

梁學濂會計師事務所



26th Floor, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

25th November, 2003

The Directors
Pan Sino International Holding Limited
Celestial Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to Pan Sino International Holding Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the two years ended 31st December, 2002 and the eight months ended 31st August, 2003 (the “Relevant Period”) for inclusion in the prospectus of the Company dated 25th November, 2003 (the “Prospectus”).

The Company was incorporated in the Cayman Islands on 16th October, 2002 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the “Reorganisation”) described in Appendix V to the Prospectus which was completed on 23rd June, 2003, the Company became the holding company of the subsidiaries, all of which are private companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name of company	Place and date of incorporation	Attributable equity interest		Issued and paid up capital	Principal activities
		Direct %	Indirect %		
Dickinson Group Limited (“Dickinson”)	British Virgin Islands 11th June, 1997	100	—	USD10,781,000	Investment holding
Setimuly International Group Limited (“Setimuly”)	Mauritius 15th January, 2003	—	100	USD1,000	Investment holding
P.T. Nataki Bamasas (“Nataki”)	Republic of Indonesia 9th May, 1997	—	95	IDR101,000,000,000	Trading of cocoa beans

At the date of this report, no audited financial statements have been prepared for the Company, Setimuly and Dickinson since the dates of their incorporation. These companies have not been involved in any business transactions since incorporation other than the acquisition to effect the Reorganisation referred to herein. We have, however, reviewed all relevant transactions of these companies since their respective dates of incorporation to 31st August, 2003 for the purpose of this report.

The statutory auditors of Nataki for the Relevant Period are as follows:

From	To	Auditors
1st January, 2001	31st December, 2001	Rodi Kartamulja & Budiman Registered Public Accountants in Republic of Indonesia
1st January, 2002	31st August, 2003	PKF Registered Public Accountants in Republic of Indonesia

For the purpose of this report, we have carried out independent audits of the financial statements of Nataki for the Relevant Period in accordance with Auditing Standards and Guidelines issued by the Hong Kong Society of Accountants.

For the purpose of this report, we have examined the audited financial statements or, where appropriate, management accounts of all companies comprising the Group for the Relevant Period in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The combined balance sheets of the Group as at 31st December, 2001, 2002 and 31st August, 2003 and the related combined income statements, cash flow statements and statements of changes in equity of the Group for the Relevant Period (the "Financial Information") set out in this report have been prepared from the audited financial statements or, where appropriate, management accounts of the companies now comprising the Group and are presented on the basis set out in note 1 below after making such adjustments as we considered appropriate.

The directors of the respective companies comprising the Group are responsible for preparing financial statements which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of the Company are also responsible for the Financial Information. It is our responsibility to form an independent opinion on the Financial Information.

In our opinion, on the basis of presentation set out in note 1 below, the Financial Information give, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31st December, 2001, 2002 and 31st August, 2003 and of the Company as at 31st August, 2003 and of the combined results and cash flows of the Group for the Relevant Period.

A. FINANCIAL INFORMATION

Combined income statements

	<i>Note</i>	Year ended 31st December,		Eight months ended
		2001	2002	31st August, 2003
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	145,153	300,947	351,974
Cost of sales		<u>(115,771)</u>	<u>(236,580)</u>	<u>(274,179)</u>
Gross profit		29,382	64,367	77,795
Other income	4	344	644	1,373
Selling and distribution expenses		(695)	(1,073)	(1,248)
General and administrative expenses		(625)	(1,212)	(1,360)
Net exchange loss	5	<u>(11,377)</u>	<u>(1,972)</u>	<u>(3,276)</u>
Profit from operations		17,029	60,754	73,284
Finance costs		(4,741)	(6,474)	(1,776)
Impairment losses of fixed assets		<u>(9)</u>	<u>—</u>	<u>—</u>
Profit before taxation	6	12,279	54,280	71,508
Taxation	8(a)	<u>(4,009)</u>	<u>(16,561)</u>	<u>(21,364)</u>
Profit after taxation		8,270	37,719	50,144
Minority interests		<u>—</u>	<u>—</u>	<u>(2,507)</u>
Profit attributable to shareholders		<u>8,270</u>	<u>37,719</u>	<u>47,637</u>
Earnings per share				
Basic, HK cents	10(a)	<u>1.5</u>	<u>6.7</u>	<u>8.5</u>
Diluted, HK cents	10(b)	<u>1.3</u>	<u>6.1</u>	<u>7.7</u>

