

# Notes to the Condensed Financial Statements

For the six months ended 30th June, 2003

## 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and with the Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for revaluation of investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's financial statements for the year ended 31st December, 2002, except for the adoption of the Statement of Standard Accounting Practice 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. As at 1st January, 2002, deficit have been reduced by HK\$3,934,000, minority interests have been increased by HK\$3,729,000 and deferred tax assets have been increased by HK\$7,663,000 respectively, which are the cumulative effect of the change in policy on the results for the periods prior to 2002. The effect of the change is a decreased charge to income taxes in the six months ended 30th June, 2002 of HK\$2,495,000 (year ended 31.12.2002: HK\$5,791,000). The loss shared by the minority interests for the six months ended 30th June, 2002 was also decreased by HK\$1,214,000 (year ended 31.12.2002: HK\$2,818,000).

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## 3. 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 revenue by business segments is as follows:

	Tires HK\$'000	Pharma- ceutical products HK\$'000	Investment in securities, loan receivables HK\$'000	Others HK\$'000	Consolidated HK\$'000
<i>For the period ended 30th June, 2003</i>					
<b>REVENUE</b>					
External	<u>1,606,194</u>	<u>129,411</u>	<u>5,187</u>	<u>3,558</u>	<u>1,744,350</u>
<b>RESULT</b>					
Segment result	<u>79,001</u>	<u>(855)</u>	<u>(6,839)</u>	<u>(2,605)</u>	68,702
Unallocated corporate expenses					(10,769)
Exchange gain					17,429
Interest income					19,232
Dividend income					<u>1,635</u>
Profit from operations					<u>96,229</u>

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## 3. SEGMENTAL INFORMATION (continued)

	Discontinuing operations				Continuing operations							Consolidated HK\$'000
	Toll highway operation HK\$'000 (Note)	Property investment HK\$'000 (Note)	Hotel operation HK\$'000 (Note)	Heavy industry HK\$'000 (Note)	Sub-total HK\$'000	Tires HK\$'000	Pharm- aceutical products HK\$'000	Investment in securities, loan receivables HK\$'000	Others HK\$'000	Sub-total HK\$'000	Elimination HK\$'000	
For the period ended 30th June, 2002												
REVENUE												
External	25,194	8,860	21,452	129,406	184,912	1,377,208	141,159	63,289	6,532	1,588,188	—	1,773,100
Inter-segment	—	—	—	—	—	—	—	—	492	492	(492)	—
Total revenue	<u>25,194</u>	<u>8,860</u>	<u>21,452</u>	<u>129,406</u>	<u>184,912</u>	<u>1,377,208</u>	<u>141,159</u>	<u>63,289</u>	<u>7,024</u>	<u>1,588,680</u>	<u>(492)</u>	<u>1,773,100</u>
RESULT												
Segment result	<u>(70,289)</u>	<u>(12,069)</u>	<u>(1,027)</u>	<u>15,539</u>	<u>(67,846)</u>	<u>(94,101)</u>	<u>(6,049)</u>	<u>(23,065)</u>	<u>4,119</u>	<u>(119,096)</u>		<u>(186,942)</u>
Unallocated corporate expenses												(39,504)
Gain on disposal of property, plant and equipment												231
Exchange gain												8,644
Interest income												28,417
Dividend income												1,460
Loss from operations												<u>(187,694)</u>

Inter-segment revenue is charged at market rates.

Note: Following the disposal of certain subsidiaries of the Group during the year ended 31st December, 2002, these operations were regarded as discontinuing operations. Details of these are set out in the annual financial statements of the Company for the year ended 31st December, 2002 dated 23rd April, 2003.

### Geographical segments

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

	Turnover Six months ended 30th June,	
	2003 HK\$'000	2002 HK\$'000
The PRC, other than Hong Kong	1,626,858	1,576,636
Hong Kong	91,115	112,334
Overseas	17,632	17,220
	<u>1,735,605</u>	<u>1,706,190</u>

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For the six months ended 30th June, 2003

## 4. OTHER OPERATING INCOME

	Six months ended 30th June,	
	2003 HK\$'000	2002 HK\$'000
Interest income	19,232	28,417
Exchange gain	17,429	8,644
Gain on disposal of investments in securities	5,187	63,289
Dividend income from listed investments	1,635	1,460
Gain on disposal of property, plant and equipment	—	231
Others	3,558	3,621
	<u>47,041</u>	<u>105,662</u>

## 5. OTHER EXPENSES

	Six months ended 30th June,	
	2003 HK\$'000	2002 HK\$'000
Unrealised loss on investments in securities	12,026	86,353
Impairment losses recognised in respect of property, plant and equipment	—	236,525
Impairment loss recognised in respect of properties held for sale	—	1,185
Impairment loss recognised in respect of investment properties	—	9,069
Impairment loss recognised in respect of inventories	—	6,885
Amortisation of goodwill	814	817
Others	3,366	5,403
	<u>16,206</u>	<u>346,237</u>

