

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2000

## 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 12/F., Tower 1, HSBC Centre, 1 Sham Mong 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 the shareholders.

## 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

### **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 remeasurement of the Company's investments in securities, as further explained below.

The Company has interests in certain holding companies which were established exclusively as investment vehicles through which the Company could make its investments in investee companies. These holding companies have no other activities.

Consolidated financial statements have not been prepared because, in the opinion of the directors, consolidated information would be of no additional benefit to known users of the financial statements. The Company's investments as disclosed in note 9 represent the Company's beneficial interests in the underlying investee companies.

### **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.

### **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.

### **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 to 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 profit and loss account for the period in which they arise.

## **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.

### 3. GROSS REVENUE

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

	2000	1999
	US\$	US\$
Interest income	392,900	648,533
Net change in unrealised losses from trading securities	-	(1,455,892)
Net realised gains/(losses) from sales of non-trading securities:		
Treasury bills	-	178,439
Listed securities *	(792,621)	8,094,100
Unlisted securities #	1,183,404	87,754
Net realised gain from sale of unlisted investment	600,000	-
Dividend income from:		
Listed securities	60,430	298,737
Unlisted securities	<u>128,488</u>	<u>335,968</u>
	<u>1,572,601</u>	<u>8,187,639</u>

\* after transfer of revaluation deficit of US\$804,701 (1999: revaluation surplus of US\$3,537,126) from the investment revaluation reserve.

# after transfer of revaluation surplus of US\$873,473 (1999:Nil) from the investment revaluation reserve.

#### 4. PROFIT BEFORE TAX

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

	2000	1999
	US\$	US\$
Auditors' remuneration	9,000	11,000
Directors' remuneration	84,309	86,875
Exchange losses, net	<u>8,199</u>	<u>32,534</u>

The Company had no staff costs other than directors' remuneration during the year (1999: Nil).

#### 5. DIRECTORS' REMUNERATION

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

	2000	1999
	US\$	US\$
Fees:		
Independent non-executive	50,750	61,375
Non-executive	8,500	8,500
Executive	25,059	17,000
Basic salaries, housing, other allowances and benefits in kind	-	-
Pension scheme contributions	-	-
Bonuses paid and payable	-	-
	<u>84,309</u>	<u>86,875</u>

All emoluments paid to the individual directors 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.

## 6. 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.

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year.

	2000	1999
	US\$	US\$
Provision for the year	135,913	987,452
10% rebate of profits tax for the year of assessment 1997/98	-	(267,913)
Deferred tax - note 11	-	(279,000)
Tax charge for the year	<u>135,913</u>	<u>440,539</u>

## 7. DIVIDENDS

The Directors of the Company recommend a final dividend of US\$0.08 per ordinary share for the year ended 31 December 2000 (1999:Nil) :-

	2000	1999
	US\$	US\$
Final dividend of US\$0.08 (1999: Nil)		
per ordinary share	1,950,065	-
1st special interim dividend of US\$0.15 (1999: US\$1.15)		
per ordinary share	3,656,372	28,032,185
1999: 2nd special interim dividend of US\$0.43		
per ordinary share	-	10,481,600
1999: 3rd special interim dividend of US\$0.04		
per ordinary share	-	975,033
	<u>5,606,437</u>	<u>39,488,818</u>

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit from ordinary activities attributable to shareholders of US\$821,622 (1999: US\$356,326) and on the weighted average of 24,375,813 (1999: weighted average of 24,375,813) shares in issue during the year.

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

## 9. NON-TRADING SECURITIES

	2000	2000	1999	1999
	Cost	Fair value	Cost	Fair value
	US\$	US\$	US\$	US\$
<u>Equity securities</u>				
Hong Kong listed securities	1,117,922	528,087	1,117,922	742,762
Overseas listed securities	-	-	839,596	20,037
	1,117,922	528,087	1,957,518	762,799
Unrealised losses	<u>(589,835)</u>		<u>(1,194,719)</u>	
	<u>528,087</u>		<u>762,799</u>	
Unlisted securities	10,048,438		10,229,188	
Provision for diminution in value	<u>(3,000,000)</u>		<u>(3,000,000)</u>	
		<u>7,048,438</u>		<u>7,229,188</u>
Total equity securities		7,576,525		7,991,987
<u>Debt securities</u>				
Unlisted securities	2,318,030		8,175,340	
Provision for diminution in value	<u>(1,124,492)</u>		<u>(5,464,670)</u>	
Total debt securities		<u>1,193,538</u>		<u>2,710,670</u>
Fair value as at 31 December		<u>8,770,063</u>		<u>10,702,657</u>
<u>Debt security maturing within one year</u>				
Unlisted securities, at cost	-		2,500,000	
Unrealised gains	<u>-</u>		<u>873,473</u>	
Total debt security maturing within one year		<u>-</u>		<u>3,373,473</u>



