

## Notes to Financial Statements For the year ended 31 December 2003

### 1. CORPORATE INFORMATION

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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 (the "Stock Exchange") 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.

On 5 September 2001, the Board of Directors (the "Board") resolved to take steps to wind up the Company. Further details of this decision and the basis of presentation adopted in preparing these financial statements are set out in note 3 below. During the year, the Company realised all of its existing investments, in an orderly manner, and distributed the funds realised to its shareholders.

### 2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

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SSAP 12 (Revised) "Income taxes" is effective for the first time in the preparation of the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

This SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 8 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

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

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#### *Basis of presentation*

Pursuant to the Board meeting held on 5 September 2001, at which it was decided to wind up the Company as soon as practical, the Board has been taking steps to achieve this during the year. Accordingly, the financial statements have been prepared on the net realisation basis since the year ended 31 December 2001, with all assets and liabilities being classified as current assets and liabilities.

In the opinion of the Directors, adequate provision at 31 December 2003, amounting to US\$108,529 (2002: US\$117,258), 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.

#### *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.

**Notes to Financial Statements** (continued)  
**For the year ended 31 December 2003****3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)*Securities transactions*

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

*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.

As explained in the "Basis of presentation" section above, the financial statements have been prepared on the net realisation basis since the year ended 31 December 2001, and accordingly, the gains or losses arising from changes in the fair values of non-trading securities are credited/charged to the profit and loss account in the period in which they arise.

*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 of that revalued asset.

*Dividends*

Final dividends proposed by the Directors are classified as a separate allocation of retained profits within the capital and reserves section of 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 articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

*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 exchange 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 exchange rates ruling at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

## Notes to Financial Statements (continued)

### For the year ended 31 December 2003

#### 3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### *Income tax*

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised, in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

##### *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 and cash equivalents*

For the purpose of the cash flow statement, cash and cash equivalents comprise cash at banks, net of outstanding bank overdrafts; and short term highly liquid investments which are readily convertible into known amounts of cash and which have a short maturity of generally within three months when acquired.

For the purpose of balance sheet classification, cash and cash equivalents comprise cash at banks, including term deposits, which are not restricted as to use.

#### 4. SEGMENT INFORMATION

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 assets by geographical area of operations of the investee companies for the financial year is as follows:

	<b>2003</b>	2002
	<b>US\$</b>	US\$
Gross revenue:		
People's Republic of China	<b>1,546,991</b>	2,372,894
Elsewhere	<b>21,362</b>	6,703
	<b><u>1,568,353</u></b>	<u>2,379,597</u>
Segment assets:		
People's Republic of China	<b>173,160</b>	6,491,058
Elsewhere	<b>287,908</b>	1,936,672
	<b><u>461,068</u></b>	<u>8,427,730</u>

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 before tax by geographical area of operations of the investee companies is presented.

## Notes to Financial Statements (continued)

### For the year ended 31 December 2003

#### 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:

	2003 US\$	2002 US\$
Interest income	26,849	38,965
Realised losses from sales of listed securities	(13)	(5,130)
Realised gains from sales of unlisted securities	1,541,517	—
Unrealised gain on unlisted investment	—	2,345,762
	<u>1,568,353</u>	<u>2,379,597</u>

#### 6. PROFIT BEFORE TAX

The Company's profit before tax is arrived at after charging:

	2003 US\$	2002 US\$
Auditors' remuneration	9,000	9,000
Directors' remuneration — note 7	67,750	82,445
Exchange losses, net	<u>4,323</u>	<u>10,313</u>

The Company had no staff costs other than Directors' remuneration during the year (2002: Nil).

#### 7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2003 US\$	2002 US\$
Fees:		
Independent non-executive	50,750	50,750
Non-executive	8,500	8,500
Executive	8,500	23,195
	<u>67,750</u>	<u>82,445</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 during the year.

## Notes to Financial Statements (continued)

### For the year ended 31 December 2003

#### 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 as the Company had available tax losses brought forward to set off the assessable profits generated in Hong Kong during the year (2002: Nil).

