

I. GENERAL

The Company is a public limited company incorporated in Hong Kong with its shares and warrants listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 18 and 19.

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

During the year, the Group 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, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign Currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries/associates at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Discontinuing Operations

SSAP 33 "Discontinuing Operations" is concerned with the presentation of financial information regarding discontinuing operations and replaces the requirements previously included in SSAP 2 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies". Under SSAP 33, financial information relating to the discontinuing operation are disclosed separately from the point at which either a binding sale agreement is entered into or a detailed plan for the discontinuance is announced. The adoption of SSAP 33 has resulted in the identification of the Group's segment of toll highway operation, consumer goods, electronic products, heavy-industries, property investment and hotel operation as discontinuing operations in the current year, details of which are disclosed in note 5.

Employee Benefits

In the current year, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group's participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the valuation of investment properties and investments in securities.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries and associates which are acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill arising on acquisition prior to 1st January, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1st January, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or associate, the attributable amount of unamortised goodwill/goodwill previously eliminated against reserve is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition prior to 1st January, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisition after 1st January, 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Negative goodwill (*continued*)

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Investments in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interest in associates is stated at the Group's share of the net assets of the associates less any identified impairment loss.

The results of the associates are accounted for by the Company on the basis of dividends received and receivable during the year. Investments in associates are included in the Company's balance sheet at cost as reduced by any identified impairment loss.

Recognition of revenue

Revenue of the Group for the year is recognised on the following bases:

Sales of goods is recognised when goods are delivered and title has passed to the customers.

Hotel revenue from rooms and other ancillary services are recognised when the services are rendered.

Sale of completed properties is recognised on the execution of a binding sale and purchase agreement.

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

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

Income from sale of newspaper is recognised when the newspapers are delivered.

Income from advertisement in newspaper is recognised when the relevant advertisement is published.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight-line basis over the period of the respective leases.

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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. An impairment loss is recognised as expenses immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at open market value based on professional valuation at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to the disposed property is transferred to the income statement.

No depreciation or amortisation is provided on investment properties except where the unexpired term, including the renewal period, of the relevant lease is twenty years or less.

Property, plant and equipment

Properties under construction and construction in progress

Properties under construction and construction in progress are stated at cost, which includes land cost and the related construction cost and borrowing costs capitalised in accordance with the Group's accounting policies, less accumulated impairment losses. No depreciation or amortisation is provided on properties under construction and construction in progress until the construction is completed and the properties and assets are ready for use.

Other property, plant and equipment

Property, plant and equipment, other than properties under construction and construction in progress, is stated at cost less depreciation and accumulated impairment losses.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation of toll highway is provided on the basis of a sinking fund calculation where annual depreciation charge compounded at rates of 4% per annum will equal the cost of the toll highway at the end of the joint venture period of the relevant company that holds the toll highway.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Other property, plant and equipment (continued)

Depreciation is provided to write off the other items of the property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land and land use rights	Over the term of the lease or land use rights
Buildings	2% or the term of the lease or land use rights, if shorter
Furniture and fixtures	10% – 25%
Machinery and equipment	10% – 20%
Motor vehicles	12.5% – 25%

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as assets owned by the Group.

Properties under/held for development

Properties under/held for development where no decision has yet been taken to re-sell or hold for long term purposes are stated at cost less accumulated impairment losses. No depreciation and amortisation is provided on properties under/held for development until the construction is completed and the properties are ready for their intended use.

Costs comprise land cost, construction costs, borrowing costs capitalised in accordance with the Group's accounting policy and other direct costs attributable to the properties under/held for development.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase. Net realisable value is calculated at the actual or estimated selling price less related costs of marketing and selling.

Investments in securities

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

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, which are assets that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Leased assets

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the original principal at the inception of the respective leases, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting year.

All other leases are classified as operating leases and the rentals payables are charged to the income statement on a straight-line basis over the relevant lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing selling and distribution.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed.

Pension/Retirement benefit scheme

The pension costs/retirement benefit scheme contributions relating to the defined contribution scheme/mandatory provident fund scheme charged to the income statement represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes. The amount of contributions payable to previous schemes in jurisdictions other than Hong Kong are charged to the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Taxation**

The charge for taxation is based on the results for the year as adjusted 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 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. TURNOVER

	2002	2001
	HK\$'000	HK\$'000
Sales of goods, net of returns and sales taxes	3,435,370	2,986,793
Toll highway operation	66,418	–
Sales of properties	51,231	58,800
Hotel operation	42,378	50,518
Rental income	6,338	5,982
Publication of newspaper	–	132,311
	<u>3,601,735</u>	<u>3,234,404</u>

The Group carries out its activities primarily in the People's Republic of China ("PRC") including Hong Kong, details of the analysis of the Group's turnover and contribution to results from operations by principal business segment and geographical market are set out in note 5.

Notes to the Financial Statements

For the year ended 31st December, 2002

5. SEGMENTAL INFORMATION

Business segments

For management purposes, the Group is currently organised into the following divisions. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's turnover and contribution to operating results and segmental assets and liabilities by business segments is as follows:

	Discontinuing operations						Continuing operations						Consolidated HK\$'000	
	Toll highway operation HK\$'000 (Note d)	Consumer goods HK\$'000 (Note b)	Electronic products HK\$'000 (Note b)	Property investment HK\$'000 (Note c)	Hotel operation HK\$'000 (Note c)	Heavy industry HK\$'000 (Note d)	Sub-total HK\$'000	Tires HK\$'000	Pharm- aceutical products HK\$'000	Investment in securities, and receivables HK\$'000	Others HK\$'000	Sub-total HK\$'000		Elimination HK\$'000
For the year ended 31st December, 2002														
REVENUE														
External	66,418	-	-	57,953	42,378	131,891	298,640	3,063,693	264,786	71,760	94,055	3,494,294	-	3,792,934
Inter-segment	-	-	-	-	-	-	-	-	-	-	1,840	1,840	(1,840)	-
	<u>66,418</u>	<u>-</u>	<u>-</u>	<u>57,953</u>	<u>42,378</u>	<u>131,891</u>	<u>298,640</u>	<u>3,063,693</u>	<u>264,786</u>	<u>71,760</u>	<u>95,895</u>	<u>3,496,134</u>	<u>(1,840)</u>	<u>3,792,934</u>
RESULT														
Segment result	(45,968)	-	-	(14,352)	(300)	18,023	(42,597)	(73,789)	18,058	(284,532)	85,161	(255,102)	(984)	(298,683)
Unallocated corporate expenses														(191,537)
Finance costs														(109,460)
Interest income	-	391	-	-	270	-	661	17,772	92	19,431	-	37,295	-	37,956
Dividend income	-	1,369	-	-	-	-	1,369	-	-	2,363	-	2,363	-	3,732
Share of results of associates	-	-	-	-	(151)	-	(151)	(94,415)	-	(43,190)	182	(137,423)	-	(137,574)
Loss before taxation														(695,566)
Taxation														(18,041)
Loss before minority interests														(713,607)
Minority interests														236,500
Net loss for the year														<u>(477,107)</u>
Assets and liabilities at 31st December, 2002														
ASSETS														
Segment assets	-	-	-	-	-	-	-	2,064,209	114,115	1,151,287	729,692	4,059,303	-	4,059,303
Interests in associates	-	-	-	-	306,326	-	306,326	238,730	-	135,935	337	375,002	-	681,328
Unallocated total assets														9,951
Consolidated total assets														<u>4,750,582</u>
LIABILITIES														
Segment liabilities	-	-	-	-	-	-	-	(838,339)	(96,221)	-	(282,293)	(1,216,853)	-	(1,216,853)
Unallocated corporate liabilities														(1,084,188)
Consolidated total liabilities														<u>(2,301,041)</u>
Other information for the year ended 31st December, 2002														
Capital expenditure														
- Property, plant and equipment	1,240	-	-	7,830	9,691	3,191	21,952	272,142	40,204	-	13	312,359	-	334,311
- Properties under/held for development	-	-	-	3,760	-	-	3,760	-	-	-	-	-	-	3,760
Depreciation and amortisation	23,784	-	-	1,659	1,338	2,063	28,844	97,402	11,090	-	820	109,312	-	138,156
Impairment loss	70,467	-	-	10,254	-	-	80,721	275,294	-	-	-	275,294	-	356,015
Other non-cash expenses	-	-	-	-	-	-	-	37,795	-	358,161	-	395,956	-	395,956
Gain on disposal of investments in securities	-	-	-	-	-	-	-	-	-	71,760	-	71,760	-	71,760
Gain on disposal of property, plant and equipment	-	-	-	-	-	-	-	-	-	-	82	82	-	82
Loss on disposal of investment property	-	-	-	-	-	-	-	-	-	-	2,000	2,000	-	2,000

Inter-segment revenue are charged at terms determined and agreed between the group companies.

