

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

1. GENERAL

The Company is 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 Company is an investment holding company.

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 closely-linked currencies.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Company has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these Standards has led to a number of changes in the Company's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised Standards have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised Standards has resulted in the following changes to the Company's accounting policies that have affected the amounts reported for the current or prior periods.

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) "Events after the balance sheet date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment. Proposed final dividends of US\$2,768,100 for 1999 has been reversed and recognised in the year ended 31st December, 2000. Proposed final dividend of US\$2,671,500 for 2000 included in the dividend payable in the balance sheet of the Company as at 31st December, 2000 has been reversed and the restated accumulated profits brought forward from 31st December, 2000 is US\$4,167,504.

Leases

SSAP 14 (Revised) "Leases" has introduced some amendments to the basis of accounting for leases and to disclosures specified for the Company's leasing arrangements. These changes have not had any material effect on the results for the current or prior accounting periods. Disclosures for the Company's leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised).

NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended 31st December, 2001

3. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended 31st December, 2001

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

Investments in securities *(Cont'd)*

As required by the Company's Articles of Association, gains and losses on realisation of investment in securities shall not be available for distribution as dividend. Therefore, those 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.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

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.

As required by the Company's Articles of Association, capital gains or losses on realisation of the Company's assets shall not be available for distribution as dividend. Therefore, gains and losses on the 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31st December, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

4. INVESTMENT INCOME

	2001	2000
	US\$	US\$
Investment income for the year comprises:		
Dividend income		
– Listed securities	637,550	1,247,309
– Unlisted investments	6,701,601	723,804
Interest income	286,486	1,126,387
	<u>7,625,637</u>	<u>3,097,500</u>

No segment information is presented as the Company has only one business activity and operates in one geographical location.

5. DIRECTORS' REMUNERATION

Except for the Directors' fee payable to the Independent Non-Executive Directors totalling US\$30,635 (2000: US\$43,969) which is within the band of US\$nil to US\$128,000, none of the Directors has received any remuneration.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31st December, 2001

6. OTHER ADMINISTRATIVE EXPENSES

	2001	2000
	<i>US\$</i>	<i>US\$</i>
Other administrative expenses include the following:		
Auditors' remuneration	39,414	33,378
Custodian fee	110,438	131,357
Investment advisory fee	<u>81,361</u>	<u>154,550</u>

7. TAXATION

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

8. DIVIDENDS

	2001	2000
	<i>US\$</i>	<i>US\$</i>
Special interim dividend of US\$3 per share paid from the share premium account	—	27,024,000
Final dividend proposed – 40 cents (2000: 30 cents) per share	3,562,000	2,671,500
Special final dividend proposed – 60 cents (2000: nil) per share payable from the share premium account	<u>5,343,000</u>	—
	<u>8,905,000</u>	<u>29,695,500</u>

The Company paid the final dividend for 2000 amounting to US\$2,671,500 on 14th June, 2001.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31st December, 2001

9. LOSS PER SHARE – BASIC

The calculation of basic loss per share is based on the net loss for the year of US\$387,181 (2000: US\$3,396,614) and on the 8,905,000 (2000: weighted average number of 8,985,012) ordinary shares in issue during the year.

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

10. INVESTMENTS IN UNLISTED SECURITIES

	2001 US\$	2000 US\$
Unlisted investments in the PRC, at fair value	<u>35,435,565</u>	<u>29,517,282</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 investments are set out on page 15.

11. INVESTMENTS IN LISTED SECURITIES

	2001 US\$	2000 US\$
Listed securities, at fair value:		
Shares listed on Hong Kong Stock Exchange	6,001,409	27,547,961
Shares listed on Taiwan Stock Exchange	548,728	137,234
Shares listed on New York Stock Exchange	—	1,281,600
Shares listed on Shenzhen Securities Exchange	—	468,168
Shares listed on Shanghai Securities Exchange	—	330,000
Market value at 31st December	<u>6,550,137</u>	<u>29,764,963</u>

Details of listed securities are set out on page 11.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31st December, 2001

12. 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 two properties with carrying amount of US\$1,034,000 (2000: one property was leased out with its carrying value of US\$610,410) during the year under operating leases amounted to US\$83,077 (2000: US\$68,400).

