Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of certain non-trading securities as explained in the accounting policies set out below.

(c) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(h)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates and jointly controlled entities *(Continued)*

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's and jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate and jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

In the Company's balance sheet, its investment in associates and jointly controlled entities are stated at cost less impairment losses (see note 1(h)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(h)).

In respect of acquisitions of associates or jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(h)) is included in the carrying amount of the interest in associates and jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement is included in the calculation of the profit or loss on disposal.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments

(i) Investments held for trading are stated in the consolidated balance sheet at fair value. Changes in fair value are recognised in the consolidated income statement as they arise.

(ii) Non-trading investments are stated in the consolidated balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the investment is sold, collected, or otherwise disposed of, or until there is objective evidence that the investment is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the consolidated income statement.

(iii) Transfers from the investment revaluation reserve to the consolidated income statement as a result of impairments are reversed when the circumstances and events that led to the impairments cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iv) Profits or losses on disposal of investments are accounted for in the consolidated income statement as they arise. In the case of non-trading investments, the profit or loss includes any amount previously held in the investment revaluation reserve in respect of that investment.

(g) Convertible loan

Convertible loan represents loan principal outstanding together with accrued interest less any provisions considered necessary by the directors.

(h) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that investments in subsidiaries, associates and jointly controlled entities may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(j) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(k) Revenue recognition

Interest income

Interest income from bank deposits and convertible loan is accrued on a time-apportioned basis by reference to the principal outstanding and the applicable rates of interest.

Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of PRC subsidiaries, associates and jointly controlled entities are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of an associate and a jointly controlled entity, the cumulative amount of the exchange differences which relate to that associate and jointly controlled entity is included in the calculation of the profit or loss on disposal.

(m) Related parties

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(n) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment and are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Unallocated items mainly comprise financial and corporate assets, corporate and financing expenses.

2 TURNOVER

The principal activity of the Company and of its subsidiaries is the holding of equity and a convertible debt investments primarily in companies or entities with significant business interests or involvement in the People's Republic of China ("the PRC"). In particular, the Group focused on investing in Sino-foreign joint ventures in the PRC and companies with substantial operations or investments in the PRC.

Share of jointly controlled entities' turnover represents the Group's share of jointly controlled entities' invoiced value of goods sold.

Group turnover represents interest income and dividend income from listed investments. The amount of each significant category of revenue recognised in turnover during the year is as follows:

		2002		2001
Interest income from deposits with banks and other financial institutions	**$**	**898,474**	$	1,073,971
Dividend income from listed investments		**6,425,520**		–
	$	**7,323,994**	$	1,073,971

3 SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's business segments which are based on the nature of business of its associates, jointly controlled entities and other investee companies. No geographical segment information is presented as the revenue of the Group, its associates and jointly controlled entities and the Group's results were substantially derived from the PRC.

The Group's associates, jointly controlled entities and other investee companies comprise the following main business segments:

Manufacture of industrial products: Electronic and electrical instruments, plywood and timber products.

Manufacture of consumer products: Audio-visual products and ceramic tiles.

Communications: Provision of paging, internet content, software and solutions and paid e-mail services and offline magazine publishing.

Real estate: Development of residential and commercial properties for sale.

Segment revenue includes the Group's share of jointly controlled entities' turnover. Segment results, assets and liabilities include only those relating to the Group.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

3 SEGMENTAL INFORMATION *(Continued)*

	Segment revenue Group and share of jointly controlled entities' turnover		Segment results Contribution to loss from ordinary activities before taxation	
	2002	2001	**2002**	2001
Manufacture of industrial products	**$ 86,586,919**	$ 94,447,980	**$ 16,037,926**	$ (20,622,647)
Manufacture of consumer products	**6,425,520**	–	**8,281,297**	(97,474,074)
Communications	**–**	–	**(37,035,235)**	(83,214,030)
Real estate	**–**	–	**(705,687)**	–
Unallocated	**898,474**	1,073,971	**(6,447,567)**	(6,570,374)
	$ 93,910,913	$ 95,521,951	**$ (19,869,266)**	$ (207,881,125)