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For the year ended 31st December, 2002

5. SEGMENTAL INFORMATION (continued)

Business segments (continued)

	Discontinuing operations							Continuing operations							Elimination	Consolidated
	Newspaper publication HK\$'000 (Note e)	Toll highway operation HK\$'000	Consumer goods HK\$'000	Electronic products HK\$'000	Property investment HK\$'000	Hotel operation HK\$'000	Heavy industry HK\$'000	Sub-total HK\$'000	Tires HK\$'000	Pharmaceutical products HK\$'000	Investment in securities, and receivables HK\$'000	Others HK\$'000	Sub-total HK\$'000			
<i>For the year ended 31st December, 2001</i>																
REVENUE																
External	132,311	-	189,706	24,310	65,455	50,518	115,036	577,336	2,599,622	62,071	-	75,929	2,737,622	-	3,314,958	
Inter-segment	-	-	-	-	1,685	-	-	1,685	-	-	-	2,193	2,193	(3,878)	-	
	<u>132,311</u>	<u>-</u>	<u>189,706</u>	<u>24,310</u>	<u>67,140</u>	<u>50,518</u>	<u>115,036</u>	<u>579,021</u>	<u>2,599,622</u>	<u>62,071</u>	<u>-</u>	<u>78,122</u>	<u>2,739,815</u>	<u>(3,878)</u>	<u>3,314,958</u>	
RESULT																
Segment result	(31,663)	(360,272)	7,180	(6,998)	(138,553)	(18,125)	2,583	(545,848)	(128,124)	8,591	(206,741)	(2,782)	(329,056)		(874,904)	
Unallocated corporate expenses															(104,018)	
Finance costs															(81,462)	
Interest income	-	-	150	53	-	2,899	83	3,185	9,515	36	58,989	-	68,540		71,725	
Dividend income	-	-	-	-	-	-	-	-	-	-	5,414	-	5,509		5,509	
Share of results of associates	(8,998)	-	-	-	-	-	-	(8,998)	-	(6,995)	-	(2,004)	(8,999)		(17,997)	
Loss before taxation															(1,001,147)	
Taxation															(5,982)	
Loss before minority interests															(1,007,129)	
Minority interests															408,399	
Net loss for the year															<u>(598,730)</u>	
<i>Assets and liabilities at 31st December, 2001</i>																
ASSETS																
Segment assets	-	841,836	111,669	20,933	602,285	208,102	124,177	1,909,002	2,704,852	185,625	1,037,962	96,889	4,025,328		5,934,330	
Interests in associates	64,899	-	-	-	-	-	-	64,899	-	-	-	111,369	111,369		176,268	
Unallocated total assets															143,978	
Consolidated total assets															<u>6,254,576</u>	
LIABILITIES																
Segment liabilities	-	(721,246)	(40,281)	(10,723)	(121,401)	(8,693)	(44,244)	(946,588)	(637,412)	(84,061)	-	(2,191)	(723,664)		(1,670,252)	
Unallocated corporate liabilities															(1,039,952)	
Consolidated total liabilities															<u>(2,710,204)</u>	
<i>Other information for the year ended 31st December, 2001</i>																
Capital expenditure																
- Property, plant and equipment	41,383	273,565	11,167	34	21,508	-	4,191	351,848	118,195	114,393	-	1,000	233,588		585,436	
- Properties underheld for development	-	-	-	-	8,392	-	-	8,392	-	-	-	-	-		8,392	
- Investment properties	-	-	-	-	96,510	-	-	96,510	-	-	-	-	-		96,510	
Depreciation and amortisation	18,165	-	7,594	837	1,792	-	4,346	32,734	110,796	1,079	-	1,563	113,438		146,172	
Impairment loss	-	360,272	-	-	103,131	25,000	-	488,403	80,512	-	-	17,592	98,104		586,507	
Other non-cash expenses	-	-	-	-	-	-	-	-	94,984	-	179,995	-	274,979		274,979	
Loss on disposal of investment property	-	-	-	-	50	-	-	50	-	-	-	-	-		50	
Loss on disposal of investments in securities	-	-	-	-	-	-	-	-	-	-	15,182	-	15,182		15,182	
Loss on disposal of property, plant and equipment	-	-	-	-	-	-	-	-	-	-	-	2,827	2,827		2,827	
Deficit arising on the revaluation on investment properties	-	-	-	-	19,977	-	-	19,977	-	-	-	-	-		19,977	

Inter-segment revenue are charged at terms determined and agreed between the group companies.

Notes to the Financial Statements

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5. SEGMENTAL INFORMATION *(continued)*

Business segments *(continued)*

Notes:

(a) In September 2002, Rosedale Hotel Group Limited ("Rosedale Hotel", formerly known as China Land Group Limited), a non-wholly owned subsidiary of the Group, entered into a memorandum of understanding to dispose of its interest in a subsidiary which was engaged in toll highway operation. Upon the completion of the disposal, the Group had no interest in toll highway operation and the business segment of toll highway operation was regarded as discontinuing operation during the year.

(b) In January 2002, the Group disposed of its interest in Ningbo Zhongce Taifeng Food Company Limited ("Taifeng Food") and Hangzhou Zhongce Electrics Co., Limited ("Hangzhou Electrics"). Taifeng Food was mainly engaged in manufacturing and trading of foods products while Hangzhou Electrics was engaged in manufacturing and trading of electronic products, representing the business segment of consumer goods and electronic products respectively.

Upon the completion of the disposal, the Group had no interest in Taifeng Food and Hangzhou Electrics and the business segments of consumer goods and electronic products were regarded as discontinuing operation during the year.

(c) In December 2002, the Group carried out an extensive group reorganisation which resulted in the dilution of the Group's interests in Rosedale Hotel from approximately 65.56% to approximately 32.20%. Rosedale Hotel is mainly engaged in the activities of hotel operation and property investment. Upon the completion of the group reorganisation, the business segment of hotel operation and property investment were regarded as discontinuing operation during the year.

(d) In August 2002, the Group disposed of its interest in China Tractors and Automobiles Manufacturing Limited ("China Tractors") and Yito (Ningbo) C.S.I. Tractor & Automobile Co., Ltd. ("Yito"). China Tractor and Yito were mainly engaged in the manufacturing and trading of tractors and automobile related products, representing the business segments of heavy industries.

Upon the completion of the disposal, the Group had no interest in China Tractors and Yito and the business segment of heavy industries were regarded as discontinuing operation during the year.

(e) In December 2001, the Group disposed of its interest in Actiwater Resources Limited, which is mainly engaged in newspaper publishing, to Leadership Publishing Group Limited ("Leadership Publishing", formerly known as Sing Pao Media Group Limited). Upon the completion of the disposal, the Group held approximately 27.97% interest in Leadership Publishing and the business segment of newspaper publishing was regarded as discontinuing operation in 2001.

5. SEGMENTAL INFORMATION (continued)

The aggregate carrying amounts of the assets and liabilities of the discontinuing operations at the date of discontinuance are as follows:

	2002						2001
	Toll highway operation <i>HK\$'000</i>	Consumer goods <i>HK\$'000</i>	Electronic products <i>HK\$'000</i>	Property investment and hotel operation <i>HK\$'000</i>	Heavy industry <i>HK\$'000</i>	Total	Newspaper publication <i>HK\$'000</i>
Total assets	<u>728,010</u>	<u>138,620</u>	<u>27,821</u>	<u>908,670</u>	<u>191,405</u>	<u>1,994,526</u>	<u>204,996</u>
Total liabilities	<u>(649,650)</u>	<u>(46,425)</u>	<u>(14,405)</u>	<u>(264,749)</u>	<u>(145,319)</u>	<u>(1,120,548)</u>	<u>(248,919)</u>
Operating cash in(out)flow	<u>44,561</u>	<u>-</u>	<u>(4,782)</u>	<u>80,877</u>	<u>8,606</u>	<u>129,262</u>	<u>54,774</u>
Cash outflow in respect of investing activities	<u>(3,867)</u>	<u>-</u>	<u>-</u>	<u>(48,025)</u>	<u>-</u>	<u>(51,892)</u>	<u>(29,515)</u>
Cash in(out)flow in respect of financing activities	<u>(36,442)</u>	<u>-</u>	<u>-</u>	<u>65,068</u>	<u>(8,015)</u>	<u>20,611</u>	<u>66,972</u>
Net operating cash in(out)flow	<u>4,252</u>	<u>-</u>	<u>(4,782)</u>	<u>97,920</u>	<u>591</u>	<u>97,981</u>	<u>92,231</u>

Geographical segments

The following provides an analysis of the Group's turnover by geographic market, irrespective of the origin of the goods/services:

	Turnover	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
PRC, other than Hong Kong	<u>2,624,238</u>	2,346,119
Hong Kong	<u>246,372</u>	228,058
Overseas	<u>731,125</u>	660,227
	<u>3,601,735</u>	<u>3,234,404</u>

Notes to the Financial Statements

For the year ended 31st December, 2002

5. SEGMENTAL INFORMATION (continued)

The following is an analysis of the carrying amount of segment assets and capital additions analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions For the year ended	
	At 31st December,		31st December,	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
PRC, other than Hong Kong	2,433,551	4,799,836	279,093	676,251
Hong Kong	2,297,828	1,052,700	58,978	14,087
Overseas	19,203	402,040	–	–
	4,750,582	6,254,576	338,071	690,338

6. OTHER OPERATING INCOME

	2002 HK\$'000	2001 HK\$'000
Gain on disposal/dilution of interests in subsidiaries	64,193	63,047
Gain on disposal/dilution of interests in associates	14,980	–
Interest income	37,956	71,725
Gain on disposal of investments in securities	71,760	–
Dividend income from listed investments	3,732	5,509
Gain on disposal of property, plant and equipment	82	–
Net exchange gain	8,700	946
Sale of scrap materials	18,052	–
Others	13,432	16,561
	232,887	157,788

7. OTHER EXPENSES

	2002	2001
	HK\$'000	HK\$'000
Impairment loss on:		
Property, plant and equipment		
– toll highway	70,467	360,272
– properties under construction	–	63,257
– construction in progress	45,354	61,493
– leasehold properties	64,404	–
– hotel property	–	25,000
– machinery and equipment	164,304	17,863
– motor vehicles	1,232	1,156
	345,761	529,041
Properties held for sale	1,185	11,081
Investment properties	9,069	–
Properties under/held for development	–	28,793
Goodwill of subsidiaries and associates	–	14,005
Interest in an associate	–	3,587
Deficit arising on the revaluation of investment properties	–	19,977
Allowances for inventories	20,347	10,012
Unrealised holding loss on investments in securities	232,636	139,972
Allowances for bad and doubtful debts	85,741	74,582
Allowances for loan and interest receivables	57,232	50,413
Loss on disposal of investment property	2,000	50
Loss on disposal of investments in securities	–	15,182
Loss on disposal of property, plant and equipment	–	2,827
Others	6,573	–
	760,544	899,522

Notes to the Financial Statements

For the year ended 31st December, 2002

8. LOSS FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Loss from operations has been arrived at after charging:		
Staff costs		
– directors remuneration (<i>note 9(a)</i>)	3,205	2,696
– other staff costs (<i>note 9(b)</i>)	318,041	302,566
– retirement benefits scheme contributions, excluding directors	24,679	37,050
	<hr/>	<hr/>
Total staff costs	345,925	342,312
Less: amount capitalised in toll highway, properties under/ held for development and properties under construction	–	(6,565)
	<hr/>	<hr/>
	345,925	335,747
	<hr/>	<hr/>
Auditors' remuneration		
Current year	7,846	6,521
Overprovision in prior year	(380)	(2,135)
Depreciation and amortisation of property, plant and equipment:		
– owned assets	136,496	140,967
– assets under finance lease	26	7
Less: amount capitalised in toll highway	–	(231)
	<hr/>	<hr/>
	136,522	140,743
	<hr/>	<hr/>
Amortisation of intangible asset included in administrative expenses	–	4,934
Amortisation of goodwill included in administrative expenses	1,634	495
and after crediting:		
Net rental income in respect of premises after outgoings of HK\$1,111,000 (2001: HK\$28,000)	12,272	11,886
	<hr/> <hr/>	<hr/> <hr/>

9. DIRECTORS' AND EMPLOYEE REMUNERATION**(a) DIRECTORS' REMUNERATION**

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees		
– Executive directors	–	–
– Non-executive directors	–	295
– Independent non-executive directors	178	216
	<u>178</u>	<u>511</u>
Other emoluments		
– Executive directors		
Salaries and other benefits	2,999	2,165
Retirement benefits contributions	28	20
	<u>3,027</u>	<u>2,185</u>
	<u>3,205</u>	<u>2,696</u>

The number of directors whose remuneration falls within the bands set out below is as follows:

HK\$	2002 Number of directors	2001 Number of directors
Nil to 1,000,000	10	12
1,000,001 to 1,500,000	<u>2</u>	<u>1</u>

During the year, no emoluments were paid by the Group to any director as an inducement to join or upon joining the Group or as compensation for loss of office.

