

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

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 "Stock Exchange").

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 USA, which have substantial operations in the PRC, in order to achieve medium to long term capital appreciation.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Company has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 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 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.

4. TURNOVER

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

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5. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Company is principally engaged in investing in listed and unlisted companies in the PRC, Hong Kong, Taiwan and USA 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

	2004 HK\$	2003 HK\$
Loss from operations has been arrived at after charging (crediting):		
Auditors' remuneration	161,000	112,850
Bank interest income	(18,769)	(12,953)
Exchange gains	(27,460)	–
Operating lease payments in respect of rented premises	–	70,000
Staff costs, including directors' emoluments	432,542	1,667,951

7. DIRECTORS' EMOLUMENTS

	2004 HK\$	2003 HK\$
Directors' fees	135,945	315,000
Other emoluments		
Salaries and other benefits	–	700,000
Contributions to Mandatory Provident Fund scheme	–	7,000
	135,945	1,022,000

The emoluments of the directors were within the following bands:

	2004 No. of directors	2003 No. of directors
Nil to HK\$1,000,000	7	8

The amounts disclosed above include directors' fees of HK\$75,945 (2003: HK\$155,000) paid to independent non-executive directors.

No director waived any emoluments during the year.

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8. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Company, three (2003: three) were directors of the Company whose emoluments are included in the disclosures in note 7 above. The emoluments of the remaining two (2003: two) individuals were as follows:

	2004 HK\$	2003 HK\$
Salaries and other benefits	287,097	390,950
Contributions to Mandatory Provident Fund scheme	9,500	16,750
Bonus	–	42,208
	296,597	449,908

The aggregate emoluments of each of the above two (2003: two) 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% of the estimated assessable profit for the year.

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

	2004 HK\$	2003 HK\$
Loss before taxation	(606,511)	(44,137,775)
Tax at the Hong Kong Profits Tax rate of 17.5%	(106,139)	(7,724,111)
Tax effect of income not taxable for tax purpose	(1,306,739)	(78,145)
Tax effect of expenses not deductible for tax purpose	962,500	6,918,233
Tax effect of tax loss not recognised	450,378	884,023
Taxation for the year	–	–

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10. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$606,511 (2003: HK\$44,137,775) and 103,000,000 (2003: 103,000,000) 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.

11. INVESTMENTS IN SECURITIES

	Total	
	2004	2003
	HK\$	HK\$
Equity securities:		
Listed	20,574,949	11,240,000
Unlisted	2,500,000	8,000,000
	23,074,949	19,240,000
Total:		
Listed		
Hong Kong	16,018,320	11,240,000
Taiwan	4,556,629	–
Unlisted	2,500,000	8,000,000
	23,074,949	19,240,000
Market value of listed securities	20,574,949	11,240,000
Carrying amount analysed for reporting purposes as:		
Current	20,574,949	11,240,000
Non-current	2,500,000	8,000,000
	23,074,949	19,240,000

In last year, the Company pledged investments in securities with an aggregate carrying amount of HK\$19,240,000 to secure general banking facilities granted to the Company.

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11. 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 %
Yanion International Holdings Limited	Bermuda	4.5
ProMOS Technologies Inc	Taiwan	0.029

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 2004.

12. SHARE CAPITAL

	Number of shares 2004 & 2003	Share capital 2004 & 2003 HK\$
Ordinary shares of HK\$0.10 each		
Authorised	2,000,000,000	200,000,000
Issued	103,000,000	10,300,000

13. DEFERRED TAXATION

At the balance sheet date, the Company has unused tax losses of approximately HK\$7,192,000 (2003: HK\$4,617,000) 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.

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14. 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 Scheme since its adoption.

15. 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 HK\$9,500 (2003: HK\$23,750) represents contributions payable to this scheme by the Company in respect of the current accounting year.

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16. RELATED PARTY TRANSACTIONS

During the year, the Company paid investment management fees of HK\$1,272,541 (2003: HK\$1,925,549) to China Core Capital Management Limited ("China Core"). China Core is wholly-owned by Mr. Ma Kam Fook, Robert, an executive director of the Company ("Mr. Robert Ma"). The fee was charged half-yearly at an agreed percentage of the net asset value of the Company.

During the year, Jensmart International Limited, a company which is wholly-owned by Mr. Robert Ma, performed certain administrative services (including provision of office premises) for the Company, for which a management fee of HK\$60,000 (2003: HK\$25,000) was charged. The fee was charged at an agreed price.

During the prior year, the Company paid rental expenses for office premises of HK\$70,000 to Kinvick Limited, a company which is wholly-owned by Mr. Chan Yan Ming, Michael, a former executive director of the Company. The rental expenses were charged at market price. The tenancy agreement was terminated on 31 July 2003.