Combined balance sheets

		At 31st December,		At 31st August,
		2001	2002	2003
	Note	HK\$'000	HK\$'000	HK\$'000
NON-CURRENT ASSETS				
Fixed assets	11	2,913	3,180	3,185
Deferred tax assets	8(b)	<u>28,969</u>	<u>16,551</u>	<u>12,344</u>
		<u>31,882</u>	<u>19,731</u>	<u>15,529</u>
CURRENT ASSETS				
Inventories	13	8,532	25,678	19,880
Trade debtors	14	18,437	37,570	69,470
Advances to suppliers	15	6,495	6,665	17,534
Prepayments and other receivable		—	2,872	3,600
Fixed deposits		—	8,794	—
Cash and bank balances		<u>1,891</u>	<u>4,984</u>	<u>9,412</u>
		<u>35,355</u>	<u>86,563</u>	<u>119,896</u>
DEDUCT:				
CURRENT LIABILITIES				
Unsecured loan	18	74,854	58,063	18,246
Tax payable		—	—	16,587
Accrued expenses		<u>10,197</u>	<u>715</u>	<u>169</u>
		<u>85,051</u>	<u>58,778</u>	<u>35,002</u>
NET CURRENT (LIABILITIES)/ASSETS				
		<u>(49,696)</u>	<u>27,785</u>	<u>84,894</u>
		<u>(17,814)</u>	<u>47,516</u>	<u>100,423</u>
REPRESENTING:				
SHARE CAPITAL				
SHARE CAPITAL	16	1,040	82,201	1
RESERVES	17(a)	<u>(68,756)</u>	<u>(37,061)</u>	<u>95,401</u>
(CAPITAL DEFICIENCY)/				
SHAREHOLDERS' FUNDS		(67,716)	45,140	95,402
MINORITY INTERESTS		—	2,376	5,021
NON-CURRENT LIABILITY				
Unsecured loan	18	<u>49,902</u>	<u>—</u>	<u>—</u>
		<u>(17,814)</u>	<u>47,516</u>	<u>100,423</u>

Balance sheet

	<i>Note</i>	At 31st August, 2003 <i>HK\$'000</i>
NON-CURRENT ASSETS		
Interests in subsidiaries	12	68,103
CURRENT ASSETS		
Prepayments		<u>3,378</u>
		<u>71,481</u>
REPRESENTING:		
SHARE CAPITAL	16	1
RESERVES	17(b)	<u>71,480</u>
SHAREHOLDERS' FUNDS		<u>71,481</u>

Combined cash flow statements

	Year ended 31st December,		Eight months ended 31st August,
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation	12,279	54,280	71,508
Interest expenses	4,741	6,474	1,776
Interest income	(344)	(644)	(1,373)
Depreciation	183	202	145
Impairment losses	9	—	—
Exchange loss on conversion of unsecured loan	9,785	—	—
Exchange gain on settlement of interest payable	—	(1,488)	—
	<u>26,653</u>	<u>58,824</u>	<u>72,056</u>
Operating profit before working capital changes	26,653	58,824	72,056
(Increase)/decrease in inventories	(5,205)	(17,146)	5,798
Increase in trade debtors	(17,047)	(19,133)	(31,900)
Increase in advances to suppliers	(4,942)	(170)	(10,869)
Increase in prepayments	—	(2,825)	(728)
(Decrease)/increase in accrued expenses	(50)	14	34
Exchange adjustments	(352)	7,422	4,146
	<u>(943)</u>	<u>26,986</u>	<u>38,537</u>
Cash (used in)/from operations	(943)	26,986	38,537
Interest received	345	597	1,373
Interest paid	—	(16,144)	(2,356)
	<u>(598)</u>	<u>11,439</u>	<u>37,554</u>
Net cash (used in)/ from operating activities	(598)	11,439	37,554
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of new shares	—	82,193	—
Contribution from a minority shareholder	—	4,326	—
Decrease in unsecured loan	—	(86,380)	(42,574)
	<u>—</u>	<u>139</u>	<u>(42,574)</u>
Net cash from /(used in) financing activities	—	139	(42,574)

	Year ended 31st December,		Eight months ended
	2001	2002	31st August, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(598)	11,578	(5,020)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR/PERIOD	2,698	1,891	13,778
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>(209)</u>	<u>309</u>	<u>654</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR/PERIOD	<u>1,891</u>	<u>13,778</u>	<u>9,412</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Fixed deposits	—	8,794	—
Cash and bank balances	<u>1,891</u>	<u>4,984</u>	<u>9,412</u>
	<u>1,891</u>	<u>13,778</u>	<u>9,412</u>