(b) EMPLOYEES' REMUNERATION

The five highest paid individuals in the Group included three (2001: two) directors of the Company, details of whose remuneration are set out above. The aggregate remuneration of the remaining highest paid individuals, who are employees of the Group, is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Remuneration, salaries and other benefits	<u>1,680</u>	<u>3,595</u>

Notes to the Financial Statements

For the year ended 31st December, 2002

9. DIRECTORS' AND EMPLOYEE REMUNERATION (continued)

(b) EMPLOYEES' REMUNERATION (continued)

HK\$	2002 Number of employees	2001 Number of employees
Nil to 1,000,000	1	1
1,000,001 to 1,500,000	1	2

10. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	60,034	81,423
Other borrowings	17,257	198
Obligations under finance leases	10	9
	77,301	81,630
Interest on bank borrowings not wholly repayable within five years	36,443	39,605
	113,744	121,235
Less: Amount capitalised in construction in progress/toll highway	(4,284)	(39,773)
	109,460	81,462

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.87% to expenditure on qualifying assets.

11. TAXATION

	2002 HK\$'000	2001 HK\$'000
The charge (credit) comprises:		
Taxation in other jurisdictions	18,041	12,982
Overprovision in prior years	–	(7,000)
Taxation attributable to the Company and its subsidiaries	18,041	5,982

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

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The Company and certain of its subsidiaries incurred losses and hence are not subject to taxation.

Details of deferred taxation are set out in note 32.

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$477,107,000 (2001: HK\$598,730,000) and on the adjusted weighted average of 620,259,682 (2001: adjusted 468,933,386) ordinary shares in issue during the year, after adjustment for the effect of the rights issue as set out in note 28.

No disclosure of the diluted loss per share has been shown for the year ended 31st December, 2002 and 2001 as the exercise of the share options and warrants would result in a decrease in loss per share.

13. INVESTMENT PROPERTIES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
VALUATION		
At 1st January	49,341	71,818
Acquired on acquisition of subsidiaries	–	96,510
Eliminated on disposal of subsidiaries	(28,272)	(84,510)
Disposal	(12,000)	(14,500)
Impairment loss	(9,069)	–
Deficit arising on revaluation	–	(19,977)
	<hr/>	<hr/>
At 31st December	–	49,341
	<hr/> <hr/>	<hr/> <hr/>

During the year, the Group identified impairment loss of HK\$9,069,000 on investment properties located in PRC with reference to the selling prices and has been charged to the consolidated income statement.

The carrying value of the investment properties comprises:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Properties held under medium-term leases in Hong Kong	–	12,000
Properties held under medium-term land use right in the PRC	–	37,341
	<hr/>	<hr/>
	–	49,341
	<hr/> <hr/>	<hr/> <hr/>

The investment properties were held for rental under operating leases.

Notes to the Financial Statements

For the year ended 31st December, 2002

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture and fixtures	Machinery and equipment	Motor vehicles	Properties under construction	Toll highway	Construction in progress	Hotel property	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP									
COST									
At 1st January, 2002	456,150	26,985	1,133,979	40,938	404,089	1,170,838	151,980	225,000	3,609,959
Currency realignment	(176)	-	(479)	(14)	-	-	(16)	-	(685)
Acquired on acquisition of subsidiaries	-	-	219	-	-	-	-	-	219
Reclassification	146	(146)	-	-	-	-	-	-	-
Additions	6,727	32,117	56,778	4,805	7,760	-	225,905	-	334,092
Transfer	17,262	32,643	126,449	-	-	-	(176,354)	-	-
Disposals	(12,862)	(20,500)	(93,256)	(2,809)	-	-	-	-	(129,427)
Disposal of subsidiaries	(121,950)	(11,356)	(195,349)	(9,245)	(411,849)	(1,170,838)	(82,582)	(225,000)	(2,228,169)
At 31st December, 2002	345,297	59,743	1,028,341	33,675	-	-	118,933	-	1,585,989
DEPRECIATION AND AMORTISATION									
At 1st January, 2002	124,017	11,485	484,962	27,274	63,257	360,272	61,493	25,000	1,157,760
Currency realignment	(53)	(1)	(204)	(8)	-	-	-	-	(266)
Reclassification	191	(191)	-	-	-	-	-	-	-
Provided for the year	20,214	10,802	78,802	3,365	-	23,339	-	-	136,522
Impairment loss recognised	64,404	-	164,304	1,232	-	70,467	45,354	-	345,761
Eliminated on disposals	(8,986)	(16,231)	(24,353)	(2,269)	-	-	-	-	(51,839)
Eliminated on disposal of subsidiaries	(30,450)	(1,812)	(104,735)	(7,902)	(63,257)	(454,078)	(61,493)	(25,000)	(748,727)
At 31st December, 2002	169,337	4,052	598,776	21,692	-	-	45,354	-	839,211
NET BOOK VALUES									
At 31st December, 2002	175,960	55,691	429,565	11,983	-	-	73,579	-	746,778
At 31st December, 2001	332,133	15,500	649,017	13,664	340,832	810,566	90,487	200,000	2,452,199

- (a) At 31st December, 2001, included in the net book value of toll highway is interest capitalised of HK\$77,719,000.
- (b) As explained in note 5(a), the Group reviewed the carrying amount of toll highway with reference to the selling price for the disposal of toll highway. An impairment loss of approximately HK\$70,467,000 has been identified which has been recognised in the consolidated income statement during the year.

14. PROPERTY, PLANT AND EQUIPMENT (continued)

- (c) In addition, due to recurring losses suffered by a tire factory subsidiary in the PRC, the Group reviewed the carrying amount of machinery and equipment with reference to the estimated value determined under the discounted cash flow method, an impairment loss of approximately HK\$164,304,000 was identified which has been recognised in the consolidated income statement during the year.
- (d) The Group also reviewed the carrying amount of land and buildings, motor vehicles and construction in progress held by certain subsidiaries with reference to the estimated net selling prices. An impairment loss of approximately HK\$110,990,000 was identified which has been recognised in the consolidated income statement during the year.

	Land and buildings <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY					
COST					
At 1st January, 2002	6,824	1,660	1,643	541	10,668
Additions	–	–	12	–	12
Disposals	–	(172)	(339)	–	(511)
At 31st December, 2002	6,824	1,488	1,316	541	10,169
DEPRECIATION					
At 1st January, 2002	361	371	1,146	68	1,946
Provided for the year	171	313	194	134	812
Eliminated on disposals	–	(81)	(338)	–	(419)
At 31st December, 2002	532	603	1,002	202	2,339
NET BOOK VALUES					
At 31st December, 2002	6,292	885	314	339	7,830
At 31st December, 2001	6,463	1,289	497	473	8,722

At the balance sheet dates, the land and buildings of the Group and the Company are held under medium-term land use rights in the PRC, other than Hong Kong.

The net book value of motor vehicles as at 31st December, 2002 included an amount of approximately HK\$237,000 (2001: HK\$263,000) in respect of assets held under finance leases.

Notes to the Financial Statements

For the year ended 31st December, 2002

15. PROPERTIES UNDER/HELD FOR DEVELOPMENT

	The Group	
	2002	2001
	HK\$'000	HK\$'000
COST		
At 1st January	137,000	157,401
Development costs incurred during the year	3,760	8,392
Impairment loss	-	(28,793)
Disposal of subsidiaries	(140,760)	-
	<u> </u>	<u> </u>
At 31st December	<u> </u> -	<u> </u> 137,000
Comprising:		
	2002	2001
	HK\$'000	HK\$'000
Properties held under medium-term land use rights in the PRC, other than Hong Kong	-	111,000
Properties held under long-term land use rights in the PRC, other than Hong Kong	-	26,000
	<u> </u>	<u> </u>
	<u> </u> -	<u> </u> 137,000

16. PAYMENT FOR ACQUISITION OF LAND DEVELOPMENT RIGHTS

THE GROUP AND THE COMPANY

During the year ended 31st December, 2001, an agreement was entered into between the Company and 北京市順義區李橋鎮人民政府 (the "People's Government of Li Qiao Town") for the joint development project of a piece of land which is adjacent to the eastern side of Beijing Capital Airport, the PRC, under which the Company agreed to make an aggregate payment of approximately RMB230,000,000 (equivalent to HK\$216,981,000) to the People's Government of Li Qiao Town for the land development right of the project.

As at 31st December, 2002, partial payments of approximately RMB8,000,000, equivalent to approximately HK\$7,441,000 (2001: RMB3,000,000, equivalent to approximately HK\$2,727,000) was paid by the Company.

In addition, during the year, the Company has paid consultancy fee and project management fee for this project totalling approximately HK\$7,246,000 and the above amounts are included in the payment for acquisition of land development rights.

17. GOODWILL

	The Group	
	2002	2001
	HK\$'000	HK\$'000
COST		
At 1st January	33,203	–
Acquired on acquisition of subsidiaries	–	53,112
Eliminated on disposal of subsidiaries	(121)	(19,909)
	<u>33,082</u>	<u>33,203</u>
At 31st December		
AMORTISATION		
At 1st January	495	–
Provided for the year	1,634	495
	<u>2,129</u>	<u>495</u>
At 31st December		
NET BOOK VALUES		
At 31st December	<u>30,953</u>	<u>32,708</u>

Goodwill is amortised on a straight-line basis and the amortisation period for goodwill is 20 years.