	Segment assets		Segment liabilities	
	2002	2001	**2002**	2001
Manufacture of industrial products	**$ 27,780,064**	$ 27,008,268	**$ –**	$ –
Manufacture of consumer products	**35,111,580**	94,796,740	**–**	–
Communications	**–**	36,357,021	**–**	–
Real estate	**78,923,038**	–	**–**	–
Unallocated	**31,826,174**	20,475,861	**(7,015,321)**	(7,298,788)
	$ 173,640,856	$ 178,637,890	**$ (7,015,321)**	$ (7,298,788)

	Impairment loss/provision		Capital expenditure incurred	
	2002	2001	**2002**	2001
Manufacture of industrial products	**$ –**	$ 19,197,572	**$ –**	$ –
Manufacture of consumer products	**–**	94,550,139	**–**	–
Communications	**35,857,021**	80,632,624	**–**	–
Real estate	**–**	–	**74,413,724**	–
	$ 35,857,021	$ 194,380,335	**$ 74,413,724**	$ –

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

4 LOSS FROM OPERATIONS

Loss from operations is arrived at after charging/(crediting):

		2002		2001
(a) Other net loss				
Net exchange loss	$	**(115,536)**	$	(7,240)
Others		**100,000**		–
	$	**(15,536)**	$	(7,240)
(b) Operating expenses				
Administrative fee	$	**690,000**	$	690,000
Auditors' remuneration		**600,000**		550,000
Consultancy fee		**226,368**		371,132
Custodian fee		**240,000**		240,000
Legal and secretarial fees		**4,119,988**		1,631,015
Management fee		**4,527,374**		7,422,639
Project fee		**544,129**		672,010
Other operating expenses		**4,631,438**		3,991,201
	$	**15,579,297**	$	15,567,997
(c) Loss on disposal of unlisted non-trading investments				
Skynet Limited				
Sale proceeds, net of expenses	$	**(356,045)**	$	–
Carrying value of investment		**500,000**		–
	$	**143,955**	$	–
(d) Loss on disposal of convertible loan				
Companion-China Limited				
Sale proceeds, net of expenses	$	**(47,315,310)**	$	–
Carrying value of convertible loan		**47,500,000**		–
	$	**184,690**	$	–

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

4 LOSS FROM OPERATIONS *(Continued)*

(e) Gain on disposal of listed non-trading investments

		2002		2001
Skyworth Digital Holdings Limited				
Sales proceeds, net of expenses	$	**(30,314,000)**	$	–
Carrying value of investment		**27,600,000**		–
	$	**(2,714,000)**	$	–

(f) Impairment losses on non-trading investments

		2002		2001
Beijing Asia Pacific First Star Communications Technology Co. Ltd.	$	**12,299,130**	$	18,448,695
ChinaGo Limited		**23,557,891**		–
Skynet Limited		**–**		62,183,929
Skyworth Digital Holdings Limited		**–**		45,167,892
	$	**35,857,021**	$	125,800,516

5 TAXATION

(a) Taxation in the consolidated income statement represents:

		2002		2001
Provision for Hong Kong profits tax for the year	$	**–**	$	–
Over-provision in respect of prior years		**–**		(786,532)
	$	**–**	$	(786,532)
Share of jointly controlled entities' taxation		**121,150**		62,543
	$	**121,150**	$	(723,989)

No provision for Hong Kong profits tax has been made for the year ended 31 December 2002 as the Group has no assessable profits for the year.

(b) Taxation in the balance sheet represents balance of provision for Hong Kong profits tax relating to prior years.

(c) No provision for deferred tax has been made as the net effect of all timing differences is immaterial.

(Expressed in Hong Kong dollars)

6 DIRECTORS' REMUNERATION

(a) Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

		2002		2001
Fees	**$**	**173,260**	$	160,000
Salaries and other emoluments		**660,000**		660,000
	$	**833,260**	$	820,000

No remuneration was paid to the non-executive directors of the Company.

The remuneration of each of the directors is within the band of $Nil – $1,000,000.

The above emoluments does not include the value of share options granted to certain directors under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph "Share option scheme" in the directors' report and note 15 on the financial statements.

(b) **Individuals with highest emoluments**

The five highest paid individuals are all directors of the Group whose emoluments have been disclosed in note (a) above.

