

NOTES TO FINANCIAL STATEMENTS

For the six months ended 30 June 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 12/F., Tower I, HSBC Centre, 1 Sham Mong Road, Hong Kong.

During the period, 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

At the Board meeting held on 5 September 2001, the Board discussed the operation and prospects of the Company and the Board has 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 a provision of USD1.75 million against the investment revaluation reserve has been made for these investments to reflect prevailing market conditions given the requirement to generate liquidity for the remaining unlisted investments.

The interim financial statements have been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited and Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants except that comparative figures for the cash flow statement have not been prepared as the Company has taken advantage of the transitional provisions set out in the Main Board Listing Rules.

The financial information relating to the financial year ended 31 December 2000 included in this interim financial report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2000 are available from the Company's principal place of business. The auditors have expressed an unqualified opinion on those accounts in their report dated 6 March 2001.

The same accounting policies and methods of computation adopted in the 2000 annual accounts have been applied to the interim financial report except for the adoption of new accounting policy in accordance with SSAP 9 “Events after the balance sheet date” (Revised). Events after the balance sheet date as defined by this accounting standard are those events that occur between the balance sheet date and the date when the financial statements are approved by the Board. This accounting standard requires that, if dividends are proposed or declared after the balance sheet date, an enterprise should not recognise those dividends as a liability at the balance sheet date. This revised accounting treatment for dividends has resulted in a prior year adjustment, further details of which are included in note 5 to the financial statements.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the 2000 annual accounts.

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.

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 are 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 authority to declare interim dividends. Consequently, interim dividend are recognised as a liability when they are proposed and declared.

This revised accounting treatment for dividends has resulted in a prior year adjustment, further details of which are included in note 5 to the financial statements.

3. SEGMENTAL INFORMATION

During the period, the Company was principally involved in investing in companies with significant business involvement in the People's Republic of China. Accordingly, no analysis of segmental information by principal activity is presented. An analysis of the Company's revenue by geographical area of the investee companies for the financial period is as follows:-

| Six months ended 30 June | |
|--------------------------|-------------|
| 2001 | 2000 |
| (unaudited) | (unaudited) |
| US\$ | US\$ |

By geographical area of the investee companies:

Gross Revenue:

| | | |
|---|----------------|----------------|
| Hong Kong | 55,848 | 299,483 |
| The People's Republic of China (other than Hong Kong) | 23,360 | 48,337 |
| North America | 47,604 | (169,983) |
| | <u>126,812</u> | <u>177,837</u> |

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

4. 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 in the accounts as the Company did not generate any assessable profits during the period. Hong Kong profits tax for the six months ended 30 June 2000 was calculated at 16% on the estimated assessable profits arising in Hong Kong during that period.

5. DIVIDENDS

During the period, the Company adopted the revised SSAP 9 “Events after the balance

To comply with the revised SSAP, a prior year adjustment has been made, reclassifying the proposed final dividend for the year ended 31 December 2000, of USD1,950,065, which was previously recognised as a liability at 31 December 2000, to the proposed final dividend account within the capital and reserves section of the balance sheet, as well as the proposed interim dividend for the six months period ended 30 June 2000 of HKD3,656,372. Accordingly, the net asset value at 31 December 2000 was restated from USD10,010,552 (USD0.411 per share) to USD11,960,617 (USD0.491 per share) and the net asset value at 30 June 2000 was restated from USD11,907,962 (USD0.489 per share) to USD15,564,334 (USD0.639 per share).

Subsequent to the interim reporting date, on 5 September 2001, the directors have declared a special interim dividend of USD0.03 (2000: USD0.15) per ordinary share payable on 5 October 2001 to shareholders whose names appear on the Company’s Register of Members on 26 September 2001. This interim dividend has not been recognised as a liability at the interim period end date.

6. LOSS PER SHARE

The calculation of loss per share is based on the net loss for the period from ordinary activities attributable to the shareholders of USD115,204 (six months ended 30 June 2000: loss of USD156,848) and 24,375,813 (30 June 2000: 24,375,813) ordinary shares in issue during the period.

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

7. CREDITORS AND ACCRUED CHARGES

All amounts payable to the creditors are aged within one month (31 December 2000: one month).

8. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on net assets of USD8,123,291 (31 December 2000 restated: USD11,960,617) and 24,375,813 (31 December 2000: 24,375,813) ordinary shares in issue at 30 June 2001.

9. RELATED PARTY TRANSACTIONS

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

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2001 | 2000 |
| | (unaudited) | (unaudited) |
| | US\$ | US\$ |
| Management fee paid to HSBC Asset Management (Bahamas) Limited | 93,450 | 217,463 |

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.

10. AUDIT COMMITTEE

The Audit Committee has reviewed with management of the Company the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters including a review of the interim financial statements which have not been audited.

11. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 9 during the current period, the presentation of the profit and loss account, the balance sheet and certain supporting notes has been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current period's presentation.