

Notes to the Financial Statements

For the year ended 31st December, 2000

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and the Company's shares are listed on The Stock Exchange of Hong Kong Limited.

The financial statements are presented in United States dollars because a significant portion of the Company's investments are made in United States dollars or any other currencies closely linked with United States dollars.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, modified to include the valuation of investments.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Revenue recognition

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investment in securities is recognised when the Company's rights to receive payment have been established.

Rental income is recognised on a straight line basis over the term of the relevant lease.

Gain or loss on sale of investment in securities is recognised upon the execution of a legally binding and irrevocable contract of sale.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Company intends to hold to maturity ("held-to-maturity debt securities") are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at fair value at the balance sheet date.

Notes to the Financial Statements *(Cont'd)*

For the year ended 31st December, 2000

2. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Investments in securities *(Cont'd)*

Where securities are held for trading purposes, both realised and unrealised gains and losses are recognised in the income statement for the period in which they arise. For other securities, unrealised gains or losses are dealt with in the capital reserve until the security is sold or determined to be impaired, at which time the cumulative gain or loss will be included in the income statement for the period.

As required by the Company's Articles of Association, all gains and losses on realisation of investment in securities shall not be available for distribution as dividend. Therefore, those realised gains and losses on investments in securities recognised in the income statement are transferred to the capital reserve in the period in which they arise.

Properties held for resale

Properties held for resale are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in marketing and selling.

Gains and losses on realisation of properties are first recognised in the income statement and then transferred to the capital reserve in the period in which they arise.

Foreign currency transactions

Transactions in currencies other than United States dollars are translated into United States dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than United States dollars are re-translated into United States dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

Taxation

The charge for taxation is based on the result for the year after adjusting for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Notes to the Financial Statements *(Cont'd)*

For the year ended 31st December, 2000

3. INVESTMENT INCOME

	2000	1999
	<i>US\$</i>	<i>US\$</i>
Investment income for the year comprises:		
Dividend income		
– Listed securities	1,247,309	1,112,999
– Unlisted investments	723,804	1,092,353
Interest income	1,126,387	1,368,419
	<u>3,097,500</u>	<u>3,573,771</u>

In the current year, in order to provide a clearer presentation, investment income comprising the components listed above and the net gain or loss arising on the sale of investments in securities have been presented separately on the face of the income statement rather than being combined in a turnover figure. The presentation in the prior year has been restated accordingly.

4. DIRECTORS' REMUNERATION

Except for Directors' fee payable to the Independent Non-Executive Directors totalling US\$43,969 (1999: US\$25,735) which is in the band of US\$nil to US\$128,000, no Director received any remuneration in respect of their directorship of the Company.

5. OTHER ADMINISTRATIVE EXPENSES

	2000	1999
	<i>US\$</i>	<i>US\$</i>
Other administrative expenses include the following:		
Auditors' remuneration	33,378	40,540
Custodian fee	131,357	170,850
Investment advisory fee	<u>154,550</u>	<u>184,053</u>

Notes to the Financial Statements *(Cont'd)*

For the year ended 31st December, 2000

6. TAXATION

	2000	1999
	<i>US\$</i>	<i>US\$</i>
The charge comprises:		
Hong Kong Profits Tax		
– current year	—	567,000
– underprovision in prior years	—	633,000
	<u>—</u>	<u>1,200,000</u>

No provision for Hong Kong Profits Tax has been made in the financial statements for the current year as the Company has no assessable profit for the year.

Hong Kong Profits Tax in 1999 was calculated at 16% of the estimated assessable profit for that year.

No provision for deferred taxation has been made in the financial statements as there were no significant timing differences arising during the year or at the balance sheet date.

7. DIVIDEND

	2000	1999
	<i>US\$</i>	<i>US\$</i>
Proposed dividend – 30 US cents (1999: 30 US cents) per share	(2,671,500)	(2,768,100)
Adjustment for overprovision of proposed dividend in previous year arising from repurchase of the Company's shares before the book close date	<u>64,200</u>	<u>—</u>
	<u>(2,607,300)</u>	<u>(2,768,100)</u>

In addition, the Company paid a special dividend of US\$3.00 per share, totalling US\$27,024,000, from the share premium account during the year.

