

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

## 1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands.

The principal investment objective of the Company is to achieve medium-term capital appreciation through investments in listed and unlisted companies in Hong Kong and the People's Republic of China (the "PRC").

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

### (a) Statement of Compliance

The financial statements have been prepared in accordance with all Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provision of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### (b) Basis of Preparation

The measurement basis used in the preparation of the financial statements is historical cost as modified by the marking-to-market of certain investments in securities as explained in note 2(e) below.

The previous financial statements were prepared in respect of the eleventh month period ended 31 December 2000 which was the first financial period of the Company. Consequently, the comparative amounts for the income statement, cash flow statement and related notes are not comparable in so far as they relate to a shorter period than the current period.

### (c) Turnover

Turnover represents dividend income and interest income from investments.

### (d) Revenue Recognition

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend. Dividend income from unlisted investments is recognised when the shareholders' right to receive payment is established.

Interest income is recognised on a time-apportioned basis on the principal outstanding and at the rates applicable.

Sundry income is recognised on an accrual basis.

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## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (e) Investments in Securities

Securities transactions are accounted for on a trade date basis and gains and losses on securities are calculated on the average cost basis.

#### Held-to-maturity Securities:

Dated debt securities that the Company has the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the income statement. Provision is made when there is a diminution in value.

#### Non-trading Securities:

Non-trading securities are investments in listed and unlisted securities not intended to be held for trading purposes. Listed non-trading securities are stated at their fair values on the basis of their latest available quoted or traded market prices at the balance sheet date on an individual investment basis. Unlisted non-trading securities are stated at their estimated fair values on an individual basis. The estimated fair values are determined by the directors having regard to information known to them and on market conditions existing at the balance sheet date.

The gains or losses arising from changes in the fair values of a non-trading security are dealt with as movements in the 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 investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the income statement to the extent of the amount previously charged.

#### Trading Securities:

Trading securities are investments in listed or unlisted securities held for trading purposes. Listed trading 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 trading securities are stated at their estimated fair values on an individual basis. The estimated fair values are determined by the directors having regard to information known to them and on market conditions existing at the balance sheet date. The gains or losses arising from changes in the fair value of a trading security are credited or charged to the income statement for the period in which they arise.

# NOTES TO THE FINANCIAL STATEMENTS

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## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) **Tangible Fixed Assets and Depreciation**

Tangible fixed assets are stated at cost less accumulated depreciation. The cost of a tangible fixed asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Subsequent expenditure relating to a tangible fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Where the recoverable amount of a tangible fixed asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are discounted to their present values.

Depreciation is provided on the straight-line method so as to write down the cost of tangible fixed assets to their estimated realisable value over their anticipated useful lives at the following annual rates:

|                        |                            |
|------------------------|----------------------------|
| Leasehold improvements | Over the lease term period |
| Furniture and fixtures | 20%                        |
| Office equipment       | 25%                        |

The gain or loss on disposal of a tangible fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

### (g) **Current Assets and Liabilities**

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

### (h) **Deferred Taxation**

Deferred taxation is provided on material timing differences, using the liability method, to the extent that there is a reasonable probability that a liability will arise in the foreseeable future.

### (i) **Foreign Currencies**

Transactions in foreign currencies during the year are translated into Hong Kong dollars at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at rates of exchange ruling at the balance sheet date. All gains and losses on translation of foreign currencies are dealt with in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

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## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Assets Under Leases

#### (i) Finance Leases

Leases that substantially transfer to the Company all the rewards and risks of ownership of assets are accounted for as finance leases. At the inception of finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are charged to the income statement in proportion to the capital balance outstanding.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

#### (ii) Operating Leases

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

### (k) Retirement Costs

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the income statement when incurred.

### (l) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

### (m) Cash Equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purpose of the cash flow statement, cash equivalents would also include bank overdrafts and advances from banks repayable within three months from the date of the advance.