18. INVESTMENTS IN SUBSIDIARIES/RECEIVABLES DUE FROM SUBSIDIARIES/PAYABLES DUE TO SUBSIDIARIES

	2002	2001
	HK\$'000	HK\$'000
Investments in subsidiaries		
Shares listed overseas, at cost	228,703	228,703
Unlisted shares, at cost	91,263	100,483
	<u>319,966</u>	<u>329,186</u>
Market value of listed shares	<u>10,530</u>	<u>23,868</u>
Receivables due from subsidiaries		
Amounts due from subsidiaries	3,876,129	3,598,640
Less: Allowances	(2,134,348)	(2,083,185)
	<u>1,741,781</u>	<u>1,515,455</u>
Payables due to subsidiaries		
Amounts due to subsidiaries	<u>676,601</u>	<u>709,918</u>

In the opinion of the directors, the receivables due from and payables due to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. The amounts are unlikely to be repaid within one year and are therefore shown as non-current.

Notes to the Financial Statements

For the year ended 31st December, 2002

18. INVESTMENTS IN SUBSIDIARIES/RECEIVABLES DUE FROM SUBSIDIARIES/ PAYABLES DUE TO SUBSIDIARIES (continued)

Particulars of the principal subsidiaries at 31st December, 2002 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Australia Net.Com Limited ("Australia Net.Com") (note e)	Australia (note a)	A\$31,184,116	–	57.26	Investment holding
China Pharmaceutical Industrial Limited (note e)	Hong Kong	HK\$2	–	57.26	Investment holding
China Enterprises Limited ("China Enterprises") (note e)	Bermuda (note b)	Supervoting Common Stock US\$30,000 Common Stock US\$60,173	33.27 (note b)	24.84 (note b)	Investment holding
Double Happiness Tyre Industries Corporation Limited ("DH") (note d)	PRC	RMB280,684,311	–	55 (note b)	Inactive
Dazhai C.S.I. Cement Co., Ltd. (note d)	PRC	RMB17,000,000	51	–	Manufacture of cement
Hangzhou Zhongce Rubber Co., Limited ("Hangzhou Rubber") (note d)	PRC	RMB469,748,777	–	51 (note b)	Manufacture of tires
Tung Fong Hung Investment Limited ("Tung Fong Hung") (note c)	British Virgin Islands	US\$10,000	–	100	Manufacture and trading of Chinese and western pharmaceutical products
Yinchuan C.S.I. (Greatwall) Rubber Co., Ltd. ("Yinchuan C.S.I.") (note d)	PRC	RMB667,833,101	–	51 (note b)	Manufacture of tires

**18. INVESTMENTS IN SUBSIDIARIES/RECEIVABLES DUE FROM SUBSIDIARIES/
PAYABLES DUE TO SUBSIDIARIES (continued)**

Notes:

- a. Australia Net.Com operates both in Australia and Hong Kong and its shares are listed on the Australian Stock Exchange. Australia Net.Com and its subsidiaries are mainly engaged in the investment holding activities.
- b. China Enterprises principally operates in the PRC and its shares were listed on the New York Stock Exchange ("NYSE") until 27th September, 2002 when it was suspended from trading as a result of China Enterprises' failure to meet NYSE's continuing listing standards. The NYSE notified China Enterprises on 31st December, 2002 that the Securities and Exchange Commission granted the application of the NYSE for removal on the common stock of China Enterprises from listing and registration on the NYSE under the Securities Exchange Act of 1934 effective on 30th December, 2002. On 26th November, 2002, the Company's common shares began trading on the Over the Counter Bulletin Board of the United States of America. The Group holds a 55.2% effective equity interest and an 88.8% voting interest in China Enterprises. China Enterprises is a holding company which owns a majority stake in DH, Hangzhou Rubber and Yinchuan C.S.I. at 31st December, 2002.
- c. Tung Fong Hung operates in Hong Kong.
- d. This is a PRC sino-foreign equity joint venture.
- e. This is a limited company incorporated in the respective jurisdiction.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Financial Statements

For the year ended 31st December, 2002

19. INTERESTS IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES/ PAYABLES DUE TO ASSOCIATES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Interests in associates				
Share of net assets	714,070	156,132	-	-
Goodwill				
At 1st January	20,136	-	-	-
Arising from acquisition of associates	91,784	20,136	-	-
Less: amortisation	(1,147)	-	-	-
Realised upon dilution of interests in associates	(20,136)	-	-	-
At 31st December	90,637	20,136	-	-
Negative goodwill				
At 1st January	-	-	-	-
Arising from acquisition of associates	(123,379)	-	-	-
At 31st December	(123,379)	-	-	-
Unlisted shares, at cost	-	-	2	2
	681,328	176,268	2	2
Receivables due from associates				
Amounts due from associates	60,535	13,517	14	473
Payables due to associates				
Amounts due to associates	189	9,625	187	-
Market value of listed shares of associates	567,143	155,837	-	-

Goodwill is amortised on a straight-line basis and the amortisation period for goodwill is 10 years. Negative goodwill is released to income over 10 years.

19. INTERESTS IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES/ PAYABLES DUE TO ASSOCIATES (continued)

Particulars of the principal associates at 31st December, 2002 are as follows:

Name of associate	Place of incorporation/ registration	Place of operation	Proportion of nominal value of issued share capital/registered capital held indirectly by the Company %	Principal activities
Rosedale Hotel Group Limited ("Rosedale Hotel", formerly known as China Land Group Limited) (notes a and c)	Bermuda	Hong Kong and PRC	32.20	Hotel operation and property investment
Ananda Wing On Travel (Holdings) Limited ("Ananda Wing On") (notes a and c)	Bermuda	Hong Kong	32.21	Business of providing package tours, travel, transportation, and other related services
Dong Fang Gas Holdings Limited ("Dong Fang Gas", formerly known as Companion Building Material International Holdings Limited) (notes a and c)	Bermuda	Hong Kong and PRC	43.06	Trading of ceramic tiles and bathroom accessories and securities trading
Hangzhou Sunrise Rubber Co., Ltd. (notes b and c)	PRC	PRC	49.20	Manufacture of tires

Notes:

- (a) The shares of Rosedale Hotel, Ananda Wing On and Dong Fang Gas are listed on the Hong Kong Stock Exchange.
- (b) Hangzhou Sunrise Rubber Co., Ltd. is an associate of Hangzhou Rubber.
- (c) This is a limited company incorporated in the respective jurisdiction.

The amounts due from/to associates are unsecured, non-interest bearing and repayable on demand.

Notes to the Financial Statements

For the year ended 31st December, 2002

19. INTERESTS IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES/ PAYABLES DUE TO ASSOCIATES (continued)

The following is a summary of the most recent published financial information of the principal associates which were acquired by the Group during the year:

Consolidated results for the year/period:

	Rosedale Hotel 1.1.2002 to 31.12.2002 <i>HK\$'000</i>	Ananda Wing On 1.4.2002 to 31.12.2002 <i>HK\$'000</i>	Dong Fang Gas 1.4.2002 to 30.9.2002 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	<u>181,692</u>	<u>1,323,286</u>	<u>79,456</u>	<u>1,584,434</u>
Loss before taxation and after minority interests	<u>(99,810)</u>	<u>(302,917)</u>	<u>(43,357)</u>	<u>(446,084)</u>
Loss before taxation and after minority interests attributable to the Group since date of acquisition	<u>(1,600)</u>	<u>(87,751)</u>	<u>(3,275)</u>	<u>(92,626)</u>

Consolidated financial position:

	Rosedale Hotel At 31.12.2002 <i>HK\$'000</i>	Ananda Wing On At 31.12.2002 <i>HK\$'000</i>	Dong Fang Gas At 30.9.2002 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Non-current assets	2,126,452	901,106	149,078	3,176,636
Current assets	166,972	536,923	534,215	1,238,110
Current liabilities	(186,306)	(478,490)	(402,524)	(1,067,320)
Non-current liabilities	(1,056,027)	(298,248)	(3,220)	(1,357,495)
Minority interests	(103,766)	–	(24,606)	(128,372)
Net assets	<u>947,325</u>	<u>661,291</u>	<u>252,943</u>	<u>1,861,559</u>
Net assets attributable to the Group:				
As at 31st December, 2002	<u>305,039</u>	<u>213,002</u>	<u>105,642</u>	<u>623,683</u>

**19. INTERESTS IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES/
PAYABLES DUE TO ASSOCIATES (continued)**

As at 31st December, 2002, the negative goodwill arose from the acquisition of Ananda Wing On. In April 2002, the Group acquired approximately 34.58% interest in Ananda Wing On for a consideration of approximately HK\$130 million and the interest was subsequently diluted to approximately 32.21% after issue of shares and repurchase of shares of Ananda Wing On.

As at 31st December, 2002, the goodwill arose from the acquisition of Dong Fang Gas. During the year, the Group acquired approximately 43.06% interest in Dong Fang Gas for a consideration of approximately HK\$210 million.

Goodwill as at 31st December, 2001 mainly arose from the acquisition of Leadership Publishing in December, 2001. The amount was released to the income statement following the dilution of the Group's interest in Leadership Publishing from interest in associate to other investment.

During the year, the Group's interest in PacificNet, Inc. was diluted from approximately 29.52% to approximately 9.93% following the allotment and issue of new shares by PacificNet, Inc.. Accordingly, the interest in PacificNet, Inc. has been reclassified as other investment.

In December 2002, the Group carried out an extensive group reorganisation which resulted in the dilution of interest in Rosedale Hotel from approximately 65.56% to approximately 32.20%.