7 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of $22,162,454 (2001: $234,585,828) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's loss for the year:

		2002		2001
Amount of consolidated loss attributable to shareholders dealt with in the Company's financial statements	**$**	**(22,162,454)**	$	(234,585,828)
Final dividends from subsidiaries attributable to the previous financial year, approved and paid during the year		**–**		4,886,405
Company's loss for the year *(note 16(b))*	**$**	**(22,162,454)**	$	(229,699,423)

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

8 LOSS PER SHARE

(a) Basic

The calculation of basic loss per share is based on loss attributable to shareholders of $19,990,416 (2001: loss of $207,157,136) on 539,512,000 (2001: weighted average number of 538,945,041) ordinary shares in issue during the year.

(b) Diluted

Diluted earnings per share is not shown for the year ended 31 December 2002 as the potential ordinary shares were anti-dilutive.

9 INTEREST IN SUBSIDIARIES

	The Company			
		2002		2001
Unlisted shares, at cost	$	**50**	$	68
Amounts due from subsidiaries, net of provisions		**66,176,723**		177,580,160
Amounts due to subsidiaries		**–**		(12)
	$	**66,176,773**	$	177,580,216

The amounts due from subsidiaries comprise mainly advances to subsidiaries for investments in entities in the PRC including Hong Kong.

The amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.

The following wholly owned subsidiaries are all private limited companies, incorporated in the British Virgin Islands and are intermediate investment holding companies. The class of shares held is ordinary. All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's financial statements.

Name of subsidiary	Percentage of issued capital held by the Company	Issued and paid up capital held by the Company
Ever Talent Investments Ltd.	100%	1 ordinary share of US$1
Kencheers Investments Ltd.	100%	1 ordinary share of US$1
Joint Cheer Investments Ltd.	100%	1 ordinary share of US$1
Pacific Investment Project Inc.	100%	1 ordinary share of HK$1
Pacific Equity Venture Inc.	100%	1 ordinary share of HK$1
Simonson International Development Ltd.	100%	1 ordinary share of US$1
Motion Technology Ltd.	100%	1 ordinary share of US$1
Mobile Office Investments Ltd.	100%	1 ordinary share of US$1

10 INTEREST IN ASSOCIATES

	The Group 2002	The Group 2001	The Company 2002	The Company 2001
Unlisted shares, at cost	**$ –**	$ –	**$ 78,000,008**	$ –
Share of net assets	**78,954,923**	–	**–**	–
Amount due to associate	**(31,885)**	–	**(31,885)**	–
	$ 78,923,038	$ –	**$ 77,968,123**	$ –

Additional information in respect of the Group's associates is given as follows:

	2002 *$'000*	2001 *$'000*
Current assets	**160,899**	–
Long-term assets	**13,092**	–
Current liabilities	**(23,259)**	–
Long-term liabilities	**–**	–
Total turnover	**–**	–
Total losses before taxation	**5,264**	–
Group's share of losses before taxation	**964**	–
Group's share of associates' contingent liabilities	**–**	–
Group's share of associates' capital commitments *(note 18(a))*	**62,591**	–

The following list contains only the particulars of associates, all of which are unlisted companies, which principally affected the results or assets of the Group.

Name of the associate	Place of incorporation/ establishment	Particulars of issued capital	Proportion of ownership interest held by The Company	Proportion of ownership interest held by The Group	Principal activity
China Property Development (Holdings) Limited	Cayman Islands	3,667 shares of US$0.01 each, *(note (i))*	30%	–	Investment holding
Sound Advantage Limited	British Virgin Islands ("BVI")	1 ordinary share of US$1	–	30%	Investment holding
Choice Capital Limited	BVI	1 ordinary share of US$1	–	30%	Investment holding

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

10 INTEREST IN ASSOCIATES *(Continued)*

Name of the associate	Place of incorporation/ establishment	Particulars of issued capital	Proportion of ownership interest held by The Company	Proportion of ownership interest held by The Group	Principal activity
World Lexus Pacific Limited	Hong Kong	1,000,000 ordinary shares of HK$1	–	24%	Investment holding
Beijing Pacific Palace Real Estate Development Co Ltd	PRC	Registered capital of US$12,000,000 *(note (ii))*	–	24%	Property development

Notes:

(i) As at 31 December 2002, 1,100 shares were fully paid up and the remaining 2,567 shares were partly paid up.

