

# **NOTES TO FINANCIAL STATEMENTS**

( For the year ended 31 December 2001)

## **1. CORPORATE INFORMATION**

The Company was incorporated on 20 May 1992 as an exempted company in the Cayman Islands with limited liability. The Company was listed on The Stock Exchange of Hong Kong Limited on 18 June 1992. The Company obtained a secondary listing on the London Stock Exchange on 23 November 1994.

The principal place of business of the company is located at 15/F., Citibank Tower, 3 Garden Road, Hong Kong.

During the year, the Company was involved in investing in companies with significant business involvement in the People's Republic of China.

The Company continues to realise all of its existing investments, in an orderly manner, and to distribute the funds realised to its shareholders. During the year, the Board of Directors (the "Board") resolved to take steps to wind up the Company during 2002. Further details of this decision and the basis of presentation adopted in preparing those financial statements are set out in note 3 below.

## **2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")**

The following recently-issued and revised SSAPs are effective for the first time in preparation of the current year's financial statements:

- \* SSAP 9 (Revised): "Events after the Balance Sheet Date"
- \* SSAP 26: "Segment Reporting"
- \* SSAP 31: "Impairment of assets"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Company's accounting policies and on the amounts disclosed in the financial statements of adopting these SSAPs are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. The prior year adjustment arising from the adoption of this revised SSAP is detailed in note 9 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Company's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of certain additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. This SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

### **3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of presentation**

At the Board meeting held on 5 September 2001, the Board discussed the operation and prospects of the Company and resolved that it would be in the best interests of the shareholders to take steps to wind up the Company during 2002. Accordingly, the Company's investments have been reclassified from non-current assets to current assets and impairment losses of US\$ 1,750,000 have been recorded in the investment revaluation reserve for these investments to reflect prevailing market conditions, given the requirement to generate liquidity for the remaining unlisted investments.

Accordingly, the financial statements for the year ended 31 December 2001 have been prepared on the net realisation basis. The Company's non-current assets and liabilities have been reclassified as current assets and liabilities. The deficit balance of the investment revaluation reserve of US\$2,412,588 relating to the unrealised losses on securities at 31 December 2001 has been charged to the profit and loss account for the year ended 31 December 2001 to recognise the impairment of the securities, of which further details are set out in notes 11 and 17 to the financial statements. In the opinion of the directors, adequate provision, amounting to US\$130,000, has been made for the expenses of winding-up of the Company and for any additional liabilities expected to arise as a result of the winding-up.

The financial statements for the year ended 31 December 2000 were prepared on the going concern basis and as a result, the 2000 comparative amounts may not be directly comparable to the current year's amounts.

### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of the Company's investments in securities, as further explained below.

### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably.

Income in respect of dividends arising on equities is recognised on the date the securities are quoted as ex-dividend. Interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable. Realised gains and losses on securities are dealt with in the profit and loss account on a trade date basis.

### **Securities transactions**

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

## **NOTES TO FINANCIAL STATEMENTS**

## **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 to market conditions existing at the balance sheet date.

The gains or losses arising from changes in the fair value 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 profit and loss account 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 profit and loss account to the extent of the amount previously charged.

## **Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## **Dividends**

Final dividend proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividend are recognised immediately as a liability when they are proposed and declared.

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The revised accounting treatment for dividends has given rise to a prior year adjustment, further details of which are included in note 9 to the financial statements.

## **Foreign currency transactions**

The Company maintains its books and records in United States dollars. Transactions in foreign currencies are translated into United States dollars at the applicable rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the applicable rates ruling at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

## **Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

## Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

## Cash equivalents

For the purpose of the cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

## 4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as further detailed in note 2 to the financial statements.

During the year, the Company was principally involved in investing in companies with significant business involvement in the People's Republic of China. Accordingly, no analysis of segment information by principal activity is presented.