# NOTES TO THE FINANCIAL STATEMENTS

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## 3. TURNOVER, REVENUE AND OTHER NET INCOME

|   | <b>Year ended<br/>31 December<br/>2001<br/>HK\$</b> | Period from<br>9 February 2000<br>to 31 December<br>2000<br>HK\$ |
|---|---|--|
| <i>Turnover</i>   |   |  |
| Dividend income from trading securities<br>listed in Hong Kong (note 4) | 42,530  | 123,560  |
| Interest income from convertible loans receivable                       | 1,234,589   | –  |
| Interest income from short-term loans receivable                        | 101,537   | –  |
|   | <u>1,378,656</u>                                    | <u>123,560</u>   |
| <i>Other Revenue</i>  |   |  |
| Interest on bank deposits   | 49,570  | 505,658  |
| Other interest income   | –   | 2,245  |
|   | <u>49,570</u>                                       | <u>507,903</u>   |
| <i>Total Revenue</i>  | <u>1,428,226</u>                                    | <u>631,463</u>   |
| <i>Other Net Income</i>   |   |  |
| Net realised gains on disposal of trading securities                    | –   | 340,391  |
| Sundry income   | 2,912   | 1,366,800  |
|   | <u>2,912</u>  | <u>1,707,191</u>   |

## 4. DIVIDEND INCOME

|  | <b>Year ended<br/>31 December<br/>2001<br/>HK\$</b> | Period from<br>9 February 2000<br>to 31 December<br>2000<br>HK\$ |
|--|---|--|
| Listed securities:                           |   |  |
| Great Wall Cybertech Limited                 | 42,530  | 84,360   |
| The Hong Kong Exchanges and Clearing Limited | –   | 39,200   |
|  | <u>42,530</u>                                       | <u>123,560</u>   |

# NOTES TO THE FINANCIAL STATEMENTS

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## 5. LOSS FROM OPERATIONS

|  | <b>Year ended<br/>31 December<br/>2001<br/>HK\$</b> | Period from<br>9 February 2000<br>to 31 December<br>2000<br>HK\$ |
|--|---|--|
| Loss from operations is stated after charging:                   |   |  |
| Auditors' remuneration   | 150,000   | 150,000  |
| Total staff costs  | 1,707,433   | 705,245  |
| Depreciation of owned tangible fixed assets                      | 603,479   | 263,578  |
| Depreciation of tangible fixed asset held under<br>finance lease | 7,965   | –  |
| Operating lease rentals in respect of office premises            | 1,036,580   | 214,620  |
| Net unrealised holding losses on trading securities              | 1,135,623   | 3,034,597  |
| Investment management fee ( <i>note 23</i> )                     | 693,012   | 366,540  |
|  | <u>693,012</u>                                      | <u>366,540</u>   |

## 6. FINANCE COSTS

|                                   | <b>Year ended<br/>31 December<br/>2001<br/>HK\$</b> | Period from<br>9 February 2000<br>to 31 December<br>2000<br>HK\$ |
|-----------------------------------|---|--|
| Interest element of finance lease | <u>1,956</u>  | <u>–</u>   |

# NOTES TO THE FINANCIAL STATEMENTS

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## 7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

|   | <b>Year ended<br/>31 December<br/>2001<br/>HK\$</b> | Period from<br>9 February 2000<br>to 31 December<br>2000<br>HK\$ |
|---|---|--|
| Fees:                                     |   |  |
| Executive directors                       | 175,000   | 115,000  |
| Non-executive directors                   | –   | 5,000  |
| Independent non-executive directors       | <u>57,500</u>                                       | <u>30,000</u>  |
|   | <b>232,500</b>                                      | 150,000  |
| Other emoluments for executive directors: |   |  |
| Provident fund contributions              | <u>8,750</u>  | <u>774</u>   |
| Total emoluments                          | <u><b>241,250</b></u>                               | <u><b>150,774</b></u>  |

The aggregate emoluments of each of the directors during the year/period were within the band of nil to HK\$1,000,000.

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph "Directors' interests in shares and rights to acquire shares" in the report of the Directors. In the absence of a ready market for the options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted to the respective directors.

No directors waived any emoluments and no emoluments were paid to the directors as inducement to join or upon joining the Company or as compensation for loss of office during the year/period.

The aggregate emoluments for the year/period of the five highest paid individuals employed by the Company, excluding directors of the Company, were as follows:

|  | <b>Year ended<br/>31 December<br/>2001<br/>HK\$</b> | Period from<br>9 February 2000<br>to 31 December<br>2000<br>HK\$ |
|--|---|--|
| Basic salaries, housing allowances, other allowances<br>and benefits in kind | 1,036,300   | 413,386  |
| Provident fund contributions   | <u>37,100</u>                                       | <u>4,336</u>   |
|  | <u><b>1,073,400</b></u>                             | <u><b>417,722</b></u>  |

The emoluments of the five highest paid individuals were within the band of nil to HK\$1,000,000 for the year/period.