(ii) As at 31 December 2002, the paid up capital was US$9,666,665.

In February 2002, the Company formed a wholly owned subsidiary, China Property Development (Holdings) Limited ("CPDH"), incorporated in Cayman Islands. In August 2002, CPDH, through a newly incorporated BVI company, Sound Advantage Limited, acquired 30% equity interest in World Lexus Pacific Limited ("World Lexus") from certain independent third parties for a cash consideration of RMB7.5 million (equivalent to $7.1 million).

On 23 October 2002, 2,567 new ordinary shares of US$0.01 each of CPDH were allotted and issued to China Property Development Fund Limited ("CPD Fund") at US$10,000 each. Upon the shares allotment, the Company's attributable interest in CPDH was diluted from 100% to 30%, resulting in a gain on deemed disposal of $5,506,894 which has been recognised in the consolidated income statement for the year.

On 4 November 2002, CPDH acquired 100% equity interest in Choice Capital Limited, which holds 50% equity interest in World Lexus, for a cash consideration of RMB25 million (equivalent to $23.6 million). Upon completion of the acquisition, CPDH and the Company increased their respective interests in World Lexus to 80% and 24%.

World Lexus's sole asset is a wholly owned PRC subsidiary, Beijing Pacific Palace Real Estate Development Co Ltd ("Beijing Pacific Palace"). Beijing Pacific Palace was established on 18 July 2001 as a cooperative joint venture for an operating period of 50 years, by World Lexus and Beijing Jiangtaixiang Real Estate Development Co Ltd ("the PRC partner"). It is engaged in a property development project at the Lido area of Jiangtai Town, Chaoyang District, Beijing, the PRC ("Pacific Town project").

(Expressed in Hong Kong dollars)

10 INTEREST IN ASSOCIATES *(Continued)*

The total investment and registered capital of Beijing Pacific Palace are US$30 million and US$12 million respectively. World Lexus is required to contribute the total amount of the registered capital of Beijing Pacific Palace and is entitled to all the profits of Beijing Pacific Palace. Pursuant to the joint venture agreement dated 28 November 2000, the PRC partner is only entitled to a land compensation fee amounting to RMB45,100,000 (equivalent to $42.5 million) payable in four instalments within two years from the date of agreement. Up to 31 December 2002, RMB10 million (equivalent to $9.4 million) has been paid. The directors consider that no penalty will be payable as a result of the delay in the payment of the land compensation fee.

The Pacific Town project is a medium density residential area with a mixed development of high rise apartments and low-density town houses. The land site and gross floor area for phase I of the development are approximately 80,000 and 240,000 square metres respectively.

As at 31 December 2002, the Pacific Town project is still in its initial planning stage and no major development work has been carried out. Beijing Pacific Palace is in the process of negotiation with the relevant government authorities to obtain the necessary land use rights and the approvals for the design and construction of the buildings and related facilities.

11 INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2002	2001
Share of net assets	**$ 26,050,351**	$ 26,072,341
Amounts due from jointly controlled entities, net of provision	**1,729,713**	935,927
	$ 27,780,064	$ 27,008,268

Amounts due from jointly controlled entities ("JCE") are unsecured, interest free and have no fixed terms of repayment. A full provision of $19,197,572 was made against the amount due from a jointly controlled entity during the year ended 31 December 2001.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

11 INTEREST IN JOINTLY CONTROLLED ENTITIES *(Continued)*

Additional information in respect of the Group's JCE, excluding that relating to Beijing North Star Hyundai Pipe Company Limited, the carrying value of which has been fully provided in the 1998 financial statements, is given as follows:

	2002	2001
	$'000	*$'000*
Current assets	**$ 303,955**	$ 298,633
Long-term assets	**295,527**	313,838
Current liabilities	**(582,479)**	(544,311)
Long-term liabilities	**–**	(54,237)
Total turnover	**330,293**	366,609
Total losses before taxation	**(18,915)**	(47,952)
Total profits before taxation	**2,940**	2,859
Group's share of profits less losses before taxation	**1,029**	1,000
Group's share of JCE's contingent liabilities	**–**	–
Group's share of JCE's capital commitments	**–**	–