An analysis of the Company's revenue and certain assets by geographical area of the operations of the investee companies for the financial year is as follows:

	2001 US\$	2000 US\$
Gross revenue:		
The People's Republic of China, including Hong Kong	113,876	1,659,980
Elsewhere	55,587	(87,379)
	<u>169,463</u>	<u>1,572,601</u>
Segment assets:		
The People's Republic of China, including Hong Kong	7,154,707	9,871,551
Elsewhere	310,469	2,175,164
	<u>7,465,176</u>	<u>12,046,715</u>

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The directors consider that it is not practical to analyse the operating expenses by the geographical area of the operations of the investee companies and accordingly, no analysis of profit/(loss) before tax by geographical area of the operations of the investee companies is presented.

## 5. GROSS REVENUE AND GAINS

Gross revenue and gains represent the operating revenue from the ordinary activities of the Company and is analysed as follows:

	2001	2000
	US\$	US\$
Interest income	148,845	392,900
Net realised gains/(losses) from sales of non-trading securities:		
Listed securities *	-	(792,621)
Unlisted securities #	-	1,183,404
Net realised gain from sale of unlisted investment	-	600,000
Dividend income from:		
Listed securities	20,618	60,430
Unlisted securities	-	128,488
	<u>169,463</u>	<u>1,572,601</u>

\* after transfer of a revaluation deficit of US\$804,701 from the investment revaluation reserve at 31 December 2000.

# after transfer of a revaluation surplus of US\$873,473 from the investment revaluation reserve at 31 December 2000.

## 6. PROFIT/(LOSS) BEFORE TAX

The Company's profit/(loss) before tax is arrived at after charging:

	2001	2000
	US\$	US\$
Auditor's remuneration	9,000	9,000
Directors' remuneration (note 7)	84,750	84,309
Exchange losses, net	143	8,199
Provision for winding-up costs (note 3)	<u>130,000</u>	<u>-</u>

The Company had no staff costs other than directors' remuneration during the year (2000: Nil).

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## 7. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	2001	2000
	US\$	US\$
Fees:		
Independent non-executive	50,750	50,750
Non-executive	8,500	8,500
Executive	25,500	25,059
	<u>84,750</u>	<u>84,309</u>

The emoluments paid to each individual director fell within the band of Nil to HK\$1,000,000.

There was no arrangement under which a director of the Company waived or agreed to waive any emoluments from the Company during the year.

## 8. TAX

Under the current laws of the Cayman Islands, the Company is not required to pay any taxes in the Cayman Islands on either income or capital gains. The Company has received an undertaking from the Governor in Council of the Cayman Islands pursuant to the provisions of Section 6 of the Tax Concessions Law (Revised), which exempts the Company from any such tax at least until the year 2012.

No provision for Hong Kong profits tax has been made for the year as the Company did not generate any assessable profits in Hong Kong during the year. Hong Kong profits tax was provided for the year ended 31 December 2000 at the rate of 16% on the estimated assessable profits arising in Hong Kong during that year.

	2001	2000
	US\$	US\$
Provision for the year	-	(135,913)
Overprovision in prior years	231,770	-
Deferred tax (note 14)	(87,260)	-
Tax credit / (charge) for the year	<u>144,510</u>	<u>(135,913)</u>



## 9. DIVIDENDS

The Directors of the Company proposed a final dividend of US\$ 0.02 per ordinary share for the year ended 31 December 2001. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

	2001 US\$	2000 US\$
Special interim - US\$0.03 (2000: US\$0.15) per ordinary share	731,274	3,656,372
Proposed final - US\$0.02 (2000: US\$0.08) per ordinary share	487,516	1,950,065
	<u>1,218,790</u>	<u>5,606,437</u>

During the year, the Company adopted the revised SSAP 9 "Events after the Balance Sheet Date". To comply with this revised SSAP, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 31 December 2000 of US\$1,950,065, which was recognised as a current liability at the prior year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce the Company's current liabilities and increase the reserves previously reported as at 31 December 2000 by US\$1,950,065.