The above table lists the associates of the Group which, in the opinion of the directors, constituted a substantial portion of the share of results or of net assets of the associates. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Financial Statements

For the year ended 31st December, 2002

20. RECEIVABLES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Loan and interest receivables				
– secured (note a)	230,300	270,474	–	–
– unsecured (note b)	578,171	189,039	82,529	41,457
Receivables due from related companies (note c)	6	534	–	28
	808,477	460,047	82,529	41,485
Less: Allowances	(105,232)	(50,413)	–	–
	703,245	409,634	82,529	41,485
Less: Amounts due within one year and shown under current assets	(680,659)	(107,195)	(59,943)	(16,239)
Amounts due after one year	22,586	302,439	22,586	25,246

Notes:

- (a) Included in secured loan and interest receivables were amounts of approximately HK\$121,500,000 (2001: HK\$123,491,000) and HK\$108,800,000 (2001: HK\$110,583,000) were amounts due from Danwei Limited ("Danwei") and Lucklong Venture Limited ("Lucklong") respectively. Mr. Lau Ko Yuen, Tom, alternate director to Ms. Chau Mei Wah, Rosanna of the Company, is a director of the ultimate holding company of Danwei and Lucklong. In addition, Ms. Chau Mei Wah, Rosanna, director of the Company, is also a director of Danwei and Lucklong. Shares of certain property holding companies held by Danwei and Lucklong were pledged to the Group as securities to the loans.

The loan receivables carry interest at the prevailing market rate.

20. RECEIVABLES (continued)

Notes: (continued)

- (b) Included in unsecured loan and interest receivables were amounts of approximately HK\$103,757,000 (2001: HK\$45,183,000) due from China Development Corporation Limited, a former associate of the Group.

Included in unsecured loan and interest receivables were amounts of approximately HK\$40,299,000 (2001: HK\$51,701,000) and approximately HK\$78,193,000 (2001: nil) due from a subsidiary of an investee and associates of the Group, respectively.

The loan receivables carry interest at the prevailing market rate.

- (c) Details of the receivables due from related companies are as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Paul Y. – ITC Management Limited	6	24	–	–
Bob & Partners Co., Ltd. (formerly known as Star East Bob Limited)	–	160	–	–
Star East Management Services Limited	–	157	–	–
Rosedale Hotel Management Limited	–	113	–	–
Star East Holdings Limited	–	80	–	28
	6	534	–	28

The amounts are unsecured, non-interest bearing and repayable on demand.

Paul Y. – ITC Management Limited and Rosedale Hotel Management Limited are wholly-owned subsidiaries of substantial shareholders of the Company.

Star East Management Services Limited and Bob & Partners Co., Ltd. are the subsidiaries of Star East Holdings Limited, in which certain directors of the Company have beneficial interest.

Notes to the Financial Statements

For the year ended 31st December, 2002

21. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	Other investments		Other investments	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities:				
Listed	265,931	261,403	–	–
Unlisted	46,952	73,279	9,892	18,692
	312,883	334,682	9,892	18,692
Debt securities:				
Unlisted	134,340	177,188	–	–
Club debenture	825	1,538	825	825
Total	448,048	513,408	10,717	19,517
Total and reported as:				
Listed				
Hong Kong	239,016	214,248	–	–
Elsewhere	26,915	47,155	–	–
Unlisted	182,117	252,005	10,717	19,517
	448,048	513,408	10,717	19,517
Classified under				
Current	37,363	40,000	–	–
Non-current	410,685	473,408	10,717	19,517
	448,048	513,408	10,717	19,517
Market value of listed securities	265,931	261,403	–	–

The carrying value of listed securities in Hong Kong at 31st December, 2002 included an amount of HK\$11,988,250 (2001: HK\$71,005,500) and HK\$52,984,800 (2001: HK\$60,834,000), representing 6.73% (2001: 9.16%) and 10% (2001: 10%) interest in Panva Gas Holdings Limited ("Panva Gas") and Ming Pao Enterprises Corporation Limited ("Ming Pao"), respectively. Panva Gas and Ming Pao are incorporated in the Cayman Islands and Bermuda respectively and both are listed on the Hong Kong Stock Exchange.

21. INVESTMENTS IN SECURITIES (continued)

In addition, following the rights issue carried out by Leadership Publishing and dilution of the Group's interest in Rosedale Hotel, the Group's interest in Leadership Publishing was changed from interest in associate to other investments. At 31st December, 2002, the market value of the Group's interests in Leadership Publishing is approximately HK\$33,211,000.

The carrying value of the unlisted debt securities at 31st December, 2002 included an investment of HK\$8,000,000 (2001: HK\$52,585,000) in convertible bond ("G-Prop Bond") issued by G-Prop (Holdings) Limited, a company listed on the Hong Kong Stock Exchange. The G-Prop Bond is non-interest bearing and is due for redemption on 10th December, 2004 at HK\$57,000,000. It entitled the holders at any time after 10th December, 2002 and up to 10th December, 2004 to convert the G-Prop Bond into shares in G-Prop (Holdings) Limited at a conversion price of HK\$0.28 per share (subject to adjustment).

The carrying value of the unlisted debt securities at 31st December, 2002 also included a promissory note of HK\$2,540,000 (2001: HK\$40,000,000) issued by a third party and carries interest at prevailing market rate per annum, repayable on demand and secured by shares in China Development Corporation Limited, a company listed on the Hong Kong Stock Exchange.

**22. LOANS FROM/TO MINORITY SHAREHOLDERS
THE GROUP**

The amounts were unsecured, non-interest bearing and disposed of by the Group following the dilution of the Group's interest in Rosedale Hotel.

**23. PROPERTIES HELD FOR SALE
THE GROUP**

Properties held for sale were carried at net realisable value.

During the year, the properties held for sale were disposed by the Group following the dilution of the Group's interest in Rosedale Hotel.

24. INVENTORIES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Raw materials	330,660	312,952
Work in progress	21,414	19,007
Finished goods	475,670	458,329
	827,744	790,288

Included above are raw materials of HK\$330,660,000 (2001: HK\$312,952,000), work in progress of nil (2001: HK\$19,007,000) and finished goods of HK\$475,670,000 (2001: HK\$458,329,000) which are carried at their net realisable value.

The cost of inventories recognised as an expense during the year was approximately HK\$3,052,768,000 (2001: HK\$2,771,566,000).

Notes to the Financial Statements

For the year ended 31st December, 2002

25. TRADE DEBTORS

The Group allows its trade customers with credit period normally ranging from 90 days to 180 days. The aged analysis of the trade debtors at the balance sheet date is as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
0-90 days	387,848	330,169
90-180 days	89,724	93,564
Over 180 days	56,387	57,291
	533,959	481,024

26. CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES

Included in creditors, other payables and accrued charges are creditors with the following aged analysis:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
0-90 days	219,156	278,148
90-180 days	48,641	43,876
Over 180 days	109,345	75,570
	377,142	397,594
Add: Other payables and accrued charges	515,022	598,112
	892,164	995,706

27. PAYABLES DUE TO RELATED COMPANIES

Details of the payables due to related companies are as follows:

	Notes	THE GROUP		THE COMPANY	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Nation Cheer Investment Limited	(i)	122,702	–	122,702	–
Hanny Magnetics Limited	(i)	104,595	1,234	103,457	151
ITC Management Limited	(ii)	42,937	29,539	35	328
Paul Y. Project Management International Limited	(i)	1,879	–	1,879	–
Mass Success International Limited	(i)	71	594	71	594
Paul Y. – ITC Management Limited	(i)	–	127	–	–
Paul Y. – ITC Construction Company Limited	(i)	–	3,634	–	–
Tai Shan Paul Y. Construction Co., Ltd.	(i)	–	1,364	–	–
		272,184	36,492	228,144	1,073
Less: Amounts due within one year and shown under current liabilities		(46,155)	(36,492)	(2,115)	(1,073)
Amounts due after one year		226,029	–	226,029	–

All amounts are unsecured, carry interest at prevailing market rate. Except the payables due to Nation Cheer Investment Limited and Hanny Magnetics Limited which are repayable after one year from the balance sheet date, all remaining balances are repayable on demand.

Notes:

- (i) The companies are wholly-owned subsidiaries of substantial shareholders of the Company.
- (ii) ITC Management Limited is a wholly-owned subsidiary of ITC Corporation Limited, a shareholder of the Company's substantial shareholder.

Notes to the Financial Statements

For the year ended 31st December, 2002

28. SHARE CAPITAL

	Notes	Number of shares	Value HK\$'000
Authorised:			
Ordinary shares of HK\$0.10 each at 1st January, 2001		8,000,000,000	800,000
Consolidation of shares	(a)	<u>(7,200,000,000)</u>	<u>–</u>
Ordinary shares of HK\$1.00 each		800,000,000	800,000
Adjustment of nominal value	(a)	<u>–</u>	<u>(720,000)</u>
Ordinary shares of HK\$0.10 each		800,000,000	80,000
Additions	(a)	<u>7,200,000,000</u>	<u>720,000</u>
Ordinary shares of HK\$0.10 each at 31st December, 2001 and 2002		<u>8,000,000,000</u>	<u>800,000</u>
Issued and fully paid:			
Ordinary shares of HK\$0.10 each at 1st January, 2001		4,609,789,420	460,979
Consolidation of shares	(a)	<u>(4,148,810,478)</u>	<u>–</u>
Ordinary shares of HK\$1.00 each		460,978,942	460,979
Adjustment to nominal value	(a)	<u>–</u>	<u>(414,881)</u>
Ordinary shares of HK\$0.10 each at 31st December, 2001		460,978,942	46,098
Issue of shares	(b)	92,000,000	9,200
Rights issue of shares	(c)	<u>276,489,471</u>	<u>27,649</u>
Ordinary shares of HK\$0.10 each at 31st December, 2002		<u>829,468,413</u>	<u>82,947</u>

Notes:

- (a) Pursuant to resolutions passed by the shareholders of the Company in an extraordinary general meeting held on 18th June, 2001, the Company carried out the following capital reorganisation ("Capital Reorganisation"):
- Every ten ordinary shares of HK\$0.10 each in the issued and unissued share capital of the Company were consolidated into one ordinary share of HK\$1.00 each ("Consolidated Share") ("Share Consolidation");
 - Immediately following the Share Consolidation, the nominal value of the issued and unissued Consolidated Shares was reduced from HK\$1.00 to HK\$0.10 each ("Capital Reduction");

28. SHARE CAPITAL (continued)

Notes: (continued)

- The credit of approximately HK\$414,881,000 arisen as a result of the Capital Reduction was credited to the special capital reserve account of the Company;
- Upon the Capital Reduction becoming effective, the authorised capital of the Company was increased from HK\$80,000,000 to HK\$800,000,000 by the creation of an additional 7,200,000,000 ordinary shares of HK\$0.10 each.

Details of the Capital Reorganisation were set out in the circular to the Company's shareholders dated 23rd May, 2001 and were approved by the High Court of the Hong Kong Special Administrative Region on 31st July, 2001.