Details of the indirectly held JCE, all of which are sino-foreign joint venture companies incorporated and operating in the PRC, are as follows:

Name of joint venture	**Proportion of ownership interest attributable to the Group**	**Registered capital**	**Principal activities**
Beijing Far East Instrument Company Limited ("Beijing Far East")	35%	RMB151,926,184	Electronic and electrical instrument manufacturing
Beijing North Star Hyundai Pipe Company Limited	28%	US$11,300,000	Pipe manufacturing
Everbright Timber Industry (Shenzhen) Company Limited ("SETI")	22.87%	US$45,525,860	Production and sale of plywood products and other timber boards

11 INTEREST IN JOINTLY CONTROLLED ENTITIES *(Continued)*

In March 2002, the Group entered into a conditional agreement with Beijing Capital Group Limited pursuant to which, the Group agreed to sell an equity interest of 9% in Beijing Far East for a consideration of approximately RMB14 million (equivalent to $13 million). The consideration is payable over a period of 5 years. In the event that the consideration is not fully settled at the end of the five year period, the equity interest in relation to the unpaid portion of the consideration will be transferred back to the Group. The disposal has not been accounted for in the current year because of the contingent nature of the payment terms and no consideration was received at 31 December 2002. A director of the Company is also a member of the senior management of Beijing Capital Group Limited.

On 29 November 2002, the Company entered into a deed of cancellation with China Everbright Holdings Company Limited ("CE Holdings"), the ultimate holding company of SETI, to terminate an investment agreement dated 20 May 1996 and supplementary deeds in respect of the Company's investment in SETI. Pursuant to the deed of cancellation, CE Holdings agreed to pay an amount of $16,301,103 to the Company as consideration for the cancellation of the investment agreement and supplementary deeds ("Consideration"). As at 31 December 2002, the Company has received full payment of the Consideration. The Consideration received was recorded as income in the consolidated income statement for the year as the carrying value of SETI had been fully written off in the previous year. On 29 November 2002, the Company also entered into an agreement with China Everbright International Limited ("CEIL"), immediate holding company of SETI, pursuant to which the Company authorised CEIL to procure a purchaser to purchase the Group's entire 22.87% equity interest in SETI. A purchaser was identified in respect of the sale of the 22.87% equity interest in SETI subsequent to 31 December 2002. Further details are set out in note 19.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

12 NON-TRADING INVESTMENTS

		The Group	
	Note	**2002**	2001
Investment in unlisted joint venture	*(a)*	**$ 61,495,650**	$ 61,495,650
Less: Impairment loss		**(61,495,650)**	(49,196,520)
		$ –	$ 12,299,130
Investments in unlisted companies	*(b)*	**$ 23,557,891**	$ 86,241,820
Less: Impairment losses		**(23,557,891)**	(62,183,929)
		$ –	$ 24,057,891
Listed investments	*(c)*	**$ 38,506,921**	$ 92,464,632
Less: Impairment losses		**(18,810,181)**	(45,167,892)
		$ 19,696,740	$ 47,296,470
Revaluation surplus		**15,414,840**	–
		$ 35,111,580	$ 47,296,740
		$ 35,111,580	$ 83,653,761

(Expressed in Hong Kong dollars)

12 NON-TRADING INVESTMENTS *(Continued)*

Details of the Group's non-trading investments are as follows:

Name of the company	Place of incorporation/ establishment	Place of operation	Particulars of issued and paid up capital	Proportion of ownership interest attributable to the Group	Principal activity
Beijing Asia Pacific First Star Communications Technology Co. Ltd.	PRC	PRC	Registered capital of US$29,800,000	18%	Provision of paging services
ChinaGo Limited	Cayman Islands	PRC	5,611,110 ordinary shares of US$0.01 each	10.44%	Offline magazine publishing, software and solutions, and paid email-services
Skyworth Digital Holdings Limited	Hong Kong	PRC	2,089,564,000 ordinary shares of $0.20 each	2.049%	Manufacture and sale of audio-visual products