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## 8. TAXATION

No provision for Hong Kong profits tax has been made as the Company had no assessable profits arising in Hong Kong for the current year and the last financial period.

No provision for deferred taxation has been made as the Company did not have any significant unprovided deferred taxation as at 31 December 2001 and 31 December 2000.

## 9. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of HK\$11,398,966 (2000: HK\$4,045,317) and on the weighted average of 60,000,000 (2000: 25,474,005) ordinary shares in issue during the year/period.

No diluted loss per share is presented for the year/period as the exercise of share options of the Company is anti-dilutive.

## 10. TANGIBLE FIXED ASSETS

|                                  | <b>Leasehold<br/>improvements<br/>HK\$</b> | <b>Furniture<br/>and fixtures<br/>HK\$</b> | <b>Office<br/>equipment<br/>HK\$</b> | <b>Total<br/>HK\$</b>   |
|----------------------------------|--|--|--------------------------------------|-------------------------|
| <b>Cost:</b>                     |  |  |                                      |                         |
| At 1 January 2001                | 572,550                                    | 343,450                                    | 165,240                              | 1,081,240               |
| Additions                        | <u>180,000</u>                             | <u>–</u>                                   | <u>145,240</u>                       | <u>325,240</u>          |
| <b>At 31 December 2001</b>       | <b><u>752,550</u></b>                      | <b><u>343,450</u></b>                      | <b><u>310,480</u></b>                | <b><u>1,406,480</u></b> |
| <b>Accumulated depreciation:</b> |  |  |                                      |                         |
| At 1 January 2001                | 187,623                                    | 51,517                                     | 24,438                               | 263,578                 |
| Charge for the year              | <u>466,275</u>                             | <u>68,690</u>                              | <u>76,479</u>                        | <u>611,444</u>          |
| <b>At 31 December 2001</b>       | <b><u>653,898</u></b>                      | <b><u>120,207</u></b>                      | <b><u>100,917</u></b>                | <b><u>875,022</u></b>   |
| <b>Net book value:</b>           |  |  |                                      |                         |
| <b>At 31 December 2001</b>       | <b><u>98,652</u></b>                       | <b><u>223,243</u></b>                      | <b><u>209,563</u></b>                | <b><u>531,458</u></b>   |
| At 31 December 2000              | <u>384,927</u>                             | <u>291,933</u>                             | <u>140,802</u>                       | <u>817,662</u>          |

The net book value of tangible fixed assets include an amount of HK\$18,035 (2000: Nil) in respect of an asset held under finance lease (note 16).



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## 11. NON-TRADING SECURITIES

### Non-current Investment

On 1 December 2001, the Company entered into a share purchase agreement with Jointech International Limited (“Jointech”) to subscribe for a 20% equity interest of Jointech by cash at a subscription price of HK\$6,000,000 (2000: Nil). Jointech is a company incorporated in the British Virgin Islands and is engaged in investment holding and provision of e-commerce solutions. The subscription was completed in December 2001. In the opinion of the directors, the Company is not in a position to exercise any significant influence over the financial and operating policies of Jointech. Accordingly, Jointech is accounted for as a non-trading security as at 31 December 2001.

### Current Investment

In October 2000, the Company entered into a subscription agreement with Canada Pacific Sunshine Technology Co., Limited (“CPST”) to subscribe for a 20% equity interest of CPST by cash at a subscription price of CAD\$200,000 (equivalent to HK\$1,033,522). CPST is a company incorporated in Canada and was intended to be involved in waste treatment project in Hong Kong and the PRC. The subscription was completed in October 2000 and the amount was classified as investment in non-trading securities as at 31 December 2000. Due to the non-fulfilment of certain conditions, the Company entered into negotiation with CPST to withdraw its investment in CPST in March 2001. Subsequent to the balance sheet date, in February 2002, the amount of investment was fully refunded to the Company.