The effect of this change in accounting policy as at 31 December 2001, is that the current year's proposed final dividend of US\$487,516 has been included in the proposed final dividend reserve account within the capital and reserves section of the balance sheet at that date, whereas in previous years it would have been recognised as a current liability at the balance sheet date.

## 10. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders of US\$2,692,023 (2000: profit of US\$821,622) and on the weighted average of 24,375,813 (2000:24,375,813) shares in issue during the year.

Diluted earnings per share has not been presented as no diluting events exist during either year.

## 11. NON-TRADING SECURITIES

	2001	2001	2000	2000
	Cost	Fair value	Cost	Fair value
	US\$	US\$	US\$	US\$
<b>Equity securities</b>				
Hong Kong listed securities	1,117,922	455,334	1,117,922	528,087
Unrealised losses	<u>(662,588)</u>		<u>(589,835)</u>	
	<u>455,334</u>		<u>528,087</u>	
Unlisted securities	10,048,438		10,048,438	
Provision for diminution in value	<u>(4,750,000)</u>		<u>(3,000,000)</u>	
		<u>5,298,438</u>		<u>7,048,438</u>
Total equity securities		5,753,772		7,576,525
<b>Debt securities</b>				
Unlisted securities	2,318,030		2,318,030	
Provision for impairment in value	<u>(1,124,492)</u>		<u>(1,124,492)</u>	
Total debt securities		<u>1,193,538</u>		<u>1,193,538</u>
Total non-trading security				
at 31 December		<u>6,947,310</u>		<u>8,770,063</u>

As a result of the Board's resolution on 5 September 2001 to take steps to wind up the Company during 2002 (note 3), the Company's investments in non-trading securities, which were previously accounted for as non-current assets, have been reclassified as current assets as at 31 December 2001.

## 12. CASH AND CASH EQUIVALENTS

	2001	2000
	US\$	US\$
Short term cash deposit	200,000	2,000,000
Cash at banks	<u>159,786</u>	<u>221,021</u>
	<u>359,786</u>	<u>2,221,021</u>

### 13. CREDITORS AND ACCRUED CHARGES

All amounts payable to the creditors are aged within one month (2000: one month).

### 14. DEFERRED TAX

	2001	2000
	US\$	US\$
Balance at beginning of year	2,022	79,730
Underprovision in prior year (note 8)	87,260	-
Write-back to the investment revaluation reserve for the year (note 17)	(2,022)	(77,708)
At 31 December	<u>87,260</u>	<u>2,022</u>

The principal component of the Company's provided deferred tax liabilities calculated at 16% (2000: 16%) at the balance sheet date was attributable to the unrealised gains / (losses) on investments in securities.

### 15. SHARE CAPITAL

	2001	2000
	US\$	US\$
Authorised:		
90,000,000 ordinary shares of US\$0.01 each	<u>900,000</u>	<u>900,000</u>
Issued and fully paid:		
24,375,813 ordinary shares of US\$0.01 each	<u>243,758</u>	<u>243,758</u>

During the current year and prior year, no shares were issued or redeemed.

## 16. RETAINED PROFITS

	Realised gains from securities US\$	Provision for diminution in value of securities US\$	Retained profits/ (accumulated losses) US\$	Total US\$
Balance at 1 January 2000	7,695,769	(8,464,670)	768,901	-
Movement for the year	854,870	4,340,178	(4,373,426)	821,622
Transfer from share premium account (note 17)	-	-	4,784,815	4,784,815
Dividends (note 9)	-	-	(5,606,437)	(5,606,437)
Balance at 31 December 2000 and at 1 January 2001	8,550,639	(4,124,492)	(4,426,147)	-
Movement for the year	-	(2,412,588)	(279,435)	(2,692,023)
Transfer from share premium account (note 17)	-	-	10,062,313	10,062,313
Dividends (note 9)	-	-	(1,218,790)	(1,218,790)
Balance at 31 December 2001	8,550,639	(6,537,080)	4,137,941	6,151,500

Article 120 of the Company's Articles of Association originally stated that surpluses arising from the realisation of securities were not available for distribution. Pursuant to a special resolution passed at an extraordinary general meeting on 22 January 1999, Article 120 of the Company's Articles of Association was amended so that the Company's existing and future surpluses arising from the realisation of securities became available for distribution with effect from 22 January 1999.