# Notes to the Condensed Financial Statements

For the six months ended 30th June, 2003

## 6. PROFIT (LOSS) FROM OPERATIONS

Profit (loss) from operations has been arrived at after charging:

	Six months ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
Depreciation and amortisation of property, plant and equipment	<u>24,012</u>	<u>73,940</u>

## 7. TAXATION

	Six months ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax	706	—
Taxation in other jurisdictions	7,533	7,928
Deferred tax credit	<u>(770)</u>	<u>(2,495)</u>
	<u>7,469</u>	<u>5,433</u>

Hong Kong Profits Tax have been provided for at the rate of 17.5% on the estimated assessable profit of the subsidiaries of the Group.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

## 8. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of HK\$132,702,000 (HK\$152,418,000 for the six months ended 30th June, 2002) and on the weighted average of 829,468,413 (467,586,677 for the six months ended 30th June, 2002 after adjustment for the effect of the rights issue completed in August 2002) ordinary shares in issue during the period.

The computation of diluted loss per share does not assume the exercise of the share options as their exercise would result in a decrease in loss per share.

# Notes to the Condensed Financial Statements

For the six months ended 30th June, 2003

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, property, plant and equipment with an aggregate net book value of approximately HK\$107 million were disposed of as a result of the disposal of subsidiaries.

The Group incurred expenditure of approximately HK\$272 million on its property, plant and equipment.

The Group also disposed of property, plant and equipment with an aggregate net book value of approximately HK\$46 million.

## 10. MOVEMENTS IN PAYMENT FOR ACQUISITION OF LAND DEVELOPMENT RIGHTS

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 approximately HK\$216,981,000) to the People's Government of Li Qiao Town for the land development rights of the project.

As at 30th June, 2003, partial payments of RMB20,500,000, equivalent to approximately HK\$19,223,000 (31.12.2002: RMB8,000,000, equivalent to approximately HK\$7,441,000) was paid by the Company.

The Company has incurred consultancy fee and project management fee for this project totaling approximately HK\$7,683,000 (31.12.2002: approximately HK\$7,246,000) and the above amounts are included in the payment for acquisition of land development rights.

On 22nd July, 2003, the Group entered into an agreement with the People's Government of Li Qiao Town for the termination of this project. In accordance with the terms of the agreement, the People's Government of Li Qiao Town will refund the previously paid partial payment to the Group and will provide the damage claim for RMB10 million. Up to the date of this report, RMB18 million was repaid by the People's Government of Li Qiao Town to the Group.

## 11. INTERESTS IN ASSOCIATES

During the period, the Group disposed of approximately 9.55% interest in Rosedale Hotel Group Limited ("Rosedale Hotel") for a consideration of approximately HK\$19 million and the interest in Rosedale Hotel was decreased from 32.20% to 22.65%.

# Notes to the Condensed Financial Statements

*For the six months ended 30th June, 2003*

## **12. MOVEMENTS IN RECEIVABLES**

Included in receivables of approximately HK\$125 million (31.12.2002: HK\$122 million) and approximately HK\$112 million (31.12.2002: approximately HK\$109 million) were due from Danwei Limited ("Danwei") and Lucklong Venture Limited ("Lucklong") respectively. Ms. Chau Mei Wah, Rosanna ("Ms. Chau") and Mr. Lau Ko Yuen, Tom, the former alternate director to Ms. Chau of the Company, are directors of the ultimate holding company of Danwei and Lucklong. In addition, Ms. Chau 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.

Other than the above amounts of approximately HK\$237 million which were secured, the remaining balances of receivables were unsecured. All receivables bear interest at prevailing market rates.

Included in receivables which are due after one year of approximately HK\$8 million (31.12.2002: Nil) were due from Sun Media Group Holdings Limited, a company's shares listed on the Mainboard of the Stock Exchange, representing part of the consideration of the disposal of the 19.56% of the issued share capital of Leadership Publishing Group Limited ("Leadership Publishing"), a company's shares listed on the Growth Enterprise Market of the Stock Exchange in January, 2003. The amount was due and payable upon the expiry of 30 calendar months after the year end of the financial year of Leadership Publishing in respect of which Leadership Publishing declares a profit after taxation in its audited financial statements.

## **13. MOVEMENTS IN INVESTMENTS IN SECURITIES**

During the period, the Group acquired certain investments at a consideration of approximately HK\$88 million and disposed of certain investments with the carrying value of approximately HK\$86 million. In addition, an unrealised loss on investment in securities of approximately HK\$12 million has been recognised in the condensed consolidated income statement during the period.

