

## NOTES TO FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 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 15/F., Citibank Tower, 3 Garden 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 its shareholders. On 5 September 2001, the Board of Directors (the "Board") resolved to take steps to wind up the Company. Further details of this decision and the basis of presentation adopted in preparing these financial statements are set out in note 3 below.

### 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs have been adopted for the first time in the preparation of the current year's financial statements:

- \* SSAP 1 (Revised): "Presentation of financial statements"
- \* SSAP 15 (Revised): "Cash flow statements"
- \* SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Company's accounting policies and on the amounts disclosed in the financial statements of adopting those SSAPs are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a statement of changes in equity is now presented on page 13 of the financial statements in place of the statement of recognised gains and losses that was previously required, and the reserves note to the financial statements.

SSAP 15 (Revised) prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the cash flow statement set out on page 14 of the financial statements has been revised in accordance with the new requirements. The significant reclassifications resulting from the change in presentation are that dividends paid are now included in cash flows from financing activities and the movements in investments are now included in operating activities. The layout of the 2001 comparative cash flow statement has been changed to conform with the new layout.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits, together with the required disclosures in respect thereof. This SSAP has had no significant impact on these financial statements.

## NOTES TO FINANCIAL STATEMENTS (continued)

### 3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of presentation

Pursuant to the Board meeting held on 5 September 2001, at which it was decided to wind up the Company as soon as practical, the Board has been taking steps to achieve this during 2002. Accordingly, the financial statements have been prepared on the net realisation basis since the year ended 31 December 2001, with all assets and liabilities being classified as current assets and liabilities.

In the opinion of the directors, adequate provision at 31 December 2002, amounting to US\$117,258 (2001: US\$130,000), has been made for the expenses of winding-up of the Company and for any additional liabilities expected to arise as a result of the winding-up.

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

#### 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.

As explained in the "Basis of Presentation" section above, the financial statements have been prepared on the net realisable basis since the year ended 31 December 2001, and accordingly, the gains or losses arising from changes in the fair values of non-trading securities are credited/charged to the profit and loss account in the period in which they arise.

Prior to the net realisable basis financial statements presentation being adopted, the gains or losses arising from changes in the fair value of non-trading securities were dealt with as movements in the investment revaluation reserve. The then total deficit balance of the investment revaluation reserve of US\$2,412,588 relating to the unrealised losses on non-trading securities was charged to the profit and loss account for the year ended 31 December 2001 to recognise the impairment of the securities.

## NOTES TO FINANCIAL STATEMENTS (continued)

### Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

### Dividends

Final dividends 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 have been 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 the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### 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 cash at banks, net of outstanding bank overdrafts; and short term highly liquid investments which are readily convertible into known amounts of cash and which have a short maturity of generally within three months when acquired. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

**NOTES TO FINANCIAL STATEMENTS** (continued)**4. SEGMENT INFORMATION**

During the year, the Company was principally involved in investing in companies with significant business involvement in the People's Republic of China. Accordingly, no analysis of segment information by principal activity is presented.

An analysis of the Company's revenue and assets by the geographical area of operations of the investee companies for the financial year is as follows:

	2002 US\$	2001 US\$
Gross revenue:		
The People's Republic of China .....	2,372,894	113,876
Elsewhere .....	6,703	55,587
	<u>2,379,597</u>	<u>169,463</u>
Segment assets:		
The People's Republic of China .....	6,491,058	7,154,707
Elsewhere .....	1,936,672	310,469
	<u>8,427,730</u>	<u>7,465,176</u>

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

**5. GROSS REVENUE AND GAINS**

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

	2002 US\$	2001 US\$
Interest income .....	38,965	148,845
Realised loss from sales of listed securities .....	(5,130)	-
Unrealised gain on unlisted investment .....	2,345,762	-
Dividend income from listed securities .....	-	20,618
	<u>2,379,597</u>	<u>169,463</u>

**NOTES TO FINANCIAL STATEMENTS** (continued)**6. PROFIT/(LOSS) BEFORE TAX**

The Company's profit/(loss) before tax is arrived at after charging:

	2002 US\$	2001 US\$
Auditors' remuneration .....	9,000	9,000
Directors' remuneration - note 7 .....	82,445	84,750
Exchange losses, net .....	10,313	143
Provision for winding-up costs .....	-	<u>130,000</u>

The Company had no staff costs other than directors' remuneration during the year (2001: Nil).

