

NOTES OF THE FINANCIAL STATEMENTS

For the year ended December 31, 2002

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.

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 ("SSAP"s) issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in format of presentation of the cash flow statement and the inclusion of the statement of changes in equity, but has had no material effect on the results for the current or prior year.

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.

Gains or losses arising on the sale of investment in securities are recognised upon the execution of a legally binding and irrevocable contract of sale.

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

For the year ended December 31, 2002

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

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.

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.

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.

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

For the year ended December 31, 2002

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

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 the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

4. INVESTMENT INCOME

	2002	2001
	US\$	US\$
Investment income for the year comprises:		
Dividend income		
– Listed securities	200,896	637,550
– Unlisted investments	2,170,019	6,701,601
Interest income	492,041	286,486
	2,862,956	7,625,637

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

NOTES OF THE FINANCIAL STATEMENTS (Cont'd)

For the year ended December 31, 2002

5. DIRECTORS' REMUNERATION

Except for the Directors' fee payable to the Independent Non-Executive Directors totalling US\$25,645 (2001: US\$30,635) which is within the band of US\$nil to US\$128,000, none of the Directors has received any remuneration.

6. OTHER ADMINISTRATIVE EXPENSES

	2002	2001
	US\$	US\$
Other administrative expenses include the following:		
Auditors' remuneration	47,570	39,414
Custodian fee	72,450	110,438
Investment advisory fee	80,000	81,361
	199,990	231,213

7. TAXATION

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

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

	2002	2001
	US\$	US\$
Final dividend proposed – 20 cents (2001: 40 cents) per share		
	1,781,000	3,562,000
Special final dividend proposed – 20 cents (2001: 60 cents) per share payable from the share premium account		
	1,781,000	5,343,000
	3,562,000	8,905,000

The Company paid the final dividend and special final dividend for 2001 of US\$3,562,000 and US\$5,343,000 respectively on June 3, 2002.

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

For the year ended December 31, 2002

9. EARNINGS (LOSS) PER SHARE – BASIC

The calculation of basic earnings (loss) per share is based on the net profit for the year of US\$1,624,754 (2001: a net loss of US\$387,181) and on the 8,905,000 (2001: 8,905,000) 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 both years.

10. INVESTMENTS IN UNLISTED SECURITIES

	2002 US\$	2001 US\$
Unlisted securities, at fair value:		
Unlisted investments in the People's Republic of China (the "PRC")	35,397,787	35,435,565
Unlisted investments in Taiwan	498,227	—
Fair value at 31st December	<u>35,896,014</u>	<u>35,435,565</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 unlisted securities in the financial statements.

Details of unlisted securities are set out on page 15.

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

For the year ended December 31, 2002

11. INVESTMENTS IN LISTED SECURITIES

	2002 US\$	2001 US\$
Listed securities, at fair value:		
Shares listed on Hong Kong Stock Exchange	5,315,739	6,001,409
Shares listed on Taiwan Stock Exchange	531,665	548,728
	5,847,404	6,550,137
Market value at 31st December	5,847,404	6,550,137

Details of listed securities are set out on page 11.

12. PROPERTIES HELD FOR RESALE

The properties are located in the PRC and held under long leases. The properties are stated at net realisable value at the balance sheet date. It is the intention of the Directors to hold the properties for resale. Rental income from leasing the properties with carrying amount of US\$1,034,000 (2001: US\$1,034,000) during the year under operating leases amounted to US\$84,823 (2001: US\$83,077).

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

	2002 US\$	2001 US\$
Within one year	—	71,000
Second to fifth year inclusive	—	14,323
	—	85,323
	—	85,323

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

For the year ended December 31, 2002

13. SHARE CAPITAL

	Number of ordinary shares of US\$0.1 each	Share capital US\$
Authorised:		
At December 31, 2001 and December 31, 2002	<u>18,000,000</u>	<u>1,800,000</u>
Issued and fully paid:		
At December 31, 2001 and December 31, 2002	<u>8,905,000</u>	<u>890,500</u>

14. 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 December 31, 2002 of US\$52,378,843 (2001: US\$60,806,189) and on the 8,905,000 (2001: 8,905,000) ordinary shares in issue as at December 31, 2002.

15. CAPITAL COMMITMENTS

	2002 US\$	2001 US\$
Capital expenditure contracted but not provided for in the financial statements	<u>—</u>	<u>1,500,000</u>

The capital commitment in prior year was in respect of unpaid capital contribution relating to an unlisted investment in the PRC.

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

For the year ended December 31, 2002

16. 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 (2001: US\$35,000,000). At December 31, 2002, the Company has not made any advances to the investee company.

17. RELATED PARTY TRANSACTIONS

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

	2002	2001
	US\$	US\$
Investment management and administration fees paid and payable to Shanghai International Asset Management (Hong Kong) Company Limited (the "Investment Manager")	<u>1,120,953</u>	<u>1,275,049</u>
Amount due to Investment Manager	<u>277,948</u>	<u>332,667</u>

In accordance with the terms of the investment management agreements and the two supplemental agreements, the management and administration fees are 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.

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 Group of companies and SinoPac Capital Limited.

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