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For the six months ended 30th June, 2003

## 14. TRADE DEBTORS

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

	<b>30th June 2003 HK\$'000</b>	31st December 2002 HK\$'000
0-90 days	<b>363,981</b>	387,848
91-180 days	<b>36,901</b>	89,724
Over 180 days	<b>1,765</b>	56,387
	<b><u>402,647</u></b>	<u>533,959</u>

## 15. CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES

At the reporting date, included in creditors and accrued charges are creditors with the following aged analysis:

	<b>30th June 2003 HK\$'000</b>	31st December 2002 HK\$'000
0-90 days	<b>235,078</b>	219,156
91-180 days	<b>15,425</b>	48,641
Over 180 days	<b>11,148</b>	109,345
	<b><u>261,651</u></b>	<u>377,142</u>
Add: Other payables and accrued charges	<b>367,858</b>	515,022
	<b><u>629,509</u></b>	<u>892,164</u>



# Notes to the Condensed Financial Statements

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## 16. COMMITMENTS

At the reporting date, the Group had the following capital commitments:

	<b>30th June 2003 HK\$'000</b>	31st December 2002 HK\$'000
Contracted for but not provided in the financial statements in respect of:		
— Land development rights	<b>197,758</b>	209,540
— Property, plant and equipment	<b>76,427</b>	137,061
— Construction in progress	<b>—</b>	15,531
	<b><u>274,185</u></b>	<b><u>362,132</u></b>

As set out in note 10, upon the completion of the agreement entered into subsequent to 30th June, 2003, the Group had no capital commitments in respect of land development rights.

## 17. CONTINGENT LIABILITIES

At 30th June 2003, the Group had contingent liabilities in respect of guarantees in favour of banks for facilities granted to an associate of approximately HK\$184.3 million (31.12.2002: approximately HK\$169.6 million), outsiders of approximately HK\$113.1 million (31.12.2002: approximately HK\$0.8 million) and a subsidiary of a minority shareholder of approximately HK\$6.6 million (31.12.2002: Nil).

## 18. PLEDGE OF ASSETS

At 30th June, 2003 and 31st December, 2002, the following assets were pledged to secure credit facilities granted to the Group:

- (a) Certain property, plant and equipment with a carrying value of approximately HK\$10,500,000 (31.12.2002: approximately HK\$219,532,000);
- (b) Bank deposits of approximately HK\$22,513,000 (31.12.2002: approximately HK\$24,839,000);
- (c) All the assets of a subsidiary with a consolidated net assets value of approximately HK\$27,424,000 (31.12.2002: approximately HK\$45,746,000) of the Group has been pledged to a bank to secure credit facilities granted to the Group.

At 30th June, 2003 and 31st December, 2002, investment in securities with a carrying value of approximately HK\$227,060,000 (31.12.2002: approximately HK\$249,990,000) were pledged to secure margin account credit facilities. The margin loan facilities amounting to approximately HK\$25,479,000 (31.12.2002: approximately HK\$13,323,000) were utilised by the Group.

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## 19. RELATED PARTY TRANSACTIONS

During the period, the Group had the following significant transactions with related parties:

Name of company	Notes	Nature of transactions	Six months ended 30th June,	
			2003 HK\$'000	2002 HK\$'000
Lucklong	(i)	Loan interest income received and receivable by the Group	2,967	3,035
Danwei	(i)	Loan interest income received and receivable by the Group	3,314	3,389
Hanny Magnetics Limited ("Hanny Magnetics")	(ii)	Loan interest expenses paid and payable by the Group	1,953	—
Nation Cheer Investment Limited ("Nation Cheer")	(ii)	Loan interest expenses paid and payable by the Group	4,085	—
Rosedale Hotel	(iii)	Loan interest income received and receivable by the Group	1,685	—

Notes:

- (i) Danwei and Lucklong are companies, in which a director of the Company is the director of their ultimate holding company and the director of Danwei and Lucklong.
- (ii) Hanny Magnetics and Nation Cheer are wholly-owned subsidiaries of a substantial shareholder of the Company.
- (iii) Rosedale Hotel is an associate of the Group.

The above transactions were carried out in accordance with the terms agreed between the relevant parties.

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## 20. POST BALANCE SHEET EVENT

Subsequent to the reporting date, the Group had the following significant subsequent events:

- (i) On 15th June, 2003, China Enterprises Limited ("China Enterprises"), a non-wholly owned subsidiary of the Company, and Hangzhou Industrial & Commercial Trust & Investment Co., Ltd. ("Hangzhou I&C") entered into an agreement pursuant to which China Enterprises agreed to dispose of its 25% interests in Hangzhou Zhongce Rubber Co., Ltd ("Hangzhou Zhongce"), a 51% owned subsidiary of China Enterprises, to Hangzhou I&C for the consideration of approximately RMB165 million (equivalent to approximately HK\$155 million). Upon completion of the disposal, China Enterprises's interest in Hangzhou Zhongce will be reduced from 51% to 26%, and Hangzhou Zhongce will cease to be a subsidiary of China Enterprises. Up to the date of this report, this transaction has not been completed.
- (ii) The Group entered into an agreement with the People's Government of Li Qiao Town for the termination of the joint development project of a piece of land which is adjacent to the eastern side of Beijing Capital Airport, the PRC. Details of these are set out in note 10.