A reconciliation of the tax expense applicable to profit before tax using the applicable rate to the tax credit for the year is as follows:

	2003 US\$	2002 US\$
Profit before tax	<u>1,134,039</u>	<u>250,979</u>
Tax at the applicable rate of 17.5% (2002: 16%)	(198,457)	(40,157)
Income not subject to tax	4,698	6,235
Expenses not deductible for tax	(1,301)	(67,725)
Tax losses utilised from previous periods	195,060	101,647
Adjustment in respect of deferred tax of previous periods	—	87,260
Total tax credit for the year	<u>—</u>	<u>87,260</u>

#### 9. DIVIDENDS

	2003 US\$	2002 US\$
First special interim — US\$0.14 per ordinary share (2002: Nil)	3,482,074	—
Second special interim — US\$0.18 per ordinary share (2002: Nil)	4,387,466	—
	<u>7,869,540</u>	<u>—</u>

During the year ended 31 December 2002, the Board proposed a special dividend comprising the distribution in specie of the Company's investment in A-S China Plumbing Products Limited ("ASPPL") to the Company's shareholders. The recommendation was subject to the satisfaction of the following conditions:

- (i) the approval of the Growth Enterprise Market (the "GEM") listing committee of the listing of the ASPPL shares on the GEM, and the delivery of the listing document to the Stock Exchange pursuant to Rule 12.24(2) of the GEM Listing Rules; and
- (ii) the completion of a reorganisation of the capital of ASPPL.

The above conditions were satisfied during the year ended 31 December 2003 and the Company's investment in ASPPL of US\$3,482,074 was distributed in specie to the Company's shareholders as the first special interim dividend.

The second special interim dividend of US\$4,387,466 was paid in cash.

#### 10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of US\$1,134,039 (2002: US\$338,239) and on the weighted average of 24,374,813 (2002: 24,375,243) ordinary shares in issue during the year.

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

## Notes to Financial Statements (continued)

### For the year ended 31 December 2003

#### 11. NON-TRADING SECURITIES

	2003		2002	
	<i>Cost</i>	<i>Fair value</i>	<i>Cost</i>	<i>Fair value</i>
	US\$	US\$	US\$	US\$
<b>Equity securities</b>				
Unlisted securities	—		7,048,438	
Provision for impairment in value	—		(1,136,338)	
		—		5,912,100
Total equity securities		—		5,912,100
<b>Debt securities</b>				
Unlisted securities	—	—	525,709	525,709
Total non-trading securities at 31 December		—		6,437,809

The Company's investment in ASPPL of US\$3,842,074, included in the balance of non-trading securities at a total carrying amount of US\$3,842,100 as at 31 December 2002, was distributed in specie to the shareholders as the first special interim dividend during the year, further details of which were set out in note 9 to the financial statements.

#### 12. CASH AND CASH EQUIVALENTS

	2003	2002
	US\$	US\$
Short term cash deposit	100,000	1,800,000
Cash at banks	341,191	168,894
	<b>441,191</b>	<b>1,968,894</b>

#### 13. CREDITORS AND ACCRUED CHARGES

All amounts payable to creditors are aged within one month (2002: one month).

#### 14. DEFERRED TAX

	2003	2002
	US\$	US\$
Balance at beginning of year	—	87,260
Release for the year	—	(87,260)
At 31 December	—	—

The Company has tax losses arising in Hong Kong of US\$189,000 (2002: US\$1,304,000) that are available for offsetting against future taxable profits. Deferred tax assets have not been recognised as at 31 December 2003 in respect of these losses as the Board has decided to wind up the Company in the near future and it is not expected that future assessable profits will be generated.

#### 15. SHARE CAPITAL

	2003	2002
	US\$	US\$
Authorised:		
90,000,000 ordinary shares of US\$0.01 each	900,000	900,000
Issued and fully paid:		
24,374,813 ordinary shares of US\$0.01 each	243,748	243,748

## Notes to Financial Statements (continued)

### For the year ended 31 December 2003

#### 16. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on net assets of US\$293,951 (2002: US\$7,029,452) and the 24,374,813 (2002: 24,374,813) ordinary shares in issue at the balance sheet date.

#### 17. NOTE TO THE CASH FLOW STATEMENT

##### *Major non-cash transaction*

During the year, the Company's investment in ASPPL of US\$3,482,074 was distributed in specie to the shareholders as the first special dividend for the year, further details of which are set out in note 9 to the financial statements.

#### 18. RELATED PARTY TRANSACTION

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

	<b>2003</b>	2002
	<b>US\$</b>	US\$
Management fee paid to HSBC Asset Management (Bahamas) Limited	<b><u>132,621</u></b>	<u>130,806</u>

HSBC Asset Management (Bahamas) Limited ("AMBL") was appointed as the Investment Manager of the Company for both listed and unlisted investments, whereas HSBC Private Equity (Asia) Limited ("PEAL") was appointed by AMBL as the general adviser to AMBL on the Company's unlisted investments. AMBL was a related company prior to 16 October 2002, of which Mr Paul M Y Chow, a Director of the Company who resigned on 16 October 2002, was also a director. PEAL is a related company, of which Mr Vincent J Warner, a Director of the Company, is also a director.

The management fee payable was calculated at 1.25% to 2% (2002: 1.25% to 2%) of the net asset value of securities in accordance with the Investment Management Agreement with AMBL.

#### 19. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2004.