At the balance sheet date, the Company had contracted with tenants for the following future lease payments:

	2001	2000
	US\$	US\$
Within one year	71,000	68,400
Second to fifth year inclusive	14,323	34,200
	<u>85,323</u>	<u>102,600</u>

13. SHARE CAPITAL

	Number of shares	Share capital
		US\$
Issued and fully paid:		
At 1st January, 2000	9,227,000	922,700
Repurchase of shares during 2000	<u>(322,000)</u>	<u>(32,200)</u>
At 31st December, 2000 and 31st December, 2001	<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. There was no change in the authorised share capital during both years.

During the year, the Company did not purchase, sell or redeem any of the Company's own shares.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31st December, 2001

14. RESERVES

	Share premium <i>US\$</i>	Capital reserve <i>US\$</i>	Accumulated profits <i>US\$</i>	Total <i>US\$</i>
At 1st January, 2000, as previously reported	92,125,943	(3,048,443)	3,249,378	92,326,878
Derecognition of liability for final dividend for 1999 (note 2)	—	—	2,768,100	2,768,100
At 1st January, 2000, as restated	92,125,943	(3,048,443)	6,017,478	95,094,978
Premium on repurchase of shares, including expenses	(1,386,008)	—	—	(1,386,008)
Special dividend paid (note 8)	(27,024,000)	—	—	(27,024,000)
Net unrealised gains on revaluation of investments in listed securities	—	1,930,644	—	1,930,644
Net loss for the year	—	—	(3,396,614)	(3,396,614)
Losses on investments in securities transferred to capital reserve	—	(4,250,540)	4,250,540	—
Dividends paid	—	—	(2,703,900)	(2,703,900)
At 31st December, 2000	63,715,935	(5,368,339)	4,167,504	62,515,100
Net unrealised losses on revaluation of investments in listed securities	—	(2,240,730)	—	(2,240,730)
Unrealised gains on revaluation of unlisted investments	—	2,700,000	—	2,700,000
Net loss for the year	—	—	(387,181)	(387,181)
Transfers to capital reserve:				
– Losses on investments in securities and properties held for sale	—	(6,502,540)	6,502,540	—
– Impairment loss recognised in respect of unlisted investments	—	(470,909)	470,909	—
– Reversal of impairment loss previously recognised in respect of an unlisted investment	—	720,000	(720,000)	—
Dividends paid	—	—	(2,671,500)	(2,671,500)
At 31st December, 2001	<u>63,715,935</u>	<u>(11,162,518)</u>	<u>7,362,272</u>	<u>59,915,689</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31st December, 2001

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, 2001 of US\$60,806,189 (2000 restated: US\$63,405,600) and on the 8,905,000 (2000: 8,905,000) ordinary shares in issue as at 31st December, 2001.

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

	2001	2000
	US\$	US\$
Net loss for the year	(387,181)	(3,396,614)
Impairment loss recognised in respect of unlisted investments	470,909	—
Provision for properties held for sale	233,060	—
Loss on sales of investment in securities	6,269,480	4,250,540
Reversal of impairment loss previously recognised in respect of an unlisted investment	(720,000)	—
Decrease (increase) in dividend, interest and other receivable and prepayments	1,334,546	(598,053)
Increase in creditors and accrued charges	645,109	31,552
Increase (decrease) in amount due to Investment Manager	25,413	(191,490)
Net cash inflow from operating activities	<u>7,871,336</u>	<u>95,935</u>

NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended 31st December, 2001

17. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium
	<i>US\$</i>
At 1st January, 2000	93,048,643
Special dividend paid in 2000	(27,024,000)
Repurchase of shares during 2000	<u>(1,418,208)</u>
At 31st December, 2000 and 31st December, 2001	<u>64,606,435</u>

18. CAPITAL COMMITMENTS

	2001	2000
	<i>US\$</i>	<i>US\$</i>
Capital expenditure contracted but not provided for in the financial statements	<u>1,500,000</u>	<u>500,000</u>

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

19. SUBORDINATION

As at balance sheet date, the Company together with other shareholders of an investee company, has 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\$35,000,000 (2000: US\$36,000,000). At 31st December, 2001, the Company has not made any advances to the investee company.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31st December, 2001

20. RELATED PARTY TRANSACTIONS

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

	2001 US\$	2000 US\$
Management fee payable to the Investment Manager	1,275,049	1,545,497
Brokerage commission payable to Kwang Hua Securities Investment & Trust (HK) Co. Ltd. which is managed by a former director of the company	<u>—</u>	<u>43,138</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 Investment Manager is unsecured, interest free and repayable on demand.

Certain unlisted investments held by the Company are jointly invested with Ruentex companies and Bank SinoPac Limited.

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