Investment Manager as investment manager of the Company, the Company entered into another Investment Management Agreement (the "Investment Management Agreement") with Guotai Junan Assets (Asia) Limited (the "Investment Manager") and appointed the Investment Manager to take the replacement. The Investment Manager has agreed to provide the Company with investment management services (excluding general administrative services) for a term of two years. The Investment Management Agreement will continue for successive periods of two years, unless terminated at any time by either the Company or the Investment Manager serving not less than one month's prior notice in writing.

Under the Investment Management Agreement, the Investment Manager is entitled to a fixed investment management fee of HK\$600,000 per annum or management fee equivalent to 1.25% per annum of the Net Asset Value as at the immediately preceding Valuation Day payable monthly in Hong Kong dollars in advance on the basis of the actual number of days in the relevant calendar months over a year of 365 days.

- (iii) During the year, the company secretarial fee of HK\$135,000 was paid to Mr. Yau Chung Hong for the company secretary service provided. The fee is determined upon negotiation between Mr. Yau and the Group at normal commercial terms.
- (iv) Pursuant to a custodian agreement dated 6 October 2003 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.

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24. CONTINGENT LIABILITIES

The Company and the Group has no significant contingent liabilities at the balance sheet date.

25. DEFERRED TAXATION

At the balance sheet date, the Group has estimated unrecognised tax losses of HK\$12,873,884 (Period ended 30 June 2003: HK\$130,658) to set off against future taxable income. No deferred tax asset is recognised in respect of such tax losses carried forward as the realisation of the related tax benefit through future taxable profits is not probable. This tax loss has no expiry date.

The Company and the Group had no material unprovided deferred tax liabilities at the balance sheet date (Period ended 30 June 2003: Nil).

26. SUBSEQUENT EVENT

Subsequent to 30 June 2004, the Group has sold its entire 30% equity interest in China Northern Enterprises Investment Group Limited to an independent third party at cost.