## 12. CONVERTIBLE LOANS RECEIVABLE

Particulars of the Company’s convertible loans receivable as at 31 December 2001 are as follows:

- a) As at 31 December 2001, the Company had an unsecured loan receivable of HK\$6,000,000 (2000: HK\$6,000,000) from Xinhui Changning High Polymer Material Company Limited (“Changning”), an independent third party which engages in manufacturing of polymer material and related products in the PRC, for investment purposes, for a maximum term of five years. Pursuant to a loan agreement effective as from 28 November 2000, the Company may demand repayment, and Changning may prepay, at any time before maturity all or part of the loan with interest accrued thereon provided that either party shall have given to the other party six months’ prior written notice specifying the amount and date of repayment/prepayment. The loan can be converted into equity shares of Changning at any time before maturity if not previously repaid up to a maximum of 35% of the enlarged equity share capital of Changning, provided that the Company shall have given one months’ prior written notice to Changning. The Company is entitled to an investment return at the higher of (i) interest at a fixed rate of 8% per annum; and (ii) an annual amount equivalent to 30% of the net profits after tax of Changning determined in accordance with the PRC accounting standards.

# NOTES TO THE FINANCIAL STATEMENTS

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## 12. CONVERTIBLE LOANS RECEIVABLE (Continued)

- b) As at 31 December 2001, the Company had an unsecured loan receivable of HK\$2,800,000 (2000: HK\$2,800,000) from Yuelong Huayuan Produce Developing Company (“Yuelong”), an independent third party which engages in property development in the PRC, to assist financing the investment in certain property development, investment and management projects, for a maximum term of three years. Pursuant to a loan agreement effective as from 18 December 2000, the Company may demand repayment, and Yuelong may prepay, at any time before maturity all or part of the loan with interest accrued thereon provided that either party shall have given to the other party six months’ prior written notice specifying the amount and date of repayment/prepayment. The loan can be converted into equity shares of Yuelong at any time before maturity if not previously repaid up to a maximum of 35% of the enlarged equity share capital of Yuelong, provided that the Company shall have given one months’ prior written notice to Yuelong. The Company is entitled to an investment return at the higher of (i) interest at a fixed rate of 8.75% per annum; and (ii) an annual amount equivalent to 20% of the net profits after tax of Yuelong determined in accordance with the PRC accounting standards.
- c) As at 31 December 2001, the Company had an unsecured loan receivable of HK\$5,000,000 (2000: Nil) from Newcorp Investment & Development Limited (“Newcorp”), an independent third party which engages in property investment in Hong Kong, for a maximum term of three years. Pursuant to a loan agreement effective as from 2 January 2001, the Company may demand repayment, and Newcorp may prepay, at any time before maturity all or part of the loan with interest accrued thereon provided that either party shall have given to the other party six months’ prior written notice specifying the amount and date of repayment/prepayment. The loan can be converted into equity shares of Newcorp at any time before maturity if not previously repaid up to a maximum of 35% of the enlarged equity share capital of Newcorp, provided that the Company shall have given sixty days’ prior written notice to Newcorp. The Company is entitled to an investment return at the higher of (i) interest at a fixed rate of 9% per annum; and (ii) an annual amount equivalent to 25% of the net profits after tax of Newcorp determined in accordance with generally accepted accounting principles in Hong Kong.

## 13. TRADING SECURITIES

|  | <b>2001</b>             | 2000                     |
|--|-------------------------|--------------------------|
|  | <b>HK\$</b>             | HK\$                     |
| Equity securities listed in Hong Kong, at cost | 7,021,723               | 26,709,489               |
| Unrealised holding losses                      | <u>(1,135,623)</u>      | <u>(3,034,597)</u>       |
| Market value as at 31 December                 | <u><b>5,886,100</b></u> | <u><b>23,674,892</b></u> |

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

## 13. TRADING SECURITIES (Continued)

Particulars of the Company's trading securities as at 31 December 2001 are as follows:

Equity securities listed on the Stock Exchange

| Name of investee company                        | Place of incorporation | Number of shares held | Proportion of investee's capital owned | Cost             | Market value     | Unrealised holding gain/(loss) arising on revaluation | Net assets attributable to the Company |
|---|------------------------|-----------------------|--|------------------|------------------|---|--|
|   |                        |                       |  | HK\$             | HK\$             | HK\$  | HK\$                                   |
| a) China Elegance International Fashion Limited | Bermuda                | 406,900,000           | 2.3%                                   | 6,427,862        | 5,289,700        | (1,138,162)   | 3,459,100                              |
| b) China Mobile (Hong Kong) Limited             | Hong Kong              | 2,000                 | less than 1%                           | 55,311           | 54,900           | (411)   | 9,004                                  |
| c) Karce International Holdings Company Limited | Bermuda                | 1,900,000             | less than 1%                           | 538,550          | 541,500          | 2,950   | 1,052,552                              |
|   |                        |                       |  | <u>7,021,723</u> | <u>5,886,100</u> | <u>(1,135,623)</u>                                    |  |

A brief description of the business and financial information of the listed investee companies, based on their published annual reports, is as follows:

- a) China Elegance International Fashion Limited ("China Elegance") is principally engaged in the manufacture, trading and distribution of leather and non-leather products, investment holding and properties investment.