## 17. RESERVES

	Share premium account US\$	Capital redemption reserve US\$	Investment revaluation reserve US\$	Total US\$
Balance at 1 January 2000	14,847,128	296,338	(400,976)	14,742,490
Movement for the year	-	-	(268,589)	(268,589)
Transfer to retained profits for distribution of dividends (note 16)	(4,784,815)	-	-	(4,784,815)
Decrease in deferred tax (note 14)	-	-	77,708	77,708
Balance at 31 December 2000 and at 1 January 2001	10,062,313	296,338	(591,857)	9,766,794
Movement for the year	-	-	(1,822,753)	(1,822,753)
Transfer of deficit on investment revaluation reserve to profit and loss account on impairment of securities	-	-	2,412,588	2,412,588
Transfer to retained profits for distribution of dividends (note 16)	(10,062,313)	-	-	(10,062,313)
Decrease in deferred tax on impairment of investment revaluation reserve (note 14)	-	-	2,022	2,022
Balance at 31 December 2001	-	296,338	-	296,338

Prior to the transfer of its deficit balance to the profit and loss account, the investment revaluation reserve represented unrealised gains / (losses) on securities less any deferred tax arising thereon.

## 18. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on net assets of US\$ 7,179,112 (2000 restated: US\$11,960,617) and the 24,375,813 (2000: 24,375,813) ordinary shares in issue at the balance sheet date.

## 19. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) before tax to net cash inflow/(outflow) from operating activities

	2001	2000
	US\$	US\$
Profit / (loss) before tax	(2,836,533)	957,535
Impairment of investment revaluation reserve	2,412,588	-
Write-back of provision for doubtful accounts receivable	-	(64,829)
Exchange losses, net	143	8,199
Realised gains on sales of securities, net	-	(390,783)
Realised gains on sales of unlisted investment	-	(600,000)
Decrease / (increase) in prepayments and other receivables	988,531	(882,946)
Decrease in dividends and interest receivable	-	40,735
Decrease in creditors and accrued charges	(14,469)	(74,731)
Increase in provision for winding-up costs	130,000	-
Net cash inflow/(outflow) from operating activities	<u>680,260</u>	<u>(1,006,820)</u>

(b) Analysis of changes in financing during the years

	Share premium
	US\$
Balance at 1 January 2000	14,847,128
Transfer to retained profits for distribution of dividends	<u>(4,784,815)</u>
Balance at 31 December 2000 and 1 January 2001	10,062,313
Transfer to retained profits for distribution of dividends	<u>(10,062,313)</u>
Balance at 31 December 2001	<u>-</u>

## 20. RELATED PARTY TRANSACTION

The Company had the following material transaction with a related party during the year:

	2001	2000
	US\$	US\$
Management fee paid to HSBC Asset Management (Bahamas) Limited	<u>166,248</u>	<u>344,557</u>

HSBC Asset Management (Bahamas) Limited is a related company of which Mr Paul M Y Chow, a director of the Company, is also a director. The management fee payable are calculated at 1.25% to 2% of the net asset value of securities in accordance with the Investment Management Agreement.

## 21. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 9 during the current year, the accounting treatment and presentation of the proposed dividend in the financial statements have been revised to comply with the new requirements. Accordingly, a prior year adjustment (note 9) has been made and certain comparative amount has been reclassified to conform with the current year's presentation.

## 22. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 20 March 2002.