**7. DIRECTORS' REMUNERATION**

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

	2002 US\$	2001 US\$
Fees:		
Independent non-executive .....	50,750	50,750
Non-executive .....	8,500	8,500
Executive .....	<u>23,195</u>	<u>25,500</u>
	<u>82,445</u>	<u>84,750</u>

The emoluments paid to each individual director 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.

**8. 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.

**NOTES TO FINANCIAL STATEMENTS** (continued)

No provision for Hong Kong profits tax has been made for the year as the Company did not generate any assessable profits in Hong Kong during the year (2001: Nil).

	2002 US\$	2001 US\$
Overprovision in prior years .....	-	231,770
Deferred tax - note 14 .....	87,260	(87,260)
Tax credit for the year .....	<u>87,260</u>	<u>144,510</u>

**9. DIVIDENDS**

	2002 US\$	2001 US\$
Special interim - Nil (2001: US\$0.03 per ordinary share) .....	-	731,274
Proposed final - Nil (2001: US\$0.02 per ordinary share) .....	-	487,516
	<u>-</u>	<u>1,218,790</u>

During the year, the Board proposed a special dividend comprising the distribution in specie of the Company's investment in A-S China Plumbing Products Limited ("ASPPL") to the Company's shareholders. The recommendation was approved by the shareholders at the extraordinary general meetings held on 17 June 2002 and 4 November 2002, subject to the satisfaction of the following conditions:

- (i) the approval of the Growth Enterprise Market ("GEM") listing committee of the listing of the ASPPL shares on the GEM, and the delivery of the listing document to The Stock Exchange of Hong Kong Limited pursuant to Rule 12.24(2) of the GEM Listing Rules on or before 30 April 2003; and
- (ii) the completion of a reorganisation of the capital of ASPPL on or before 30 April 2003.

Since the above conditions have not yet been satisfied as at 31 December 2002, the proposed special dividend has not been recognised in these financial statements. The Company's investment in ASPPL is included in the balance of non-trading securities (note 11) at a carrying amount of US\$3,482,100 at 31 December 2002.

**10. EARNINGS/(LOSS) PER SHARE**

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders of US\$338,239 (2001: loss of US\$2,692,023) and on the weighted average of 24,375,243 (2001: 24,375,813) ordinary shares in issue during the year.

Diluted earnings per share have not been presented as no diluting events existed during either year.

**NOTES TO FINANCIAL STATEMENTS** (continued)**11. NON-TRADING SECURITIES**

	2002 Cost US\$	2002 Fair value US\$	2001 Cost US\$	2001 Fair value US\$
<b>Equity securities</b>				
Hong Kong listed securities .....	-	-	1,117,922	455,334
Unrealised losses .....	-		<u>(662,588)</u>	
			<u>455,334</u>	
Unlisted securities .....	7,048,438		10,048,438	
Provision for impairment in value .....	<u>(1,136,338)</u>		<u>(4,750,000)</u>	
		5,912,100		<u>5,298,438</u>
Total equity securities .....		5,912,100		5,753,772
<b>Debt securities</b>				
Unlisted securities .....	525,709		2,318,030	
Provision for impairment in value .....	-		<u>(1,124,492)</u>	
Total debt securities .....		<u>525,709</u>		<u>1,193,538</u>
Total non-trading securities at 31 December .....		<u>6,437,809</u>		<u>6,947,310</u>

The Company's investment in ASPPL, included in the balance of non-trading securities at a carrying amount of US\$3,842,100, is the subject of the proposed special dividend detailed in note 9 to the financial statements.