8. (LOSS) EARNINGS PER SHARE – BASIC

The calculation of basic (loss) earnings per share is based on the net loss for the year of US\$3,396,614 (1999: net profit of US\$2,882,625) and on the weighted average number of 8,985,012 (1999: 9,349,205) ordinary shares in issue during the year.

No diluted earnings per share has been presented as the Company has no dilutive potential shares in issue during the year.

Notes to the Financial Statements *(Cont'd)*

For the year ended 31st December, 2000

9. INVESTMENTS IN UNLISTED SECURITIES

	2000	1999
	<i>US\$</i>	<i>US\$</i>
Unlisted investments in the PRC, at fair value	<u>29,517,282</u>	<u>31,660,592</u>

In the opinion of the directors, as the Company is an investment fund company which acts as a passive investor to the investee companies, it does not exert any significant influence over the financial and operating policy decisions of those unlisted investee companies. Therefore, investments in those unlisted companies are stated as investments in securities in the financial statements.

Details of unlisted securities are set out on page 9.

10. INVESTMENTS IN LISTED SECURITIES

	2000	1999
	<i>US\$</i>	<i>US\$</i>
Listed securities, at fair value:		
Shares listed on the Hong Kong Stock Exchange	27,547,961	27,388,215
Shares listed on the New York Stock Exchange	1,281,600	1,940,297
Shares listed on the Shenzhen Securities Exchange	468,168	749,918
Shares listed on the Taiwan Stock Exchange	137,234	—
Shares listed on the Shanghai Securities Exchange	330,000	831,158
Shares listed on the Singapore Stock Exchange	—	1,000,545
	<u>29,764,963</u>	<u>31,910,133</u>
Market value at 31st December		

Details of listed securities are set out on page 18.

11. PROPERTIES HELD FOR RESALE

The properties are located in the PRC and held under long leases. It is the intention of the Directors to hold the properties for resale. Rental income from leasing of one of the properties during the year under an operating lease amounted to US\$68,400 (1999: US\$72,000).

Notes to the Financial Statements *(Cont'd)*

For the year ended 31st December, 2000

12. SHARE CAPITAL

	Number of shares	Share capital US\$
Issued and fully paid:		
At 1st January, 1999	9,359,000	935,900
Repurchase of shares	(132,000)	(13,200)
At 31st December, 1999	9,227,000	922,700
Repurchase of shares	(322,000)	(32,200)
At 31st December, 2000	<u>8,905,000</u>	<u>890,500</u>

The authorised share capital of the Company is 18,000,000 ordinary shares of US\$0.1 each.

During the year, the Company repurchased certain of its own shares on The Stock Exchange of Hong Kong Limited as follows:

	Number of shares	Price per share (Lowest) (Highest)	Aggregate price US\$
		US\$	US\$
January	189,000	4.50 – 4.60	864,400
February	21,000	4.70 – 4.80	100,300
March	4,000	5.00	20,000
June	4,000	5.35	21,400
July	1,000	5.40	5,400
August	50,000	4.00	200,000
September	35,000	3.90	136,500
October	18,000	3.60	64,800
	<u>322,000</u>		<u>1,412,800</u>

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium and brokerage expenses payable on repurchase was charged against the share premium account.

The Directors are of the opinion that the share repurchases would increase the trading liquidity and enhance the valuation of the Company's shares.

Notes to the Financial Statements *(Cont'd)*

For the year ended 31st December, 2000

13. SHARE PREMIUM

	2000	1999
	US\$	US\$
Balance brought forward	92,125,943	92,662,433
Premium on repurchase of shares, including expenses	(1,386,008)	(536,490)
Special dividend of US\$3.00 per share paid (<i>note 7</i>)	(27,024,000)	—
	<u>63,715,935</u>	<u>92,125,943</u>

14. CAPITAL RESERVE

	2000	1999
	US\$	US\$
Balance brought forward	(3,048,443)	(11,648,175)
Net unrealised gains on revaluation of investments in listed securities during the year	1,930,644	5,735,040
Realised (losses) gains on sale of investments in securities transferred from income statement for the year	(4,250,540)	5,583,411
Impairment loss recognised in respect of unlisted investments transferred from income statement for the year	—	(2,718,719)
	<u>(5,368,339)</u>	<u>(3,048,443)</u>

15. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on the net asset value of the Company as at 31st December, 2000 of US\$60,734,100 (1999: US\$93,249,578) and on the 8,905,000 (1999: 9,227,000) ordinary shares in issue as at 31st December, 2000.

