

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants (“HKSA”). KPMG’s independent review report to the board of directors is included on pages 27 and 28.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited (“HKSE”), including compliance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the HKSA.

The financial information relating to the financial year ended 31 December 2002 included in the interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2002 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 9 April 2003.

The same accounting policies adopted in the 2002 annual financial statements have been applied to the interim financial report except for the adoption of a revised accounting standard in Hong Kong as disclosed under note 1(b).

(b) Adoption of a revised accounting standard in Hong Kong

The HKSA issued revised SSAP 12 “Income taxes” in August 2002, which supercedes the previous SSAP 12 “Accounting for deferred taxes”. The revised standard became effective for accounting period beginning on or after 1 January 2003. The Group has therefore adopted the revised standard for preparation of the Group’s interim financial report for the six months ended 30 June 2003.

The revised SSAP 12 requires deferred tax assets and liabilities to be provided in full using the liability method, on temporary differences arising between the tax base of an asset or a liability and its carrying value in the financial statements at the balance sheet date. Deferred tax assets or liabilities arising from temporary differences need to be measured at the tax rates enacted or substantially enacted by the balance sheet date.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised.

The adoption of the revised SSAP 12 had no significant effect on the Group’s results and net assets for the current or prior periods.

2 GAINS/(LOSSES) ON INVESTMENTS

	Note	Six months ended 30 June	
		2003	2002
Gain on disposal of 22.87% interest in Everbright Timber Industry (Shenzhen) Company Limited	9	\$ 2,064,532	\$ —
Write-back of amount due from jointly controlled entity	9	1,528,897	—
Write-back of impairment loss on Skyworth Digital Holdings Limited	10(c)	13,273,890	—
Gain on disposal of 60,000,000 shares of Skyworth Digital Holdings Limited		—	2,714,000
Loss on disposal of 5.33% interest in Skynet Limited (note)		—	(143,955)
Loss on disposal of convertible loan (note)		<u>—</u>	<u>(184,690)</u>

Note: The losses represent legal costs incurred as the carrying values of the investment and loan were written down to the disposal proceeds as at 31 December 2001.

3 TURNOVER

The principal activity of the Company and its subsidiaries is the holding of equity investments primarily in companies or entities with significant business interests or involvement in 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 and is analysed as follows:

	Six months ended 30 June	
	2003	2002
Interest income from deposits with banks and other financial institutions	\$ 194,844	\$ 477,666
Dividend income from listed investments	214,095	5,140,950
	<u>\$ 408,939</u>	<u>\$ 5,618,616</u>

4 SEGMENT REPORTING

Segment 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.

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 include only those relating to the Group.

	Revenue		Segment results	
	Group and Group's share of jointly controlled entities' turnover		Contribution to profit from ordinary activities before taxation	
	Six months ended 30 June		Six months ended 30 June	
	2003	2002	2003	2002
Manufacture of industrial products	\$ 28,636,655	\$ 43,540,058	\$ 4,049,549	\$ 201,222
Manufacture of consumer products	214,095	5,140,950	13,178,984	6,980,514
Communications	–	–	(65,773)	(1,101,595)
Real estate	–	–	(1,949,609)	(2,331,172)
Unallocated	194,844	477,666	(2,598,874)	(2,609,160)
	<u>\$ 29,045,594</u>	<u>\$ 49,158,674</u>	<u>\$ 12,614,277</u>	<u>\$ 1,139,809</u>

5 PROFIT/(LOSS) FROM OPERATIONS

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

	Six months ended 30 June	
	2003	2002
(a) Other net loss:		
Net exchange loss	<u>\$ (989)</u>	<u>\$ (106,077)</u>
(b) Operating expenses:		
Administrative fee	\$ 342,164	\$ 342,164
Auditors' remuneration	345,000	284,000
Consultancy fee	100,961	66,662
Custodian fee	120,000	120,000
Legal and secretarial fees	365,685	1,862,128
Management fee	1,938,376	2,608,600
Project fee	221,013	250,534
Other operating expenses	1,270,950	2,636,967
	<u>\$ 4,704,149</u>	<u>\$ 8,171,055</u>

6 TAXATION

- (a) No provision for Hong Kong Profits Tax has been made for the period ended 30 June 2003 as the Group has no assessable profits for the period. Taxation in the consolidated income statement represents share of jointly controlled entities' taxation. Taxation in the consolidated balance sheet represents provision for Hong Kong Profits Tax in respect of the prior periods.
- (b) There were no significant unprovided deferred tax liabilities/assets at the balance sheet date.