**12. CASH AND CASH EQUIVALENTS**

	2002 US\$	2001 US\$
Short term cash deposit .....	1,800,000	200,000
Cash at banks .....	<u>168,894</u>	<u>159,786</u>
	<u>1,968,894</u>	<u>359,786</u>

**NOTES TO FINANCIAL STATEMENTS** (continued)**13. CREDITORS AND ACCRUED CHARGES**

All amounts payable to creditors are aged within one month (2001: one month).

**14. DEFERRED TAX**

	2002 US\$	2001 US\$
Balance at beginning of year .....	87,260	2,022
Underprovision in prior year- note 8 .....	-	87,260
Write back to the investment revaluation reserve for the year .....	-	( 2,022)
Release for the year - note 8 .....	(87,260)	-
At 31 December .....	<u>-</u>	<u>87,260</u>

The principal component of the Company's provided deferred tax liabilities as at 31 December 2001 calculated at 16% was attributable to the unrealised gains/(losses) on investments in listed equity securities, which were disposed of during the year.

**15. SHARE CAPITAL**

	2002 US\$	2001 US\$
Authorised:		
90,000,000 ordinary shares of US\$0.01 each .....	<u>900,000</u>	<u>900,000</u>
Issued and fully paid:		
24,374,813 (2001: 24,375,813) ordinary shares of US\$0.01 each .....	<u>243,748</u>	<u>243,758</u>

The movements in the Company's issued capital during the year were as follows:

	US\$	Number of shares
At 1 January 2002 .....	243,758	24,375,813
Repurchase of shares .....	(10)	(1,000)
At 31 December 2002 .....	<u>243,748</u>	<u>24,374,813</u>

**NOTES TO FINANCIAL STATEMENTS** (continued)

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

Repurchase month	Number of shares repurchased	Total consideration US\$	Purchase price per share Highest US\$	Lowest US\$
June 2002 .....	1,000	381	0.38	0.38
Add: brokerage and commission charges .....		<u>2</u>		
		<u>383</u>		

The above repurchase was made in order to minimise any fractional entitlements arising from the proposed special dividend by way of distribution in specie to the Company's shareholders of the Company's unlisted investment in ASPPL (note 9).

**16. RETAINED PROFITS**

	Realised gains/(loss) from securities US\$	Provision for diminution in value of securities US\$	Unrealised gain on unlisted investment US\$	Retained profits/(accumulated losses) US\$	Total US\$
At 1 January 2001 .....	8,550,639	(4,124,492)	-	(4,426,147)	-
Movement for the year .....	-	(2,412,588)	-	(279,435)	(2,692,023)
Transfer from share premium account .....	-	-	-	10,062,313	10,062,313
Dividends - note 9 .....	-	-	-	(1,218,790)	(1,218,790)
Balance at 31 December 2001 and at 1 January 2002 .....	8,550,639	(6,537,080)	-	4,137,941	6,151,500
Movement for the year .....	(5,130)	(1,732,100)	2,345,762	(270,293)	338,239
Repurchase of shares .....	-	-	-	(383)	(383)
Balance at 31 December 2002 .....	<u>8,545,509</u>	<u>(8,269,180)</u>	<u>2,345,762</u>	<u>3,867,265</u>	<u>6,489,356</u>

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.

**NOTES TO FINANCIAL STATEMENTS** (continued)**17. NET ASSET VALUE PER SHARE**

The calculation of the net asset value per share is based on net assets of US\$7,029,452 (2001: US\$7,179,112) and the 24,374,813 (2001: 24,375,813) ordinary shares in issue at the balance sheet date.

**18. RELATED PARTY TRANSACTION**

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

	2002 US\$	2001 US\$
Management fee paid to HSBC Asset Management (Bahamas) Limited .....	130,806	166,248

HSBC Asset Management (Bahamas) Limited is a related company of which Mr Paul M Y Chow, a director of the Company who resigned on 16 October 2002, is also a director. The management fee payable is calculated at 1.25% to 2% (2001: 1.25% to 2%) of the net asset value of securities in accordance with the Investment Management Agreement.

**19. COMPARATIVE AMOUNTS**

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain statements in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

**20. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the Board of Directors on 12 March 2003.