The audited consolidated net loss attributable to shareholders of China Elegance for the year ended 31 March 2001 was approximately HK\$41,831,000 (2000: a loss of HK\$66,436,000). As at 31 March 2001, the audited consolidated net asset value of China Elegance was approximately HK\$150,180,000 (2000: HK\$89,953,000).

- b) China Mobile (Hong Kong) Limited ("China Mobile") is principally engaged in the provision of mobile communications and related services in the PRC and investment holding.

The audited consolidated profit attributable to shareholders of China Mobile for the year ended 31 December 2000 was approximately RMB18,027,000,000 (1999: RMB4,797,000,000). As at 31 December 2000, the audited consolidated net asset value of China Mobile was approximately RMB83,760,000,000 (1999: RMB57,092,000,000).

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## 13. TRADING SECURITIES *(Continued)*

- c) Karce International Holdings Company Limited (“Karce”) is principally engaged in the manufacture and sale of electronic products and investment holding.

The audited consolidated profit attributable to shareholders of Karce for the year ended 31 December 2000 was approximately HK\$1,698,000 (1999: HK\$15,596,000). As at 31 December 2000, the audited consolidated net asset value of Karce was approximately HK\$297,684,000 (1999: HK\$243,917,000).

## 14. SHORT-TERM LOANS RECEIVABLE

As at 31 December 2001, the Company had unsecured loans of HK\$3,900,000 (2000: Nil) receivable from two independent third parties. The loans carried interest and were equity-convertible. They can be recalled by the Company or converted into equity shares of these independent third parties. No conversions were made subsequently and the loans were fully repaid in March 2002.

## 15. DEPOSITS FOR INVESTMENT IN UNLISTED SHARES

Particulars of the Company’s deposits for investment in unlisted shares as at 31 December 2001 are as follows:

- a) On 13 October 2000, the Company entered into a conditional agreement (the “Agreement”) whereby the parties agreed to procure the formation and incorporation of a company in the British Virgin Islands (the “New JV Company”) which will be involved in waste and/or water treatment project in Hong Kong and the PRC. Pursuant to the Agreement, the Company shall subscribe for 8% of the issued share capital of the New JV Company by cash at a subscription price of HK\$8,080,808. As at 31 December 2000, the Company had paid a deposit of HK\$2,424,242, representing 30% of the subscription price payable by the Company.

Due to the failure of the parties to reach an agreement on certain terms and conditions, the Company had entered into a cancellation agreement with the other parties on 22 January 2001. On 22 January 2001, the deposit together with interest earned thereon and after deducting certain expenses was refunded to the parties to the Agreement.

- b) On 31 July 2001, the Company paid a deposit of HK\$5,000,000 for intended investments in a company engaging in the manufacturing of environment protection products. Due to the non-fulfilment of certain terms and conditions, the intended investment was cancelled and the deposit was fully refunded to the Company in March 2002.

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## 16. OBLIGATION UNDER FINANCE LEASE

|  | 2001<br>HK\$ | 2000<br>HK\$ |
|--|--------------|--------------|
| Amounts payable:                                 |              |              |
| within one year                                  | 10,615       | –            |
| more than one year, but not exceeding five years | 10,615       | –            |
|  | <hr/>        | <hr/>        |
| Total minimum finance lease payables             | 21,230       | –            |
| Future finance charges                           | (3,894)      | –            |
|  | <hr/>        | <hr/>        |
| Total net finance lease payables                 | 17,336       | –            |
| Portion classified as current liabilities        | (8,668)      | –            |
|  | <hr/>        | <hr/>        |
| Long-term portion                                | 8,668        | –            |
|  | <hr/> <hr/>  | <hr/> <hr/>  |