Combined statements of changes in equity

		Eight months ended		
		Year ended 31st December,		31st August,
		2001	2002	2003
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January		(82,264)	(67,716)	45,140
Exchange difference on translation of financial statements of Nataki	17(a)	5,964	(8,556)	2,625
Minority's share of losses previously unabsorbed	17(a)	314	1,500	—
Net gains/(losses) not recognised in the combined income statement		6,278	(7,056)	2,625
Profit attributable to shareholders		8,270	37,719	47,637
Issue of new shares in Dickinson		—	82,193	—
At 31st December/August		(67,716)	45,140	95,402

Notes:**1. Basis of presentation of Financial Information**

The combined income statements and combined cash flow statements of the companies now comprising the Group have been prepared as if the current group structure had been in existence throughout the Relevant Period or since their respective dates of incorporation where this is a shorter period. The combined balance sheets of the Group as at 31st December, 2001, 2002 and 31st August, 2003 have been prepared to present the assets and liabilities of the companies now comprising the Group as at the respective dates as if the current group structure had been in existence as at those dates.

2. Significant accounting policies

The Financial Information have been prepared in accordance with the accounting policies set out below and comply with the disclosure requirements of the Listing Rules of the Growth Enterprise Market as applicable to accountants' report for inclusion in Listing Documents. These accounting policies conform with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong.

(a) Basis of preparation

The Financial Information of the Group have been prepared under the historical cost convention.

(b) Fixed assets and depreciation

Fixed assets are stated at cost less aggregate depreciation and impairment losses. The cost of an 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. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance, is charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Depreciation is calculated to write off the costs of fixed assets over their estimated useful lives on a straight line basis at the following annual rates:-

Land use rights	3.33%
Land and buildings	5%
Office equipment	20%
Motor vehicles	20%

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

(c) Impairment of assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(d) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost comprises of purchase cost and is determined on a first-in, first-out basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(e) *Provisions and contingent liabilities*

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(f) *Revenue recognition*

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(g) *Operating leases*

Payments under operating leases are charged to the income statement on a straight line basis over the periods of the relevant leases.

(h) *Employee benefits*

Salaries, annual bonuses, annual leave entitlements and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.

Obligations for contributions to defined contribution retirement plan under the Indonesia Jamsostek Fund are recognised as an expenses in the income statement as incurred.

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(i) *Foreign currency translations*

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange

prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date; non-monetary assets and liabilities denominated in other currencies are translated at historical rates. Exchange gains or losses are dealt with in the income statements of the individual companies.

The Group prepares combined financial statements in Hong Kong dollars. On combination, all of the assets and liabilities of the companies of the Group with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; all of the income and expenses items of the companies of the Group with functional currencies other than Hong Kong dollars are translated at the applicable average rates during the year. Exchange differences arising from such translations are dealt with in the exchange reserve.

The financial statements of Nataki are prepared in Indonesian Rupiah and both the reporting and functional currency adopted by Nataki is Indonesian Rupiah.

During the Relevant Period, substantially all the Group's transactions were denominated in Indonesian Rupiah. The rates of exchange in effect on 31st December, 2001, 31st December, 2002 and 31st August, 2003 were HK\$1 to IDR1,334, HK\$1 to IDR1,146 and HK\$1 to IDR1,094 respectively. The average exchange rates for the two years ended 31st December, 2002 and eight months ended 31st August, 2003 were HK\$1 to IDR1,316, HK\$1 to IDR1,187 and HK\$1 to IDR1,105 respectively.

(j) *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 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 taxable 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 venture, 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.

(k) *Minority interests*

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority's share of losses previously absorbed by the majority has been recovered.

(l) *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.

(m) *Cash equivalents*

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfill the above criteria.

3. **Turnover**

The Group is principally engaged in trading of cocoa beans. Turnover represents the invoiced value of goods sold during the Relevant Period.

4. **Other income**

	Year ended 31st December,		Eight months ended
	2001	2002	31st August, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	344	644	1,373

5. Net exchange loss

	Year ended 31st December,		Eight months ended
	2001	2002	31st August,
	HK\$'000	HK\$'000	2003
			HK\$'000
Exchange (gain)/loss arising from:			
Conversion of principal of unsecured loan denominated in US\$ into IDR at predetermined exchange rate	9,785	—	—
Retranslation of interest payable on unsecured loan denominated in US\$	430	—	—
Settlement of interest payable on unsecured loan denominated in US\$	—	(1,488)	—
Uplift of fixed deposits denominated in US\$ and Yen	—	12	—
Retranslation of prepayments denominated in US\$	—	—	158
Other trading operations	1,162	3,448	3,118
	<u>11,377</u>	<u>1,972</u>	<u>3,276</u>