- (b) The Company issued and allotted 92,000,000 shares of HK\$0.10 each in the Company to its substantial shareholders for cash at HK\$0.20 each to raise additional working capital. The shares issued rank pari passu with the then existing shares in issue in all respects.
- (c) Pursuant to resolutions passed by the shareholders of the Company in an extraordinary general meeting held on 7th August, 2002, 276,489,471 new shares of HK\$0.10 each were issued by way of rights issue ("Rights Issue"), at an issue price of HK\$0.15 per share, to the shareholders in the proportion of one rights share for every two existing shares held, with a bonus issue of warrants. The bonus issue of warrants was issued to the shareholders pursuant to the Rights Issue on the basis of three units of subscription rights with initial subscription price of HK\$0.16 per share, subject to adjustment, for every five rights shares taken up. The net proceed will be used for partial payment of compensation fees to be paid by the Company for the joint development project of a piece of land which is adjacent to the eastern side of Beijing Capital Airport, the PRC. Details of the above joint development project are set out in note 16.

29. WARRANTS

At 31st December, 2002, the Company had outstanding warrants conferring rights to subscribe for up to HK\$26,542,989 in cash for shares. Exercise in full of these outstanding warrants would, under the share capital structure of the Company as of 31st December, 2002, result in the issue of 165,893,682 new shares of HK\$0.10 each in the Company.

In accordance with the conditions attached to the warrants of the Company, each of the warrants confers rights to the registered holder to subscribe for one new share of the Company in cash at an initial subscription price of HK\$0.16 per share, subject to adjustment, at any time from the date of issue to 31st December, 2003 (both days inclusive).

There were no warrants exercised during the year.

30. SHARE OPTIONS**THE COMPANY***The 1992 Scheme*

In accordance with the terms of the Company's Executive Share Option Scheme adopted on 20th July, 1992 and effective for a period of ten years after the date of the scheme, the Company granted to directors and employees of the Company and its subsidiaries share options to subscribe for its ordinary shares for a consideration of HK\$1 for the primary purpose of providing incentives to directors and eligible employees. The subscription price, subject to adjustment, is based on 80% of the average of the closing prices of the shares of the Company on the five trading days immediately before the options were offered. Options granted are exercisable not later than ten years after the date the options are granted. The 1992 Scheme was terminated pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 4th June, 2002.

Notes to the Financial Statements

For the year ended 31st December, 2002

30. SHARE OPTIONS (continued)

THE COMPANY (continued)

The 1992 Scheme (continued)

At 31st December, 2002, the number of shares in respect of which options had been granted under the 1992 Schemes was 510,000 (2001: 376,750), representing approximately 0.061% (2001: 0.082%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the 1992 Scheme was not permitted to exceed 10% of the shares of the Company in issue excluding any share issued pursuant to the 1992 Scheme at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual was not permitted to exceed 25% of the aggregate number of shares of the Company in issue and issuable under the 1992 Scheme at any point in time, without prior approval from the Company's shareholders.

A summary of the movements of share options under the 1992 Scheme during the year is as follows:

Date of grant	Exercisable period	Exercise price HK\$	Notes	Outstanding at 1.1.2002	Number of shares under option		Outstanding at 31.12.2002
					Surrendered/ lapsed during the year	Adjustment due to the Rights Issue	
21.7.1997	21.7.1998 to 20.7.2002	6.060	(i)	9,750	(9,750)	-	-
12.1.2000	18.1.2000 to 17.1.2005	3.440	(ii)	50,000	-	(50,000)	-
		3.145	(ii)	-	-	75,000	75,000
Total for directors				<u>59,750</u>	<u>(9,750)</u>	<u>25,000</u>	<u>75,000</u>
Employees							
21.7.1997	21.7.1998 to 20.7.2002	6.060	(i)	27,000	(27,000)	-	-
14.2.2000	16.2.2000 to 15.2.2005	4.050	(ii)	290,000	-	(290,000)	-
		3.702	(ii)	-	-	435,000	435,000
Total for employees				<u>317,000</u>	<u>(27,000)</u>	<u>145,000</u>	<u>435,000</u>
Grand total				<u>376,750</u>	<u>(36,750)</u>	<u>170,000</u>	<u>510,000</u>

Notes:

- (i) As the options lapsed before the Rights Issue became effective, no adjustments were required to be made on the exercise price and number of options granted.
- (ii) Following the Rights Issue, the exercise prices of the share options were adjusted to HK\$3.145 and HK\$3.702 from their initial exercise prices of HK\$3.440 and HK\$4.050 respectively. The number of share options was also adjusted as a result of the Rights Issue.

30. SHARE OPTIONS (continued)**THE COMPANY (continued)**

The 1992 Scheme (continued)

A summary of the movement of share options under the 1992 Scheme for the year ended 31st December, 2001 is as follows:

Date of grant	Exercisable period	Exercise price HK\$	Notes	Number of shares under option			Outstanding at 31.12.2001
				Outstanding at 1.1.2001	Adjustment due to share consolidation	Surrendered/lapsed during the year	
21.7.1997	21.7.1998 to 20.7.2002	0.606	(i)	97,500	(97,500)	–	–
		6.060	(i)	–	9,750	–	9,750
12.1.2000	18.1.2000 to 17.1.2005	0.344	(i)	1,000,000	(1,000,000)	–	–
		3.440	(i)	–	100,000	(50,000)	50,000
Total for directors				1,097,500	(987,750)	(50,000)	59,750
21.7.1997	21.7.1998 to 20.7.2002	0.606	(i)	21,550,000	(330,000)	(21,220,000)	–
		6.060	(i)	–	33,000	(6,000)	27,000
27.5.1999	27.5.1999 to 26.5.2004	0.300		25,000,000	–	(25,000,000)	–
22.11.1999	22.11.1999 to 21.11.2004	0.320	(i)	2,000,000	(2,000,000)	–	–
		3.200	(i)	–	200,000	(200,000)	–
14.2.2000	16.2.2000 to 15.2.2005	0.405	(i)	7,900,000	(2,900,000)	(5,000,000)	–
		4.050	(i)	–	290,000	–	290,000
Total for employees				56,450,000	(4,707,000)	(51,426,000)	317,000
Grand total				57,547,500	(5,694,750)	(51,476,000)	376,750

Note:

- (i) Following the Capital Reorganisation, the exercise prices of the share options were adjusted to HK\$6.06, HK\$3.2, HK\$3.44 and HK\$4.05 from their initial exercise prices of HK\$0.606, HK\$0.32, HK\$0.344 and HK\$0.405 respectively.

30. SHARE OPTIONS (*continued*)

The 2002 Scheme

On 4th June, 2002, the Company adopted a new share option scheme ("2002 Scheme") which is effective for a period of ten years for the primary purpose of providing incentives to directors and eligible employees. Under the 2002 Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK\$1. Options granted must be taken up within 30 days of the date of grant, upon payment of HK\$1 per grant. Options granted are exercisable not later than ten years after the date the options are granted. The exercise price, subject to adjustment, is determined by the board of directors of the Company and will not be less than the highest of (i) the closing price of the Company's share on the date of options granted, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant and (iii) the nominal value of the Company's share.

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed the higher of 10% of the shares of the Company in issue excluding any share issued pursuant to the 2002 Scheme at any point in time, without prior approval for the Company's shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the aggregate number of shares of the Company in issue and issuable under 2002 Scheme at any point in time, without prior approval from the Company's shareholders.

There were no options granted under the 2002 Scheme.

SUBSIDIARY

China Enterprises

Pursuant to the Executive Share Option Scheme adopted on 7th June, 1994 and effective for a period of ten years after the date of the adoption of the scheme, China Enterprises granted options to officers and employees, and directors who are also employees, of China Enterprises and its subsidiaries to subscribe for common stock in China Enterprises for a consideration of HK\$1 for the primary purpose of providing incentives to officers, directors and eligible employees, subject to a maximum of 910,000 shares. Shares of common stock to be issued upon the exercise of options will be authorised and unissued shares. An independent committee (the "Committee") of China Enterprises' board of directors was formed to monitor and consider the granting of options under the scheme. The subscription price will be determined by the Committee, and will not be less than 80% of the average closing price of shares of common stock over the five trading days immediately preceding the date of offer of the option.

At 31st December, 2002, the number of shares in respect of which options had been granted under the above scheme was 20,000 (2001: 20,000), representing 0.22% (2001: 0.22%) of the share of China Enterprises in issue at that date. The total number of shares in respect of which options may be granted under the schemes is not permitted to exceed 910,000 of the shares of China Enterprises in issue at any point in time, without prior approval from China Enterprises' shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 25% of the shares of China Enterprises in issue at any point in time, without prior approval from China Enterprises' shareholders.

30. SHARE OPTIONS (continued)**SUBSIDIARY (continued)***China Enterprises (continued)*

A summary of the movements of share options under the share option scheme of China Enterprises held by employees during the year is as follows:

Exercisable period	Exercise price <i>US\$</i>	Outstanding at 1.1.2001 and 31.12.2002 and 2001
3.2.2000 to 2.2.2010	9.9375	20,000

There were no options granted/lapsed under the share option scheme of China Enterprises during 2001 and 2002.

31. RESERVES

	Share premium <i>HK\$'000</i>	Special capital reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY					
At 1st January, 2001	1,876,729	–	233	(423,602)	1,453,360
Arising from Capital Reduction	–	414,881	–	–	414,881
Net loss for the year	–	–	–	(621,305)	(621,305)
At 31st December, 2001	1,876,729	414,881	233	(1,044,907)	1,246,936
Premium from issue of shares	23,024	–	–	–	23,024
Share issue expenses	(2,405)	–	–	–	(2,405)
Net loss for the year	–	–	–	(112,550)	(112,550)
At 31st December, 2002	<u>1,897,348</u>	<u>414,881</u>	<u>233</u>	<u>(1,157,457)</u>	<u>1,155,005</u>

The special capital reserve of the Company represents the amount arising from the Capital Reduction as described in note 28(a).

At 31st December, 2002 and 2001, the Company had no reserves available for distribution to shareholders.