7 EARNINGS PER SHARE

(a) Basic

The calculation of basic earnings per share is based on profit attributable to shareholders of \$12,558,916 (2002: \$1,094,135) and on 539,512,000 ordinary shares in issue during the period.

(b) Diluted

Diluted earnings per share is not shown for the period ended 30 June 2003 as the potential ordinary shares are anti-dilutive.

The calculation of diluted earnings per share for the period ended 30 June 2002 is based on the profit attributable to shareholders of \$1,094,135 and on 542,238,399 ordinary shares after adjusting for the effects of all potential dilutive ordinary shares.

(c) Reconciliations

	Six months ended
	30 June 2002
	Number of shares
Number of ordinary shares used in calculating	
basic earnings per share	539,512,000
Deemed issue of ordinary shares for no consideration	2,726,399
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Number of ordinary shares used in calculating	
diluted earnings per share	542,238,399
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8 INTEREST IN ASSOCIATES

	At 30 June 2003	At 31 December 2002
Share of net assets	\$ 77,861,280	\$ 78,954,923
Amount due to associate	<u>(7,782)</u>	<u>(31,885)</u>
	<u>\$ 77,853,498</u>	<u>\$ 78,923,038</u>

Amount due to associate is unsecured, interest free and has no fixed terms of repayment.

In 2002, the Group, through its subsidiaries, acquired 24% equity interest in Beijing Pacific Palace Real Estate Development Co Ltd (“Beijing Pacific Palace”), which is engaged in a property development project at the Lido area of Jiangtai Town, Chaoyang District, Beijing, the PRC (“Pacific Town project”).

As at 30 June 2003, the registered capital of Beijing Pacific Palace of US\$12 million (equivalent to \$93.6 million) has been fully paid.

In July 2003, Beijing Pacific Palace obtained the planning approval for the Pacific Town project from the relevant authority. The Pacific Town project is a medium density residential area with a mixed development of high rise apartments and low-density town houses. The total gross site area is 430,750 sq. metres. The gross floor area of 323,250 sq. metres includes high rise apartments of 191,500 sq. metres, low rise town houses of 66,750 sq. metres and commercial buildings of 65,000 sq. metres. The development of the project will be carried out in several phases. Phase 1 of the Pacific Town project comprises gross site area of 80,000 sq. metres with approximately 400 high rise residential apartment units.

9 INTEREST IN JOINTLY CONTROLLED ENTITIES

	At 30 June 2003	At 31 December 2002
Share of net assets	\$ 26,107,000	\$ 26,050,351
Amounts due from jointly controlled entities, net of provision	<u>2,753,723</u>	<u>1,729,713</u>
	<u>\$ 28,860,723</u>	<u>\$ 27,780,064</u>

Amounts due from jointly controlled entities are unsecured, interest free and have no fixed terms of repayment.

In March 2002, the Group entered into a conditional agreement with Beijing Capital Group pursuant to which, the Group agreed to sell an equity interest of 9% in Beijing Far East Instrument Company Limited, a jointly controlled entity in which the Group currently holds 35% equity interest, for a consideration of approximately Rmb14 million (equivalent to \$13 million), subject to the fulfilment of certain conditions. The consideration is payable over a period of 5 years. Up to 30 June 2003, the disposal has not been accounted for as the conditions have not been satisfied. A director of the Company is also a member of the senior management of Beijing Capital Group.

During the period, the Group disposed its 22.87% interest in Everbright Timber Industry (Shenzhen) Company Limited ("SETI") for a cash consideration of \$2,170,000. As the carrying value of SETI was fully written off as at 31 December 2002, the disposal resulted in a gain of \$2,064,532 (net of related expenses of \$105,468). In addition, the Group received an amount of \$1,528,897 representing a portion of the dividends declared by SETI in prior years. This has been recorded as income in the consolidated income statement for the current period as the dividends receivable from SETI were fully provided for as at 31 December 2002.