6. Profit before taxation

	Year ended 31st December,		Eight months ended
	2001	2002	31st August,
	HK\$'000	HK\$'000	2003
			HK\$'000
Profit before taxation is arrived at after charging:			
Cost of inventories sold	115,771	236,580	274,179
Auditors' remuneration	11	31	28
Depreciation	183	202	145
Directors' remuneration - Note 7	49	83	130
Other staff costs	310	482	623
Interest on other loan wholly repayable within five years	4,741	6,474	1,776
Minimum lease payments in respect of land and buildings	46	89	215
	<u>46</u>	<u>89</u>	<u>215</u>

7. Remuneration of directors and employees

- (a) The emoluments received by the Company's directors who are directors or employees of the subsidiaries comprising the Group during the Relevant Period are as follows:

	Year ended 31st December,		Eight months ended
	2001	2002	31st August, 2003
	HK\$'000	HK\$'000	HK\$'000
Fees	—	—	—
Basic salaries, allowances and benefits in kind			
— Executive directors	49	83	97
— Independent non-executive directors	—	—	33
Pension scheme contributions	—	—	—
	<u>49</u>	<u>83</u>	<u>130</u>

The number of directors whose remuneration fell within the following band is as follows:

	Year ended 31st December,		Eight months ended
	2001	2002	31st August, 2003
HK\$Nil - HK\$1,000,000	<u>2</u>	<u>3</u>	<u>5</u>

Two executive directors received individual emoluments of approximately HK\$28,000 and HK\$21,000 for the year ended 31st December, 2001, three executive directors received individual emoluments of approximately HK\$41,000, HK\$32,000 and HK\$10,000 for the year ended 31st December, 2002 and three executive directors received individual emoluments of approximately HK\$38,000, HK\$30,000 and HK\$29,000 and two independent non-executive directors received individual emoluments of approximately HK\$30,000 and HK\$3,000 for the eight months ended 31st August, 2003.

- (b) The remuneration of employees who were not directors during the Relevant Period and who were amongst the five highest paid individuals of the Group is as follows:

	Year ended 31st December,		Eight months ended
	2001	2002	31st August, 2003
	HK\$'000	HK\$'000	HK\$'000
Basic salaries, allowances and benefits in kind	38	56	30
Pension scheme contributions	—	—	—
	<u>38</u>	<u>56</u>	<u>30</u>

The number of employees whose remuneration fell within the following band is as follows:

	Year ended 31st December,		Eight months ended
	2001	2002	31st August, 2003
HK\$Nil - HK\$1,000,000	<u>3</u>	<u>3</u>	<u>1</u>

- (c) During the Relevant Period, no directors have waived any emoluments and no emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement to join the Group or as compensation for loss of office.

8. Taxation

- (a) Taxation in the combined income statements represents:

	Year ended 31st December,		Eight months ended
	2001	2002	31st August, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Income tax expenses			
Indonesia:			
Current tax	—	—	16,421
Deferred tax - Note 8(b)	<u>4,009</u>	<u>16,561</u>	<u>4,943</u>
	<u>4,009</u>	<u>16,561</u>	<u>21,364</u>

During the Relevant Period, all of the Group's profits were derived from Nataki incorporated and operated in Republic of Indonesia. No provision for Hong Kong profits tax has been made in these financial statements as the Group has no assessable profits for the Relevant Period.

Nataki is subject to Indonesian corporate income tax at the following progressive tax rates during the Relevant Period:

Taxable income	Rate
<i>IDR</i>	<i>%</i>
On the first 50,000,000	10
On the next 50,000,000	15
Over 100,000,000	30

No provision for Indonesian corporate income tax has been made for the years ended 31st December, 2001 and 2002 as Nataki has no net taxable income during that period after offsetting against available estimated tax losses brought forward. According to the audited financial statements of Nataki for the year ended 31st December, 2002, Nataki had estimated unutilised tax losses as at 31st December, 2001 and 2002 amounting to approximately IDR81 billion (equivalent to approximately HK\$61 million) and IDR17 billion (equivalent to approximately HK\$15 million) respectively.