## 10. CASH AND CASH EQUIVALENTS

	2000	1999
	US\$	US\$
Short term cash deposit	2,000,000	1,600,000
Cash at banks	<u>221,021</u>	<u>326,694</u>
	<u>2,221,021</u>	<u>1,926,694</u>

## 11. DEFERRED TAX

	2000	1999
	US\$	US\$
Balance at beginning of year	79,730	723,137
Write-back to the profit and loss account for the year - note 6	-	(279,000)
Write-back to the investment revaluation reserve for the year - note 14	<u>(77,708)</u>	<u>(364,407)</u>
At 31 December	<u>2,022</u>	<u>79,730</u>

The principal components of the Company's deferred tax liabilities provided for in the financial statements are as follows:

	2000	1999
	US\$	US\$
Unrealised gains on securities	<u>2,022</u>	<u>79,730</u>

## 12. SHARE CAPITAL

	2000	1999
	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.

### 13. RETAINED PROFITS

	Unrealised gains from trading securities US\$	Realised gains from securities US\$	Provision for diminution in value of securities US\$	Retained profits/ (Accumulated losses) US\$	Total US\$
Balance at 1 January 1999	1,176,892	39,543,833	(4,125,000)	(3,540,412)	33,055,313
Movement for the year	(1,176,892)	7,640,754	(4,339,670)	(1,767,866)	356,326
Transfer from share premium account - note 14	-	-	-	6,077,179	6,077,179
Dividend payments - note 7	-	(39,488,818)	-	(39,488,818)	
Balance at 31 December 1999 and 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 14	-	-	-	4,784,815	4,784,815
Dividend payments - note 7	-	-	-	(5,606,437)	(5,606,437)
Balance at 31 December 2000	-	8,550,639	(4,124,492)	(4,426,147)	-

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.

## 14. RESERVES

	Share premium account US\$	Capital redemption reserve US\$	Investment revaluation reserve US\$	Total US\$
Balance at 1 January 1999	20,924,307	296,338	1,666,246	22,886,891
Movement for the year	-	-	(2,804,049)	(2,804,049)
Transfer to retained profits for distributions of interim dividends - note 13	(6,077,179)	-	-	(6,077,179)
Decrease in provision for investment manager's incentive fee	-	-	372,420	372,420
Decrease in deferred tax - note 11	-	-	364,407	364,407
Balance at 31 December 1999 and 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 distributions of dividends - note 13	(4,784,815)	-	-	(4,784,815)
Decrease in deferred tax - note 11	-	-	77,708	77,708
Balance at 31 December 2000	<u>10,062,313</u>	<u>296,338</u>	<u>(591,857)</u>	<u>9,766,794</u>

The investment revaluation reserve represents unrealised gains/(losses) on securities, less the related incentive fees for the investment manager, and any deferred tax arising thereon.

## 15. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on net assets of US\$10,010,552 (1999: US\$14,986,248) and the 24,375,813 (1999: 24,375,813) ordinary shares in issue at the balance sheet date.

## 16. NOTES TO THE CASH FLOW STATEMENT

- (a) Reconciliation of profit before tax to net cash outflow from operating activities

	2000	1999
	US\$	US\$
Profit before tax	957,535	796,865
Provision for diminution in value of securities	-	4,339,670
Provision/(Write-back of provision) for doubtful accounts receivable	(64,829)	675,158
Exchange losses, net	8,199	32,534
Net change in unrealised losses from trading securities	-	1,455,892
Realised gains on sales of securities, net	(390,783)	(8,360,293)
Realised gains on sales of unlisted investment	(600,000)	-
Provision for investment manager's incentive fee charged against reserves	-	372,420
Increase in other receivables	(885,325)	-
Decrease in dividends and interest receivable	40,735	52,490
Decrease/(Increase) in prepayments and deposits	2,379	(19,318)
Decrease in creditors and accrued charges	<u>(74,731)</u>	<u>(1,703,813)</u>
Net cash outflow from operating activities	<u>(1,006,820)</u>	<u>(2,358,395)</u>

- (b) Analysis of changes in financing during the year

	Share capital	Share premium
	US\$	US\$
Balance at 1 January 1999	243,758	20,924,307
Transfers to retained profits for distributions of interim dividends	<u>-</u>	<u>(6,077,179)</u>
Balance at 31 December 1999 and 1 January 2000	243,758	14,847,128
Transfers to retained profits for distributions of interim dividends	<u>-</u>	<u>(4,784,815)</u>
Balance at 31 December 2000	<u>243,758</u>	<u>10,062,313</u>

## 17. RELATED PARTY TRANSACTIONS

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

	2000	1999
	US\$	US\$
Management fee paid to HSBC Asset Management (Bahamas) Limited	344,557	683,375
Incentive fee paid to HSBC Asset Management (Bahamas) Limited	<u>-</u>	<u>1,141,462</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 and incentive fee payable are calculated at 1.25% to 2% of the net asset value of securities, and at 15% of the realised surplus on disposal of the unlisted investments, respectively, in accordance with the Investment Management Agreement.

## 18. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 6 March 2001.