10 **NON-TRADING INVESTMENTS**

	Note	At 30 June 2003	At 31 December 2002
Investment in unlisted joint venture	(a)	\$ —	\$ —
Investments in unlisted companies	(b)	—	—
Listed investments	(c)	32,970,630	35,111,580
		<u>\$ 32,970,630</u>	<u>\$ 35,111,580</u>

Notes:

- (a) The Group invested \$61,495,650 for 18% equity interest in Beijing Asia Pacific First Star Communications Technology Co. Ltd. The cost of investment was fully provided as at 31 December 2002.
- (b) The Group invested \$23,557,891 for 10.44% equity interest in ChinaGo Limited. The cost of investment was fully provided as at 31 December 2002.
- (c) The Group holds 42,819,000 ordinary shares of Skyworth Digital Holdings Limited ("Skyworth Digital"), a company listed on the HKSE. As at 30 June 2003, the shares were stated at their market value at \$0.77 per share as quoted on the HKSE. A revaluation deficit of \$2,140,950 has been transferred to investment revaluation reserve during the period ended 30 June 2003. An impairment loss was previously charged to the consolidated income statement for the year ended 31 December 2001. Following the directors' review of the operating results and share prices of Skyworth Digital in last year, they consider an amount of \$13,273,890 should be written back. This was credited to the consolidated income statement during the period as reversal of impairment loss previously made.

11 CASH AND CASH EQUIVALENTS

	At 30 June 2003	At 31 December 2002
Deposits with banks and other financial institutions	\$ 30,971,678	\$ 30,778,303
Cash at bank and in hand	<u>588,189</u>	<u>850,752</u>
	<u>\$ 31,559,867</u>	<u>\$ 31,629,055</u>

12 SHARE CAPITAL

	No. of shares	Amount
Authorised:		
Ordinary shares of \$0.10 each	<u>1,200,000,000</u>	<u>\$ 120,000,000</u>
Issued and fully paid:		
At 1 January 2003 and 30 June 2003	<u>539,512,000</u>	<u>\$ 53,951,200</u>

- (a) No warrants were exercised during the period. 106,422,000 warrants were outstanding at 30 June 2003. On 15 August 2003, 2,000 warrants were exercised and converted into 2,000 ordinary shares of \$0.1 each at the subscription price of \$0.2244 per share. The remaining warrants have lapsed on 15 August 2003.

- (b) The Company has 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 of the Company. The number of options granted and outstanding at 30 June 2003 is as follows:

Date options granted	Period during which options exercisable	Number of options granted and outstanding at 31 December 2002	Cancelled during the period	Number of options granted and outstanding at 30 June 2003
27 November 2001	28 May 2002 to 27 November 2004	21,555,600	(2,694,450)	18,861,150
11 December 2001	28 May 2002 to 27 November 2004	2,694,450	–	2,694,450
12 December 2001	28 May 2002 to 27 November 2004	2,694,450	(2,694,450)	–

There were no options granted or exercised during the period.

13 RESERVES

	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	<u>\$ 498,097,415</u>	<u>\$ 3,098,294</u>	<u>\$ 15,414,840</u>	<u>\$ (403,936,214)</u>	<u>\$ 112,674,335</u>
At 1 January 2003	\$ 498,097,415	\$ 3,098,294	\$ 15,414,840	\$ (403,936,214)	\$ 112,674,335
Profit for the period	-	-	-	12,558,916	12,558,916
Share of exchange reserve of associates	-	(780)	-	-	(780)
Deficit on revaluation of non-trading investments	-	-	(2,140,950)	-	(2,140,950)
Transfer to income statement	-	-	(13,273,890)	-	(13,273,890)
At 30 June 2003	<u>\$ 498,097,415</u>	<u>\$ 3,097,514</u>	<u>\$ -</u>	<u>\$ (391,377,298)</u>	<u>\$ 109,817,631</u>

14 NET ASSET VALUE PER SHARE

The net asset value per share is computed based on the consolidated net assets of \$163,768,831 (31 December 2002: \$166,625,535) and 539,512,000 shares (31 December 2002: 539,512,000 shares) in issue as at 30 June 2003.

15 CAPITAL COMMITMENTS

(a) At 30 June 2003, the Group's share of an associate's capital commitments outstanding not provided for in the interim financial report was as follows:

	At 30 June 2003	At 31 December 2002
Authorised and contracted for	\$ 39,025,000	\$ 39,412,000
Authorised but not contracted for	18,967,000	23,179,000
	<u>\$ 57,992,000</u>	<u>\$ 62,591,000</u>

The above commitments represent costs to be incurred in respect of the Pacific Town project (note 8) up to the commencement of pre-sale of properties to be developed in phase 1.

(b) Subsequent to period end, the Group has approved a preliminary proposal to invest in a residential property development project in Beijing, the PRC. The Group will invest US\$2.4 million (equivalent to \$18.7 million) in return for a 20% interest.

16 POST BALANCE SHEET EVENT

In August 2003, the Group sold 20,000,000 ordinary shares of Skyworth Digital at \$1.08 per share for a total consideration of \$21,600,000, resulting in a gain of approximately \$6,200,000.