The tax charge for the Relevant Period can be reconciled to the profit per the income statement as follows:

	Year ended 31st December,		Eight months
	2001	2002	ended
	<i>HK\$'000</i>	<i>HK\$'000</i>	31st August,
			2003
			<i>HK\$'000</i>
Profit before taxation	<u>12,279</u>	<u>54,280</u>	<u>71,508</u>
Taxation at the Indonesian progressive income tax rates	3,671	16,269	21,436
Tax effect of expenses that are not deductible in determining taxable profit	2	14	12
Tax effect of income that are not assessable in determining taxable profit	(103)	(193)	(412)
Tax effect of temporary difference arising on impairment losses on land and buildings	(3)	—	—
Tax effect of reversal of temporary difference arising on impairment losses on land use rights and land and buildings	399	446	319
Others	<u>43</u>	<u>25</u>	<u>9</u>
Income tax expenses	<u>4,009</u>	<u>16,561</u>	<u>21,364</u>

- (b) The following are the major deferred tax (assets)/liabilities recognised by the Group and movements thereon during the Relevant Period:

	Accelerated/ (decelerated) depreciation allowances	Impairment losses on land use rights and land and buildings	Tax losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1.1.2001	19	(12,118)	(23,598)	(35,697)
Exchange adjustments	(2)	936	1,785	2,719
Charge/(credit) to income statement for the year	<u>(6)</u>	<u>399</u>	<u>3,616</u>	<u>4,009</u>
At 31.12.2001 and 1.1.2002	11	(10,783)	(18,197)	(28,969)
Exchange adjustments	2	(1,747)	(2,398)	(4,143)
Charge/(credit) to income statement for the year	<u>(11)</u>	<u>446</u>	<u>16,126</u>	<u>16,561</u>
At 31.12.2002 and 1.1.2003	2	(12,084)	(4,469)	(16,551)
Exchange adjustments	(1)	(570)	(165)	(736)
Charge/(credit) to income statement for the period	<u>(10)</u>	<u>319</u>	<u>4,634</u>	<u>4,943</u>
At 31.8.2003	<u>(9)</u>	<u>(12,335)</u>	<u>—</u>	<u>(12,344)</u>

As at 31st December, 2001, 2002 and 31st August, 2003, no temporary difference arising in connection with interest in subsidiaries was recognised as the subsidiaries had no distributable reserves during the Relevant Period.

9. Dividends

No dividend has been paid or declared by the companies now comprising the Group during the Relevant Period.

10. Earnings per share

- (a) The calculation of basic earnings per share is based on the Group's combined profit for the Relevant Period and the assumption that a total of 560,000,000 shares have been in issue during the Relevant Period.
- (b) Diluted earnings per share for the two years ended 31st December, 2002 and the eight months ended 31st August, 2003 are based on the Group's combined profit for the year under review and on the assumption that 614,755,556 shares have been in issue during the year under review. The number of shares used in the calculation comprised 560,000,000 shares referred to above and 54,755,556 shares that are deemed to have been issued at no consideration on the deemed exercise of the options granted under the Pre-IPO Share Option Scheme as referred to in the paragraph headed "Share Option Schemes" in Appendix V to the Prospectus, but takes no account of any shares to be issued pursuant to the exercise of the Over-allotment Option, any shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, or any shares which may be allotted and issued by the Company pursuant to the general mandate referred to in Appendix V to the Prospectus.

11. Fixed assets

	Land use rights HK\$'000	Land and buildings HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:					
At 1.1.2001	44,076	1,691	29	354	46,150
Exchange adjustments	<u>(3,422)</u>	<u>(132)</u>	<u>(3)</u>	<u>(28)</u>	<u>(3,585)</u>
At 31.12.2001 and 1.1.2002	40,654	1,559	26	326	42,565
Exchange adjustments	<u>6,648</u>	<u>255</u>	<u>5</u>	<u>54</u>	<u>6,962</u>
At 31.12.2002 and 1.1.2003	47,302	1,814	31	380	49,527
Exchange adjustments	<u>2,248</u>	<u>87</u>	<u>1</u>	<u>17</u>	<u>2,353</u>
At 31.8.2003	<u>49,550</u>	<u>1,901</u>	<u>32</u>	<u>397</u>	<u>51,880</u>
Aggregate depreciation					
At 1.1.2001	2,204	42	12	136	2,394
Exchange adjustments	(173)	(3)	(1)	(12)	(189)
Charge for the year	<u>83</u>	<u>29</u>	<u>5</u>	<u>66</u>	<u>183</u>
At 31.12.2001 and 1.1.2002	2,114	68	16	190	2,388
Exchange adjustments	350	12	3	34	399
Charge for the year	<u>91</u>	<u>32</u>	<u>6</u>	<u>73</u>	<u>202</u>
At 31.12.2002 and 1.1.2003	2,555	112	25	297	2,989
Exchange adjustments	122	6	1	15	144
Charge for the period	<u>66</u>	<u>23</u>	<u>4</u>	<u>52</u>	<u>145</u>
At 31.8.2003	<u>2,743</u>	<u>141</u>	<u>30</u>	<u>364</u>	<u>3,278</u>
Impairment losses:					
At 1.1.2001	39,352	1,039	—	—	40,391
Exchange adjustments	(3,055)	(81)	—	—	(3,136)
Charge for the year	<u>—</u>	<u>9</u>	<u>—</u>	<u>—</u>	<u>9</u>
At 31.12.2001 and 1.1.2002	36,297	967	—	—	37,264
Exchange adjustments	<u>5,936</u>	<u>158</u>	<u>—</u>	<u>—</u>	<u>6,094</u>
At 31.12.2002 and 1.1.2003	42,233	1,125	—	—	43,358
Exchange adjustments	<u>2,006</u>	<u>53</u>	<u>—</u>	<u>—</u>	<u>2,059</u>
At 31.8.2003	<u>44,239</u>	<u>1,178</u>	<u>—</u>	<u>—</u>	<u>45,417</u>
Net book value:					
At 31.12.2001	<u>2,243</u>	<u>524</u>	<u>10</u>	<u>136</u>	<u>2,913</u>
At 31.12.2002	<u>2,514</u>	<u>577</u>	<u>6</u>	<u>83</u>	<u>3,180</u>
At 31.8.2003	<u>2,568</u>	<u>582</u>	<u>2</u>	<u>33</u>	<u>3,185</u>