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32. DEFERRED TAXATION

The components of the deferred taxation (credit) charge not recognised for the year are as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to:				
Difference between depreciation allowances claimed for tax purposes and depreciation charged in the financial statements	(72)	393	(72)	187
Tax loss (arising) utilised	(4,563)	(109,097)	3,000	1,273
Released upon dilution of a subsidiary	38,276	–	–	–
Impairment and revaluation losses on properties	–	(476)	–	–
	<u>33,641</u>	<u>(109,180)</u>	<u>2,928</u>	<u>1,460</u>

At the balance sheet date, the components of the deferred taxation asset (liability), not recognised in the financial statements, are as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to:				
Excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	(5,976)	(6,166)	(455)	(527)
Unutilised tax losses	285,198	307,696	19,000	22,000
Impairment and revaluation losses on properties	–	11,333	–	–
	<u>279,222</u>	<u>312,863</u>	<u>18,545</u>	<u>21,473</u>

The deferred taxation asset is not recognised because it is uncertain whether the tax benefit will be realised in the foreseeable future.

Notes to the Financial Statements

For the year ended 31st December, 2002

33. BANK LOANS AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank loans	1,046,851	1,515,206	20,000	20,000
Obligations under finance leases (note a)	174	187	35	46
Bank overdrafts	23,462	–	23,462	–
Other borrowings (note b)	13,323	–	–	–
	1,083,810	1,515,393	43,497	20,046
Secured	181,715	672,735	–	–
Unsecured	902,095	842,658	–	–
	1,083,810	1,515,393	–	–
Repayable as follows:				
Within one year	996,861	922,272	43,473	20,011
Between one and two years	41,752	53,754	24	35
Between two and five years	45,197	24,386	–	–
Over five years	–	514,981	–	–
	1,083,810	1,515,393	43,497	20,046
Less: Amount due within one year included under current liabilities	(996,861)	(922,272)	(43,473)	(20,011)
Amount due after one year	86,949	593,121	24	35

Notes to the Financial Statements

For the year ended 31st December, 2002

33. BANK LOANS AND OTHER BORROWINGS (continued)

Notes:

(a)

	Minimum lease payments				Present value of minimum lease payments			
	THE GROUP		THE COMPANY		THE GROUP		THE COMPANY	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable under finance leases:								
Within one year	158	24	14	14	150	14	11	11
In the second to fifth years inclusive	32	189	33	47	24	173	24	35
	190	213	47	61	174	187	35	46
Less: Future finance charges	(16)	(26)	(12)	(15)	-	-	-	-
Present value of lease obligations	174	187	35	46	174	187	35	46
Less: Amount due within one year					(150)	(14)	(11)	(11)
Amount due after one year					24	173	24	35

The average lease term is five (2001: five) years. For the year ended 31st December, 2002, the average effective borrowing rate was 6% (2001:5%). Interest rate is fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases contract are secured by the lessor's charge on the hired assets.

(b) The amounts carrying interest at prime rate plus 3%.

34. DEPOSITS RECEIVED

THE GROUP

The amounts represented deposits received in connection from the pre-sale of certain properties under/hold for development. The deposits would be transferred to the income statement upon the execution of the binding sale and purchase agreements.

During the year, the deposit received were disposed of by the Group following the dilution of the Group's interest in Rosedale Hotel.

Notes to the Financial Statements

For the year ended 31st December, 2002

35. DISPOSAL/DILUTION OF INTERESTS IN SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Investment properties	28,272	84,510
Property, plant and equipment	1,479,442	189,164
Property under/held for development	140,760	–
Goodwill	121	19,909
Intangible asset	–	102,274
Interests in associates	–	19,432
Investments in securities	7,379	26,262
Loans to minority shareholders	21,408	–
Deposits paid for acquisition of subsidiaries	75,000	–
Properties held for sale	31,793	–
Inventories	46,412	197,426
Trade debtors	51,083	175,958
Receivables	43,119	–
Other receivables, deposits and prepayments	69,098	240,996
Income and other tax recoverable	3,077	–
Bank balances and cash	113,992	76,490
Creditors, other payables and accrued charges	(461,875)	(402,133)
Income and other taxes payable	(3,523)	(75)
Bank loans and other borrowings	(613,258)	(314,750)
Obligations under finance leases	(2,727)	–
Minority interests	(411,777)	(35,268)
Deposits received	(87,433)	–
Loans from minority shareholders	(375)	–
Convertible note	(66,000)	–
	463,988	380,195
Negative goodwill reserve realised	(71,028)	(25,262)
Exchange reserve realised	(2,190)	(650)
Other non-distributable reserves realised	(2,577)	(11,078)
	388,193	343,205
Gain on disposal/dilution	64,193	63,047
	452,386	406,252
Satisfied by:		
Cash	75,508	360,296
Interest in a subsidiary (note 37(g))	43,199	–
Other receivables	26,161	–
Interests in associates	307,518	9,556
Receivables	–	36,400
	452,386	406,252
Analysis of the net (outflow) inflow of cash and cash equivalents in connection with the disposal/dilution of subsidiaries:		
Cash consideration received	75,508	360,296
Bank balances and cash disposed of	(113,992)	(76,490)
Net (outflow) inflow of cash and cash equivalents	(38,484)	283,806

The subsidiaries disposed of during the year contributed HK\$298,640,000 (2001: HK\$132,311,000) to the Group's turnover, and HK\$42,597,000 (2001: HK\$31,663,000) to the Group's loss from operations.

Notes to the Financial Statements

For the year ended 31st December, 2002

36. PURCHASE OF SUBSIDIARIES

During the year, the Group's purchase of subsidiaries mainly represented the acquisition of a further 65% interest in Wintime Properties Developments Limited ("Wintime") and the shareholders' loan to Wintime for a total consideration of HK\$43.2 million which is satisfied by the disposal of the entire interests in another subsidiary. This acquisition has been accounted for by the acquisition method of accounting.

	2002	2001
	HK\$'000	HK\$'000
Net assets acquired:		
Investment properties	–	96,510
Property, plant and equipment	219	77,071
Interests in associates	–	19,466
Receivables	–	44,201
Investments in securities	–	54,599
Properties held for sale	51,893	83,180
Inventories	356	70,771
Trade debtors	14,219	27,304
Other receivables, deposits and prepayments	12,725	150,390
Income and other tax recoverable	–	129
Bank balances and cash	422	52,568
Creditors, other payables and accrued charges	(25,905)	(109,964)
Income and other tax payable	(193)	–
Bank loans and other borrowings	–	(104,941)
Obligations under finance leases	–	(143)
Minority interests	(1,529)	(51,738)
	52,207	409,403
Goodwill arising on acquisition	–	53,112
	52,207	462,515
Satisfied by:		
Cash	933	407,018
Interest in a subsidiary (note 37(g))	43,199	–
Reclassification from interest in an associate	17,440	37,032
Reclassification from amount due to an associate	(9,365)	–
Other receivables, deposits and prepayments	–	18,465
	52,207	462,515

36. PURCHASE OF SUBSIDIARIES (continued)

Analysis of the net cash outflow of cash and cash equivalents in connection with the purchase of subsidiaries:

	2002	2001
	HK\$'000	HK\$'000
Cash consideration paid	(933)	(407,018)
Bank balances and cash acquired	422	52,568
	<hr/>	<hr/>
Net cash outflow of cash and cash equivalents in connection with the purchase of subsidiaries	<u>(511)</u>	<u>(354,450)</u>

The subsidiaries acquired during the year contributed HK\$107,020,000 (2001: HK\$99,967,000) to the Group's turnover, and HK\$2,645,000 (2001: HK\$87,730,000) to the Group's loss from operations.

37. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2002, the major non-cash transactions are as follows:

- (a) As explained in note 6(c), the Group's interest in Rosedale Hotel was diluted from approximately 65.56% to approximately 32.20%. Accordingly, increase in interest in an associate of approximately HK\$307,518,000 arose from the dilution of interest in Rosedale Hotel held by the Group.
- (b) During the year, the Group's interest in Leadership Publishing was diluted from approximately 27.97% to approximately 19.69% following the rights issue carried out by Leadership Publishing and dilution of the Group's interest in Rosedale Hotel. Accordingly, interest in an associate of approximately HK\$38,543,000 was decreased as a result of dilution of interest in Leadership Publishing.
- (c) Finance lease arrangement in respect of property, plant and equipment with a capital value at the inception of the leases of approximately HK\$2,727,000.
- (d) Increase in other receivable, deposits and repayment of approximately HK\$10,000,000 as a result of the disposal of investment properties.
- (e) During the year, repayment of loan receivables of HK\$286,767,000 was satisfied by the same amount of loan payables under a deed of novation dated 30th September, 2002 entered into by the Group and relevant parties.
- (f) During the year, repayment of loan receivables of HK\$22,928,000 was satisfied by the same amount of loan payables under four deed of assignments dated 31st December, 2002 entered into by the Group and the relevant parties.
- (g) During the year, the Group acquired a further 65% interest in Wintime and the shareholders' loan to Wintime for a total consideration of HK\$43.2 million which is satisfied by the disposal of the entire interests in another subsidiary.

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For the year ended 31st December, 2002

37. MAJOR NON-CASH TRANSACTIONS (continued)

During the year ended 31st December, 2001, the major non-cash transactions are as follows:

- (a) Decrease in interests in associates of approximately HK\$37,032,000 and other receivables of approximately HK\$18,465,000 were part of the consideration paid for acquisition of subsidiaries.
- (b) Additions to interests in associates of approximately HK\$9,556,000 and loan receivables of approximately HK\$36,400,000 were part of the consideration received for disposal of certain subsidiaries.
- (c) Additions to toll highway of HK\$188,331,000 were transferred from advances to contractors.
- (d) Finance lease arrangements in respect of property, plant and equipment with a capital value of the contracts amounted to approximately HK\$53,000.
- (e) Investments in securities of approximately HK\$64,295,000 was reclassified as interests in associates following the increase of the Group's interest in the associate.

38. COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted for but not provided in the financial statements in respect of:				
– Land development rights	209,540	214,254	209,540	214,254
– Property, plant and equipment	137,061	18,005	–	–
– Construction in progress	15,531	10,849	–	–
– Properties under/held for development	–	26,902	–	–
– Properties under construction	–	129,393	–	–
	362,132	399,403	209,540	214,254
Authorised but not contracted for in respect of property, plant and equipment	–	35,096	–	–

39. OPERATING LEASE COMMITMENTS (continued)

The Group has made approximately HK\$36,974,000 (2001: HK\$17,432,000) minimum lease payments under operating leases during the year in respect of office premises.