Notes:

(a) This represents the Group's investment in an unlisted joint venture, Beijing Asia Pacific First Star Communications Technology Co. Ltd. ("APFS"). The cost of investment is approximately $60.8 million (being the equivalent of US$7.8 million) representing capital contribution for an 18 per cent equity interest in APFS and consideration for a technology co-operation agreement with one of the joint venture partners, together with the capitalised acquisition costs. At 31 December 2002, the other joint venture partners are Beijing Jingfang Economy Development Company and Beijing Asia Pacific Group. This joint venture is being accounted for as a non-trading investment as the Group does not have significant influence or joint control over its operations. An impairment loss of $49.2 million was made at 31 December 2001. In view of the continued decline of the telecommunication sector, the directors consider that this investment should be fully written off. An amount of $12,299,130 has been recognised as an impairment loss in the consolidated income statement for the year.

(b) The balance at 31 December 2001 comprised the Group's investments of approximately $23 million (being equivalent of US$2.9 million) and $62 million (being equivalent of US$8 million) in ChinaGo Limited and Skynet Limited, in which the Group held an equity interest of 10.44% and 5.33% respectively, together with the capitalised acquisition costs.

In view of the continued decline of the information technology sector, the directors consider that the investment in ChinaGo Limited should be fully written off. An amount of $23,557,891 has been recognised as impairment loss in the consolidated income statement for the year.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

12 NON-TRADING INVESTMENTS *(Continued)*

During the year, the Group disposed of its entire interest in Skynet Limited for a consideration of $500,000. As the fair value of this investment had been written down to $500,000 as at 31 December 2001, the loss on disposal of $143,955 recorded in the consolidated income statement represents legal costs incurred.

(c) In May 1999, the Group invested approximately $92 million (being the equivalent of US$11 million) in 2,577,502 convertible redeemable shares of an unlisted company, Skyworth (Group) Company Limited ("Skyworth Group"), including capitalised acquisition costs. For the purpose of seeking a listing on the HKSE, Skyworth Group underwent a reorganisation on 27 March 2000 and Skyworth Digital Holdings Limited ("Skyworth Digital") became the holding company of Skyworth Group. The convertible redeemable shares held by the Group were converted to 102,819,000 ordinary shares of Skyworth Digital, representing approximately 5.016% of its issued share capital following the listing of its shares on the HKSE on 7 April 2000. During the year, the Group disposed of 60,000,000 ordinary shares of Skyworth Digital for a total consideration of $30,500,000, resulting in a profit on disposal of $2,714,000. As at 31 December 2002, the remaining 42,819,000 shares were stated at their market value of $0.82 per share as quoted on the HKSE. A revaluation surplus of $15,414,840 has been transferred to investment revaluation reserve during the year.

13 CONVERTIBLE LOAN

	The Group	
	2002	2001
Convertible loan	**$ –**	$ 92,399,277
Interest receivable	**–**	4,482,970
	$ –	$ 96,882,247
Less: Provision	**–**	(49,382,247)
	$ –	$ 47,500,000

The convertible loan was repayable as follows:

	2002	2001
Within one year	**$ –**	$ 47,500,000

The convertible loan was advanced to Companion-China Limited ("CC"), a subsidiary of Companion Building Material International Holdings Limited, the shares of which are listed on the HKSE.

In February 2002, the Group disposed of its entire interest in the convertible loan to an independent third party for a consideration of $47.5 million. As the carrying value of the loan had been written down to $47.5 million at 31 December 2001, the loss on disposal of $184,690 recorded in the consolidated income statement for the year represents legal costs incurred.