## 17. SHARE CAPITAL

|   | Number of<br>shares<br>2001 and 2000 | Total value<br>2001 and 2000<br>HK\$ |
|---|--------------------------------------|--------------------------------------|
| Authorised:   |                                      |                                      |
| Ordinary shares of HK\$0.10 each                        | <u>200,000,000</u>                   | <u>20,000,000</u>                    |
| Issued and fully paid:                                  |                                      |                                      |
| Allotted and issued on incorporation                    | 2                                    | –                                    |
| Issue of shares to the then shareholders of the Company | 49,999,998                           | 5,000,000                            |
| Issue of shares through public offering                 | <u>10,000,000</u>                    | <u>1,000,000</u>                     |
| Ordinary shares of HK\$0.10 each                        | <u>60,000,000</u>                    | <u>6,000,000</u>                     |

The Company was incorporated on 9 February 2000 in the Cayman Islands with an authorised share capital of HK\$20,000,000 divided into 200,000,000 shares of HK\$0.10 each of which two shares were issued at HK\$1.00 each to the subscribers.

By a written resolution approved by the Directors on 13 March 2000, the Company issued and allotted a total of 49,999,998 shares of HK\$0.10 each at an aggregate consideration of approximately HK\$50,000,000 to the then existing shareholders to provide funding to the Company for investment. These shares rank pari passu in all respects with the then existing shares.

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## 17. SHARE CAPITAL (Continued)

On 26 July 2000, 10,000,000 shares of HK\$0.10 each were allotted and issued to the public for cash at a price of HK\$1.00 per share pursuant to the prospectus issued by the Company dated 17 July 2000. The proceeds arising from the initial public offering, after deduction of related expenses, amounted to approximately HK\$6,325,000 and have been applied in investments in listed securities. There were no unused proceeds from the initial public offering as at 31 December 2001 and 31 December 2000.

There was no change in the share capital of the Company in 2001.

## 18. SHARE OPTIONS

Under the Company's share option scheme (the "Scheme"), the directors may, at its discretion, invite full-time employees, including executive directors of the Company, upon a payment of HK\$1.00 to take up options to subscribe for shares of the Company subject to the terms and conditions stipulated therein. The exercise price per share is to be determined by the directors at their absolute discretion provided that in no event shall such price be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options.

The maximum number of shares in respect of which options may be granted under the Scheme when aggregated with any securities subject to any other scheme may not exceed 10% of the shares which have been duly allotted and issued and that the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Scheme.

Details of the movements of the options during the year and the outstanding options at 31 December 2001 are as follows:

| Date granted    | Exercisable<br>period                 | Outstanding<br>at 31 Dec<br>2000 | Cancelled<br>during<br>the year | Outstanding<br>at 31 Dec<br>2001 | Price<br>per share<br>to be paid<br>on exercise<br>of options<br>HK\$ |
|-----------------|---------------------------------------|----------------------------------|---------------------------------|----------------------------------|---|
| 23 October 2000 | 23 October 2000<br>to 22 October 2010 | 5,200,000                        | (3,600,000)                     | 1,600,000                        | 0.8096  |

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

## 19. RESERVES

|   | Share<br>premium<br>HK\$ | Accumulated<br>losses<br>HK\$ | Total<br>HK\$            |
|---|--------------------------|-------------------------------|--------------------------|
| At 9 February 2000                                      | –                        | –                             | –                        |
| Net loss for the period                                 | –                        | (4,045,317)                   | (4,045,317)              |
| Premium arising from issue of shares                    | 54,000,000               | –                             | 54,000,000               |
| Expenses incurred in connection<br>with issue of shares | <u>(3,675,383)</u>       | <u>–</u>                      | <u>(3,675,383)</u>       |
| At 31 December 2000 and<br>at 1 January 2001            | 50,324,617               | (4,045,317)                   | 46,279,300               |
| Net loss for the year                                   | –                        | (11,398,966)                  | (11,398,966)             |
| Gain from cancellation of share options                 | <u>–</u>                 | <u>5</u>                      | <u>5</u>                 |
| <b>At 31 December 2001</b>                              | <b><u>50,324,617</u></b> | <b><u>(15,444,278)</u></b>    | <b><u>34,880,339</u></b> |

Under the Companies Law of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to the shareholders subject to the provisions of its Memorandum and Articles of Association and a statutory solvency test. In accordance with Article 143 of the Company's Articles of Association, no dividend shall be declared or payable except out of the profits, any reserves of the Company set aside from profits which the directors determine is no longer needed and, with the approval of the shareholders of the Company, out of share premium.