Notes:

- (a) The land use rights represent 40 plots of land currently held under freehold by three Indonesian citizens who have entered into binding agreements to relinquish title to the land with Nataki. Pursuant to these binding agreements, Nataki is granted by the registered owners with powers of attorney to act as representative of the registered owners for all matters related to the management and utilisation of the land without any reservation. Accordingly, Nataki is contractually entitled to use, utilise and occupy the land.
- (b) The land and buildings, representing a plot of land and a 4-storey office building are currently held under a medium term lease by an Indonesian citizen who has entered into a binding agreement for sale and purchase with Nataki. Pursuant to this binding agreement, Nataki is granted by the registered owner with power of attorney to conduct any necessary action as if Nataki is the owner of the land and buildings. Accordingly, Nataki is contractually entitled to use, utilise and occupy the land and buildings.
- (c) For the year ended 31st December, 2000, the Group suffered from impairment losses of fixed assets of IDR49,690,895,000 (equivalent to approximately HK\$45,444,000 as translated at average rate or approximately HK\$40,391,000 as translated at closing rate) as a result of an impairment review of the carrying values of the land use rights and land and buildings which were purchased in December 1999 and July 2000 respectively. The carrying values of land use rights and land and buildings as at 31st December, 2000 amounted to IDR51,512,895,000 (equivalent to approximately HK\$41,872,000) and IDR2,028,000,000 (equivalent to approximately HK\$1,649,000) were written down to IDR3,100,000,000 (equivalent to approximately HK\$2,520,000) and IDR750,000,000 (equivalent to approximately HK\$610,000) respectively with reference to the open market values as at that date. The respective property interests were both appraised by an independent professional valuer, PT. Hutama Penilai.
- (d) The directors carried out an impairment review of the carrying values of the land use rights and land and buildings as at 31st December, 2001 with reference to the open market values as at that date. The respective property interests were both appraised by an independent professional valuer, PT. Hutama Penilai.

12. Interests in subsidiaries

	At 31st August, 2003
	<i>HK\$'000</i>
Unlisted shares, at cost	71,481
Amount due to a subsidiary - Note 12(b)	<u>(3,378)</u>
	<u><u>68,103</u></u>

(a) Details of the subsidiaries as at 31st August, 2003 are as follows:

Name of company	Place and date of incorporation	Attributable equity interest		Issued and paid up capital	Principal activities
		Direct %	Indirect %		
Dickinson	British Virgin Islands 11th June, 1997	100	—	USD10,781,000	Investment holding
Setimuly	Mauritius 15th January, 2003	—	100	USD1,000	Investment holding
Nataki	Republic of Indonesia 9th May, 1997	—	95	IDR101,000,000,000	Trading of cocoa beans

(b) The amount is interest-free, unsecured and has no fixed repayment terms.

13. Inventories

Inventories consist of cocoa beans and no inventories are stated at net realisable value.

14. Trade debtors

Customers are normally required to pay to the Group within approximately one month following shipment of goods.

The following is an aging analysis of trade debtors:

	At 31st December,		At 31st August,
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
0 - 30 days	13,450	20,249	69,470
31 - 60 days	<u>4,987</u>	<u>17,321</u>	<u>—</u>
	<u>18,437</u>	<u>37,570</u>	<u>69,470</u>

15. **Advances to suppliers**

The amounts represent deposits (normally 50% of purchase prices) paid in advance to the suppliers according to the purchase orders.