Notes to the Financial Statements *(Cont'd)*

For the year ended 31st December, 2000

16. RECONCILIATION OF NET (LOSS) PROFIT FOR THE YEAR TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000	1999
	<i>US\$</i>	<i>US\$</i>
Net (loss) profit for the year	(3,396,614)	4,082,625
Provision for impairment in value of unlisted investments	—	2,718,719
Loss (gain) on sale of investment in securities	4,250,540	(5,583,411)
(Increase) decrease in dividend, interest and other receivables and prepayments	(598,053)	498,247
Increase (decrease) in creditors and accrued charges	31,552	(336,877)
(Decrease) increase in amount due to Investment Manager	(191,490)	58,949
	<u>95,935</u>	<u>1,438,252</u>
Net cash inflow from operating activities	<u>95,935</u>	<u>1,438,252</u>

17. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium
	<i>US\$</i>
Balance at 1st January, 1999	93,598,333
Repurchase of shares	(549,690)
Balance at 31st December, 1999	93,048,643
Special dividend paid	(27,024,000)
Repurchase of shares	(1,418,208)
Balance at 31st December, 2000	<u>64,606,435</u>

18. CAPITAL COMMITMENTS

	2000	1999
	<i>US\$</i>	<i>US\$</i>
Capital expenditure contracted but not provided for in the financial statements	<u>500,000</u>	<u>—</u>

The above capital commitment is in respect of unpaid capital contribution relating to an unlisted investment in the PRC.

Notes to the Financial Statements *(Cont'd)*

For the year ended 31st December, 2000

19. SUBORDINATION

As at the balance sheet date, the Company together with other shareholders of an investee company, had entered into a subordination agreement in favour of a bank in respect of a term loan facility granted to that investee company to the extent of US\$36,000,000 (1999: US\$36,000,000). At 31st December, 2000, the Company has not made any advances to the investee company.

20. RELATED PARTY TRANSACTIONS

During the year, the Company had the following transactions with related parties:

	2000	1999
	<i>US\$</i>	<i>US\$</i>
Management fee payable to the Investment Manager	1,545,497	1,840,532
Brokerage commission payable to Kwang Hua Securities Investment & Trust (HK) Co., Ltd.	<u>43,138</u>	<u>62,573</u>

In accordance with the terms of the Management Agreement, management fee is calculated and payable quarterly in advance at 0.5% of the net asset value (calculated before deductions of the fees payable to the Investment Manager, the investment adviser and the custodian for that quarter) of the Company calculated on the last business day of the previous quarter.

Brokerage commission is charged at the market rates on the consideration of securities traded.

Amount due to the Investment Manager is unsecured, interest free and payable on demand.

Certain unlisted investments held by the Company are jointly invested with Ruentex companies, Shanghai International Trust & Investment Corporation and Bank SinoPac.

Certain directors of the Company are also directors and/or shareholders of the above corporations.

Notes to the Financial Statements *(Cont'd)*

For the year ended 31st December, 2000

21. POST BALANCE SHEET EVENTS

Concord Greater China Limited, an investment held by the Company, entered into a conditional shareholders' agreement with Auchan SA, a company incorporated in France, to establish a new joint venture company, Sun Holdings Greater China Limited ("Sun Holdings"), to merge and develop their hypermarket business in the PRC. After completion of this transaction in February 2001, both Concord Greater China Limited and Auchan SA have equal interest in Sun Holdings.

On 28th February, 2001, Concord Greater China Limited declared a dividend to its shareholders. The Company has received its entitlement to the dividend amounting to US\$6,075,000.