(Expressed in Hong Kong dollars)

14 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2002	2001	**2002**	2001
Deposits with banks and other financial institutions	**$ 30,778,303**	$ 19,479,626	**$ 30,778,303**	$ 19,479,626
Cash at bank and in hand	**850,752**	902,238	**834,942**	888,946
	$ 31,629,055	$ 20,381,864	**$ 31,613,245**	$ 20,368,572

15 SHARE CAPITAL

	2002		2001	
	No. of shares	**Amount**	No. of shares	Amount
Authorised:				
Ordinary shares of $0.10 each	**1,200,000,000**	**$ 120,000,000**	1,200,000,000	$ 120,000,000
Issued and fully paid:				
At 1 January	**539,512,000**	**$ 53,951,200**	538,840,000	$ 53,884,000
Exercise of warrants	**–**	**–**	672,000	67,200
At 31 December	**539,512,000**	**$ 53,951,200**	539,512,000	$ 53,951,200

(i) Pursuant to an ordinary resolution passed at the extraordinary general meeting held on 16 August 2001, 107,768,000 warrants in the proportion of one warrant for every five existing shares held on 16 August 2001 were issued by the Company. The warrants may be converted into shares of $0.10 each at the initial subscription price of $0.2244 per share at any time from 16 August 2001 to 15 August 2003, both dates inclusive. At 31 December 2001, 672,000 ordinary shares were issued at the subscription price of $0.2244 per share on the exercise of warrants. No warrants were exercised during the year.

(ii) The Company has set up a share option scheme under which the Board of Directors of the Company may grant options to employees of the Company and its subsidiaries, including directors, to subscribe for shares in the Company. Each option gives the holder the right to subscribe for one share. The subscription price will be the higher of:

(a) the closing price of the shares of the Company as stated in the HKSE's daily quotation sheet on the date of grant (being a business day), and

(b) the average closing price of the shares of the Company as stated in the HKSE's daily quotations sheets for the five business days immediately preceding the date of grant.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

15 SHARE CAPITAL *(Continued)*

At 31 December 2002, the number of outstanding options granted or outstanding is as follows:

Date options granted	Period during which options exercisable	Exercise price	Number of options granted and outstanding at 31 December 2002
27 November 2001	28 May 2002 to 27 November 2004	0.298	21,555,600
11 December 2001	28 May 2002 to 27 November 2004	0.3	2,694,450
12 December 2001	28 May 2002 to 27 November 2004	0.3	2,694,450
			26,944,500

There were no options granted or exercised during the year. All outstanding options were granted during the year ended 31 December 2001.

16 RESERVES

(a) The Group

	Share premium	Exchange reserves	Investment revaluation reserve	Accumulated losses	Total
At 1 January 2002	$ 498,097,415	$ 3,236,285	$ –	$ (383,945,798)	$ 117,387,902
Loss for the year	–	–	–	(19,990,416)	(19,990,416)
Exchange differences on translation of financial statements of PRC jointly controlled entities	–	(136,096)	–	–	(136,096)
Share of exchange reserve of associates	–	(1,895)	–	–	(1,895)
Net deficit on revaluation of non-trading investments	–	–	(20,442,181)	–	(20,442,181)
Transfer to income statement	–	–	35,857,021	–	35,857,021
At 31 December 2002	$ 498,097,415	$ 3,098,294	$ 15,414,840	$ (403,936,214)	$ 112,674,335

(Expressed in Hong Kong dollars)

16 RESERVES *(Continued)*

(a) The Group *(Continued)*

	Share premium	Exchange reserves	Investment revaluation reserve	Accumulated losses	Total
At 1 January 2001	$ 498,013,818	$ 3,049,510	$ (60,539,332)	$ (176,788,662)	$ 263,735,334
Loss for the year	–	–	–	(207,157,136)	(207,157,136)
Exchange differences on translation of financial statements of PRC jointly controlled entities	–	186,775	–	–	186,775
Shares issued from exercise of warrants, net of expenses	83,597	–	–	–	83,597
Net deficit on revaluation of non-trading investments	–	–	(65,261,184)	–	(65,261,184)
Transfer to income statement	–	–	125,800,516	–	125,800,516
At 31 December 2001	$ 498,097,415	$ 3,236,285	$ –	$ (383,945,798)	$ 117,387,902

The Group's accumulated losses include an amount of $963,800 (2001: $Nil), being the Group's share of the losses of associates for the year; and losses in the aggregate amount of $163,248,179 (2001: $164,156,071), being the accumulated losses attributable to jointly controlled entities of which $907,892 (2001: $937,933) represent the profits retained for the year.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