16. **Share capital**

	Number of shares	Amount <i>HK\$'000</i>
<i>Ordinary shares of HK\$0.01 each</i>		
Authorised:		
On incorporation at 16.10.2002 and at 31.12.2002	10,000,000	100
Increase during the period	<u>1,490,000,000</u>	<u>14,900</u>
At 31.8.2003	<u><u>1,500,000,000</u></u>	<u><u>15,000</u></u>
Issued and fully paid:		
Issued on 16.10.2002 and at 31.12.2002	1	—
Issued on 23.6.2003	<u>99,999</u>	<u>1</u>
At 31.8.2003	<u><u>100,000</u></u>	<u><u>1</u></u>

(a) For the purpose of this report, the share capital at 31st December, 2001 and 31st December, 2002 represented 95% of the nominal value of the issued share capital of Nataki and the nominal value of the issued share capital of Dickinson respectively.

(b) The issued share capital as at 31st August, 2003 represented the issued share capital of the Company.

17. Reserves

(a) *The Group*

	Revenue reserve	Special reserve	Exchange reserve	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1.1.2001	(93,324)	—	10,020	(83,304)
Profit for the year	8,270	—	—	8,270
Minority's share of losses previously unabsorbed	314	—	—	314
Exchange difference on translation of financial statements of Nataki	<u>—</u>	<u>—</u>	<u>5,964</u>	<u>5,964</u>
At 31.12.2001 and 1.1.2002	(84,740)	—	15,984	(68,756)
Profit for the year	37,719	—	—	37,719
Minority's share of losses previously unabsorbed	1,500	—	—	1,500
Special reserve arising on the Reorganisation	—	1,032	—	1,032
Exchange difference on translation of financial statements of Nataki	<u>—</u>	<u>—</u>	<u>(8,556)</u>	<u>(8,556)</u>
At 31.12.2002 and 1.1.2003	(45,521)	1,032	7,428	(37,061)
Profit for the period	47,637	—	—	47,637
Special reserve arising on the Reorganisation	—	82,200	—	82,200
Exchange difference on translation of financial statements of Nataki	<u>—</u>	<u>—</u>	<u>2,625</u>	<u>2,625</u>
At 31.8.2003	<u>2,116</u>	<u>83,232</u>	<u>10,053</u>	<u>95,401</u>

- (i) All the minority's share of losses previously unabsorbed had been fully recovered during the year ended 31st December, 2002.
- (ii) The special reserve arising in the year ended 31st December, 2002 represents the difference between the nominal value of the shares of Nataki acquired by Dickinson pursuant to the Reorganisation over the nominal value of the shares issued by Dickinson in exchange therefor.
- (iii) The special reserve arising in the eight months ended 31st August, 2003 represents the difference between the nominal value of the shares of Dickinson acquired by the Company pursuant to the Reorganisation over the nominal value of the shares issued by the Company in exchange therefor.
- (iv) Under articles 61 and 62 of the Indonesian Company Law, Nataki is required to appropriate a certain amount of its available net profit to a reserve fund. However, with due regard to the Indonesian accounting practice, the appropriation is conducted after offsetting the accumulated losses brought down from previous years. The appropriation to the reserve fund is required until it aggregates to at least 20% of Nataki's total paid-up capital. The amount of profit to be appropriated to the reserve fund for each year shall be determined by the shareholders in the general meeting of shareholders. The reserve fund is non-distributable and can only be used to make good future years' losses. No profit has been appropriated to the reserve fund during the Relevant Period as Nataki had accumulated losses under Indonesian accounting standards during that period.

(b) *The Company*

	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Revenue reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
Surplus arising on the Reorganisation and at 31.8.2003	<u>71,480</u>	<u>—</u>	<u>—</u>	<u>71,480</u>

- (i) The share premium of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset values of the subsidiaries at the date they were acquired through an exchange of shares pursuant to the Reorganisation. Under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.
- (ii) As at 31st August, 2003, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to approximately HK\$71,480,000 subject to the restrictions as stated in Note 17(b)(i).

18. **Unsecured loan**

	At 31st December, 2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	At 31st August, 2003 <i>HK\$'000</i>
Amount repayable:			
Within one year	74,854	58,063	18,246
After one year but within five years	<u>49,902</u>	<u>—</u>	<u>—</u>
	<u>124,756</u>	<u>58,063</u>	<u>18,246</u>

In October 1999, Nataki entered into the loan agreement with an independent third party, Bakerloo Group Limited, whereby the lender agreed a loan amounted to US\$30,000,000 to Nataki. The loan is unsecured and bears interest at SIBOR plus 2% per annum and will mature in 48 months after the date of the loan agreement.