## 20. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets as at 31 December 2001 of HK\$40,880,341 (2000: HK\$52,279,307) and 60,000,000 (2000: 60,000,000) ordinary shares in issue as at that date.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

## 21. RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

|  | 2001<br>HK\$       | 2000<br>HK\$       |
|--|--------------------|--------------------|
| Loss from operations   | (11,397,010)       | (4,045,317)        |
| Interest income  | (1,385,696)        | (507,903)          |
| Depreciation   | 611,444            | 263,578            |
| Net unrealised holding losses from trading securities          | 1,135,623          | 3,034,597          |
| Net realised gains/(losses) on disposal of trading securities  | 4,547,403          | (340,391)          |
| Increase in sundry deposits, prepayments and other receivables | (143,438)          | (4,206,788)        |
| Increase in sundry payables and accruals                       | 776,028            | 651,144            |
|  | <u>776,028</u>     | <u>651,144</u>     |
| Net cash outflow from operating activities                     | <u>(5,855,646)</u> | <u>(5,151,080)</u> |

## 22. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR/PERIOD

|  | Share capital<br>and<br>share options<br>HK\$ | Share<br>premium<br>HK\$ | Obligation<br>under<br>finance lease<br>HK\$ | Total<br>HK\$     |
|--|---|--------------------------|--|-------------------|
| At 9 February 2000                           | –   | –                        | –  | –                 |
| Cash flows from financing                    | <u>6,000,007</u>                              | <u>50,324,617</u>        | <u>–</u>                                     | <u>56,324,624</u> |
| At 31 December 2000 and<br>at 1 January 2001 | 6,000,007                                     | 50,324,617               | –  | 56,324,624        |
| Cash flows from financing                    | –   | –                        | (8,664)                                      | (8,664)           |
| Inception of finance lease                   | –   | –                        | 26,000                                       | 26,000            |
| Cancellation of share options                | <u>(5)</u>                                    | <u>–</u>                 | <u>–</u>                                     | <u>(5)</u>        |
| At 31 December 2001                          | <u>6,000,002</u>                              | <u>50,324,617</u>        | <u>17,336</u>                                | <u>56,341,955</u> |



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

## 23. RELATED PARTY TRANSACTIONS

The Company had the following material transactions with a related party during the year/period:

|   | <b>Year ended<br/>31 December<br/>2001<br/>HK\$</b> | Period from<br>9 February 2000<br>to 31 December<br>2000<br>HK\$ |
|---|---|--|
| Investment management fee paid to<br>Success Talent Investments Limited | <u><u>693,012</u></u>                               | <u><u>366,540</u></u>  |

Success Talent Investments Limited is a company in which Mr. Lee Kwok Leung, director of the Company, has beneficial interests. Monthly investment management fee is calculated at 1.5% per annum of the net asset value of the Company of the preceding month in accordance with the Investment Management Agreement.

## 24. OPERATING LEASE COMMITMENTS

At 31 December 2001, the Company had future aggregate minimum lease payments under a non-cancellable operating lease in respect of office premises:

|  | <b>2001<br/>HK\$</b> | 2000<br>HK\$          |
|--|----------------------|-----------------------|
| Within one year                        | <u>91,980</u>        | 367,920               |
| In the second to fifth years inclusive | <u>–</u>             | <u>91,980</u>         |
|  | <u><u>91,980</u></u> | <u><u>459,900</u></u> |

## 25. POST BALANCE SHEET EVENT

On 28 February 2002, the Company entered into a share purchase agreement to acquire the entire issued share capital of Win Ocean International Limited (“Win Ocean”) at a cash consideration of HK\$5,000,000. Win Ocean is a company incorporated in the British Virgin Islands for the purpose of acting as an investment vehicle which in turn holds 15% equity interest in an investee company which is engaged in manufacture and sale of printed circuit board products. The subscription was completed in March 2002.

## 26. COMPARATIVE FIGURES

Due to the adoption of the revised Statements of Standard Accounting Practice 2.114 “Leases” during the current year, all future minimum lease payment under non-cancellable operating leases have been disclosed to comply with the new requirements. Accordingly, the comparative figures have been restated to conform with the current year’s presentation. Certain other comparative figures have been reclassified to conform with the current year’s presentation.

## 27. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 23 April 2002.