16 RESERVES *(Continued)*

(b) The Company

		Share premium		Accumulated losses		Total
At 1 January 2002	$	498,097,415	$	(355,879,999)	$	142,217,416
Loss for the year		–		(22,162,454)		(22,162,454)
At 31 December 2002	$	498,097,415	$	(378,042,453)	$	120,054,962
At 1 January 2001	$	498,013,818	$	(126,180,576)	$	371,833,242
Loss for the year		–		(229,699,423)		(229,699,423)
Shares issued from exercise of warrants, net of expenses		83,597		–		83,597
At 31 December 2001	$	498,097,415	$	(355,879,999)	$	142,217,416

The application of the share premium is governed by Section 48B of the Hong Kong Companies Ordinance.

The exchange reserves and investment revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for the translation of foreign currencies and revaluation of investments respectively.

The aggregate amount of reserves available for distribution to shareholders of the Company at 31 December 2002 was $Nil (2001: $Nil).

17 NET ASSET VALUE PER SHARE

The net asset value per share is computed based on the consolidated net assets of $166,625,535 (2001: $171,339,102) and 539,512,000 shares (2001: 539,512,000 shares) in issue as at 31 December 2002.

(Expressed in Hong Kong dollars)

18 COMMITMENTS

(a) Capital commitments

At 31 December 2002, the Group's share of an associate's capital commitments outstanding not provided for in the financial statements was as follows:

	2002	2001
Authorised and contracted for	$ 39,412,000	$ –
Authorised but not contracted for	23,179,000	–
	$ 62,591,000	$ –

The above commitments represent costs to be incurred in respect of the Pacific Town project up to the commencement of pre-sale of properties to be developed in phase I.

(b) At 31 December 2002, the Group's share of an associate's total future minimum lease payments under non-cancellable operating leases was as follows:

	2002	2001
Within 1 year	$ 208,831	$ –
After 1 year but within 5 years	208,831	–
	$ 417,662	$ –

An associate of the Group leases a property under an operating lease. The lease runs for an initial period of two years, with an option to renew the lease when all terms are renegotiated. The lease does not include any contingent rentals.

(c) In March 2002, CPDH, an associate of the Group entered into two separate joint venture agreements with certain parties in the PRC to establish two joint ventures which will be engaged in the development of residential properties and a golf community respectively in Beijing, the PRC. CPDH's total initial cost of investment in these two joint ventures is RMB82.7 million (equivalent to $77.9 million) to be settled in three months after the issue of the business licences of the joint ventures. CPDH's attributable interest in each of the two joint ventures is 30%. CPDH has an option to further invest RMB97 million and RMB34.7 million (equivalent to $91.3 million and $32.7 million respectively) by way of shareholders' loans in the golf community and residential property projects respectively. Up to 31 December 2002, the joint ventures have not been established pending approval of the relevant local authorities.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

19 POST BALANCE SHEET EVENT

On 21 March 2003, a wholly owned subsidiary of the Company, Joint Cheer Investments Limited ("Joint Cheer"), entered into an agreement with Prime Win Profits Limited ("Prime Win"), an affiliate of CEIL. Pursuant to the agreement, Joint Cheer agreed to sell its 22.87% interest in SETI for a cash consideration of $2,170,000. The sale was completed on 28 March 2003.

20 ADOPTION OF REVISED SSAPs

The following revised SSAPs issued by the HKSA, which became effective during 2002, were adopted for preparation of the Group's financial statements for the year ended 31 December 2001 and 2002:

– SSAP 1 (revised) "Presentation of financial statements"

– SSAP 15 (revised) "Cash flow statements"

Adoption of SSAP 1 (revised) "Presentation of financial statements"

In order to comply with revised requirements of SSAP 1 (revised), the Group adopts the new statement "consolidated statement of changes in equity" which replaces the "consolidated statement of recognised gains and losses" included in previous financial statements. The new statement reconciles the movement of key components of the shareholders' fund, including share capital, reserves and accumulated losses, from the beginning to end of the year.

Adoption of SSAP 15 (revised) "Cash flow statements"

The format of the consolidated cash flow statement has been revised to follow the new requirements of SSAP 15 (revised) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.