The Group as lessee

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	24,899	26,429	577	992
In the second to fifth year inclusive	37,094	25,482	577	–
Over five years	155	1,678	–	–
	<u>62,148</u>	<u>53,589</u>	<u>1,154</u>	<u>992</u>

Leases are negotiated for an average term of two to three years and rentals are fixed for an average of two to three years.

The Group as lessor

Property rental income earned during the year was HK\$13,383,000 (2001: HK\$11,914,000).

At the balance sheet date, the Group had contracted which tenants for the following future minimum lease payments:

	The Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	–	9,479
In the second to fifth year inclusive	–	18,633
Over five years	–	994
	<u>–</u>	<u>29,106</u>

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For the year ended 31st December, 2002

40. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
(a) Corporate guarantee given by the Company for banking facilities granted to subsidiaries	-	-	93,145	108,243
Other guarantees issued to:				
Associates	169,635	182,302	-	-
Outsiders	780	780	780	780
	<u>170,415</u>	<u>183,082</u>	<u>93,925</u>	<u>109,023</u>

- (b) The Company has granted a guarantee in favour of MTR Corporation Limited ("MTR") in respect of outstanding rent and obligations under the tenancy agreement entered into between Tung Fong Hung Medicine (Retail) Limited, a wholly-owned subsidiary of the Company, and MTR for the leased properties.

41. PLEDGE OF ASSETS

- (a) At 31st December, 2002, the following assets were pledged to secure credit facilities granted to the Group:

- No investment properties were pledged as at 31st December, 2002. As at 31st December, 2001, investment properties with carrying value of approximately HK\$17,630,000.
- Certain property, plant and equipment with a carrying value of HK\$219,532,000 (2001: HK\$234,462,000)
- Bank deposits of HK\$24,839,000 (2001: HK\$83,520,000).
- All assets of a subsidiary of the Company with a consolidated net assets value of HK\$45,746,000 (2001: Nil).

- (b) At 31st December, 2002, the following assets were pledged to secure margin account credit facilities granted to the Group:

- Investment in securities with a carrying value of HK\$249,990,000 (2001: HK\$5,244,000).
- No shares in associates were pledged as at 31st December, 2002. As at 31st December, 2001, certain shares in associates with carrying value of approximately HK\$53,194,000.

The margin loan facilities amounting to HK\$13,323,000 (2001: Nil) were utilised by the Group.

- (c) In 2001, the Group pledged its right to receive toll fee income from the toll highway to a bank to secure the credit facilities. The pledge was released from the Group following the disposal of the Group's interest in the toll highway during the year.

42. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following significant transactions with related parties:

Name of company	Nature of transactions	<i>Notes</i>	2002 HK\$'000	2001 HK\$'000
Sing Pao Newspaper Company Limited	Loan interest income received and receivable by the Group	(a)	1,519	–
Sing Pao Newspaper Management Limited	Loan interest income received and receivable by the Group	(a)	–	37
Star East Management Limited	Loan interest income received and receivable by the Group	(b)	–	88
Lucklong	Loan interest income received and receivable by the Group	(c)	6,120	8,212
Danwei	Loan interest income received and receivable by the Group	(c)	6,834	9,171
Total Pacific Limited	Rental income received and receivable by the Group	(d)	–	280
Mass Success International Limited	Rental expenses paid and payable by the Group	(e)	835	1,109
	Building management fee paid and payable by the Group		209	277
Hanny Magnetics Limited	Management fee paid and payable by the Group	(e)	290	151
	Loan interest expense paid and payable by the Group		2,143	171
ITC Management Limited	Loan interest paid and payable by the Group	(f)	1,735	246
Paul Y. – ITC (E & M) Company Limited	Repair and maintenance fee paid by the Group	(e)	369	33
	Purchase of fixed assets by the Group		14	8
	Project management fee paid by the Group		109	–
	Consultancy fee paid by the Group		327	–
	Secondment fee paid and payable by the Group		500	–
	Mechanical and electrical service fee paid and payable by the Group		800	702
Paul Y. – ITC Construction Limited	Interest paid and payable by the Group	(e)	410	151
	Project management fee paid by the Group		550	–

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For the year ended 31st December, 2002

42. RELATED PARTY TRANSACTIONS (continued)

Name of company	Nature of transactions	Notes	2002 HK\$'000	2001 HK\$'000
Super Park Development Limited	Motor vehicles purchased by the Group	(d)	–	400
Dexiang (Taishan) Limited	Motor vehicles purchased by the Group	(b)	–	216
Cycle Company Limited and Gunnell Properties Limited	Rental expenses paid and payable by the Group	(e)	2,129	2,386
Tung Fong Hung Investment Limited	Loan interest income received and receivable by the Group	(g)	–	105
Cargill Private Limited	Proceeds on disposal of motor vehicles received and receivable by the Group	(h)	–	1,826
Paul Y. Project Management International Limited	Project management fee paid by the Group	(e)	1,887	–
Paul Y. – ITC Interior Contractors Limited	Leasehold improvement paid by the Group	(e)	400	–
	Project management fee paid by the Group		39	–
Paul Y. – ITC (E & M) Contractors Limited	Management fee paid by the Group	(e)	154	–
Nation Cheer Investment Limited	Interest expense paid and payable by the Group	(e)	702	–
Paul Y. – ITC Plant Hire Limited	Hiring of plant and machinery	(e)	59	–
Millennium Target Holdings Limited	Loan interest income received and receivable by the Group	(i)	130	–
Ananda Wing On	Loan interest income received and receivable by the Group	(j)	761	–

42. RELATED PARTY TRANSACTIONS (continued)

Name of company	Nature of transactions	Notes	2002 HK\$'000	2001 HK\$'000
Rosedale Hotel	Loan interest income received and receivable by the Group	(j)	280	–
Hong Kong Wing On Travel Service Limited	Air ticketing and travel service expenses paid and payable by the Group	(i)	248	–
Rosedale Hotel International Limited	Management fee paid by the Group	(k)	730	–

Notes:

- (a) Sing Pao Newspaper Company Limited and Sing Pao Newspaper Management Limited are wholly-owned subsidiaries of an investee of the Group.
- (b) Star East Management Limited and Dexiang (Taishan) Limited (formerly known as Star East (Taishan Properties) Limited), are wholly-owned subsidiaries of Star East Holdings Limited, in which a director of the Company had beneficiary interest.
- (c) Danwei and Lucklong are companies in which certain directors of the Company are the directors of Danwei and Lucklong.
- (d) Total Pacific Limited and Super Park Development Limited are wholly-owned subsidiaries of a former associate of the Group.
- (e) Mass Success International Limited, Hanny Magnetics Limited, Paul Y. – ITC (E & M) Company Limited, Paul Y. – ITC Construction Limited, Paul Y. Project Management International Limited, Paul Y. – ITC Interior Contractors Limited, Paul Y. – ITC (E & M) Contractors Limited, Nation Cheer Investment Limited, Paul Y. – ITC Plant Hire Limited, Cycle Company Limited and Gunnell Properties Limited are wholly-owned subsidiaries of a substantial shareholder of the Company.
- (f) ITC Management Limited is the shareholder of a Company's substantial shareholder.
- (g) Tung Fong Hung Investment Limited is a former associate of the Group.
- (h) Cargill Private Limited is an associate of Mr. Oei Hong Leong, an ex-director of the Company.
- (i) Millennium Target Holdings Limited and Hong Kong Wing On Travel Service Limited are wholly-owned subsidiaries of an associate of the Group.
- (j) Ananda Wing On and Rosedale Hotel are associates of the Group.
- (k) Rosedale Hotel International Limited is a subsidiary of Paul Y. – ITC Construction Limited.

Details of balances with related parties as at the balance sheet date are set out in the consolidated balance sheet and in notes 20 and 27.

In the opinion of the directors, the above transactions were undertaken in the ordinary course of business transactions and the terms were mutually agreed between the Group and the related parties.

43. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group and employees each contribute 5% of the relevant payroll costs to the Scheme.

The retirement benefit scheme contributions relating to the MPF Scheme charged to the income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the schemes.

The employees in the joint venture subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the government in the PRC. The joint venture companies are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme. The amount of contributions payable to the pension schemes are charged to the income statement.

At the balance sheet date, there were no significant forfeited contributions which arose upon employees leaving the scheme prior to their interests in the Group's contributions becoming fully vested and which are available to reduce the contributions payable by the Group in future years.

The total cost charged to income statements of HK\$24,679,000 (2001: HK\$37,050,000) represents contribution payable to these schemes by the Group in respect of the current year.

44. POST BALANCE SHEET EVENTS

The following events occurred subsequent to the balance sheet date:

- (a) In November 2002, the Company entered into a conditional sale and purchase agreement with Sun Media Group Holdings Limited ("Sun Media"), the then third party, in connection with the disposal of 91,635,700 ordinary shares of Leadership Publishing (representing 19.56% of the then issued share capital of Leadership Publishing) and the aggregate amount of HK\$3,050,000 warrants of Leadership Publishing to Sun Media together with the shareholder's loans of HK\$40 million due by Leadership Publishing to the Group.

The consideration will be satisfied by (i) issuing 549,814,200 new ordinary shares in Sun Media for the shares in Leadership Publishing held by the Group, (ii) HK\$1.00 for the total amount of warrants, (iii) issuing 155,048,000 new ordinary shares in Sun Media at a price of HK\$0.10 per share at the expiry of two calendar years from the date of completion for the shareholder's loan of HK\$15.5 million.

Pursuant to the above agreement, the remaining balances of shareholder's loan of HK\$16.7 million and HK\$7.8 million will be (i) waived by the Company and (ii) due and payable upon the expiry of 30 calendar months after the year end of the date of completion, respectively.

The transaction was completed after the balance sheet date and no significant gain or loss was resulted on the date of disposal.

- (b) In January 2003, China Enterprises entered into a conditional sales and purchase agreement with a connected person of the Company, Ningxia Yinchuan Rubber Manufacturing, by virtue of its being a substantial shareholder of Yinchuan C.S.I., to sell its entire 51% interest in Yinchuan C.S.I. for a consideration of RMB35,000,000 (equivalent to approximately HK\$33 million).

The transaction was approved by the Board of Directors pursuant to a special resolution passed at an extraordinary general meeting held on 18th February 2003.