In December 2001, Nataki entered into an addendum of the loan agreement with the lender whereby both parties agreed to convert the remaining balance of the loan amounted to US\$16,000,000 from US\$ denominated into IDR denominated at the rate of IDR10,400 per US\$1. Both parties also agreed to fix the interest rate at 6% per annum from 28th December, 2001.

In September 2002, the interest rate of SIBOR plus 2% per annum was superceded by a mutual agreement whereby interest charged from October 1999 to December 2001 was frozen at approximately HK\$8,956,000 which represents interest on the principal at 3.75% per annum.

19. **Commitments**

As at 31st December, 2001 and 2002 and 31st August, 2003, the Group had no material capital commitments to be disclosed.

20. **Contingent liabilities**

As at 31st December, 2001 and 2002 and 31st August, 2003, the Group had no material contingent liabilities to be disclosed.

21. **Operating lease arrangements**

The Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	At 31st December,		At 31st August,
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
Within one year	45	52	468
After one year but within five years	135	104	218
After five years	—	—	52
	<u>180</u>	<u>156</u>	<u>738</u>

Operating lease payments represent rentals payable by the Group for its offices and warehouse. The leases are negotiated for terms of one to ten years with fixed monthly rentals.

22. **Related party transactions**

The Group did not enter into any material related party transaction during the Relevant Period.

23. **Retirement benefit scheme**

The Indonesian subsidiary of the Company, Nataki, is required to contribute to the government's statutory insurance and retirement fund ("Jamsostek") 6.24% of basic salary of its employees, and have no further obligations for the actual pension payments or post-retirement benefits beyond the monthly contributions. The Jamsostek fund is responsible for the entire insurance claim related to accident incurred by the employees during work and to the entire pension obligations of the retired employees. However, Nataki did not join the Jamsostek fund since its incorporation until August 2002. The contributions payable by the Group which have not been accounted for amounted to approximately HK\$14,000, HK\$21,000 and HK\$25,000 for each of the two years ended 31st December, 2002 and eight months ended 31st August, 2003 respectively. The total unpaid and unaccrued contributions under the Jamsostek fund amounted to approximately HK\$92,000 as at 31st August, 2003. There were no forfeited contributions available during the Relevant Period.

24. Segment information

Segment information is prepared in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(a) *Business segments:*

No information has been disclosed in respect of the Group's business segments as the Group operates only one business segment which is the trading of cocoa beans.

(b) *Geographical segments:*

In presenting information on the basis of geographical segments, segment revenue is based on the location of customers. Segment assets and capital expenditure are based on the location of the assets.

	France	Netherlands	United Kingdom	Republic of Indonesia	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended					
31st December, 2001					
Turnover	<u>45,268</u>	<u>53,855</u>	<u>46,030</u>	<u>—</u>	<u>145,153</u>
Segment assets	<u>4,873</u>	<u>8,691</u>	<u>4,873</u>	<u>48,800</u>	<u>67,237</u>
Capital expenditure	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Year ended					
31st December, 2002					
Turnover	<u>63,168</u>	<u>139,011</u>	<u>98,768</u>	<u>—</u>	<u>300,947</u>
Segment assets	<u>—</u>	<u>26,480</u>	<u>11,090</u>	<u>68,724</u>	<u>106,294</u>
Capital expenditure	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Eight months ended					
31st August, 2003					
Turnover	<u>39,832</u>	<u>217,497</u>	<u>94,645</u>	<u>—</u>	<u>351,974</u>
Segment assets	<u>6,185</u>	<u>38,351</u>	<u>24,934</u>	<u>65,955</u>	<u>135,425</u>
Capital expenditure	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

B. DIRECTORS' REMUNERATION

Save as disclosed in this report, no remuneration was paid or is payable to the Company's directors by the Company or any of its subsidiaries in respect of the Relevant Period.

Under the arrangement presently in force, the aggregate amount of the directors' fees and emoluments paid or payable for the year ending 31st December, 2003 is estimated to be approximately HK\$224,000, excluding the discretionary bonuses payable under directors' service contracts, the terms of which are set out in the subsection headed "Particulars of service contracts" in Appendix V to the Prospectus.

C. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31st August, 2003:

- (a) In October 2003, the outstanding balance of the unsecured loan was fully repaid by Nataki.
- (b) In October 2003, Nataki sold the land use rights and the land and buildings at a consideration of approximately HK\$14,475,000 and HK\$1,108,000 respectively to four independent third parties.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31st August, 2003.

Yours faithfully,
PKF
Certified Public Accountants
Hong Kong