

## NOTES TO THE ACCOUNTS

### 1 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

#### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, other investments are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new standards is set out in the accounting policies below.

#### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

## **1 Principal accounting policies** *(continued)*

### **(b) Consolidation** *(continued)*

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortized goodwill or negative goodwill or goodwill/negative goodwill taken to reserves which was not previously charged or recognised in the consolidated profit and loss account and also any related accumulated foreign currency translation reserve.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### **(c) Associated companies**

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year. The consolidated balance sheet includes the Group's share of the net assets of the associated companies.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

### **(d) Goodwill/negative goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associated company at the date of acquisition.

**1 Principal accounting policies** *(continued)***(d) Goodwill/negative goodwill** *(continued)*

In accordance with SSAP 30, goodwill on acquisition occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill on acquisition that occurred prior to 1st January 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisition after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectation of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair value of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the income statement immediately. For acquisitions prior to 1st January 2001, negative goodwill was taken directly to reserves on acquisition. The Group has taken advantage of the transitional provisions in SSAP 30 and such negative goodwill has not been restated.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1st January 2001 acquisition, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

## 1 Principal accounting policies *(continued)*

### (e) Investments

#### (i) *Unlisted investments*

##### (a) Unlisted investments in toll roads

Unlisted investments in toll roads are stated at cost less accumulated amortisation and provision for impairment losses. In accordance with the investment agreements, the Group is entitled to receive the following income:

- (I) Repayments of capital by equal instalments over the useful life of the investment of 20 years; and
- (II) A guaranteed minimum return of 13% per annum on its initial contributions for a period of at least 7 years and 10% to 15% per annum on its initial contributions for 20 years respectively for each of the two toll roads. This income is included as part of turnover.

The unlisted investments in toll roads are amortised over their useful lives of 20 years on a straight-line basis. The amount amortised is therefore equal to the capital repayment receivable in each year.

- (b) Unlisted investments other than investments in toll roads are stated at cost less provision for impairment losses.
- (c) The carrying amounts of individual unlisted investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of these unlisted investments will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

#### (ii) *Other investments*

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

## **1 Principal accounting policies** *(continued)*

### **(f) Accounts receivable**

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### **(g) Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

### **(h) Translation of foreign currencies**

Transactions in foreign currencies are translated into United States dollars at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into United States dollars at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated into United States dollars at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences arising are dealt with as a movement in reserves. Upon disposal of an overseas subsidiary or associated company, the cumulative exchange difference is recognised in the profit and loss account as part of the gain or loss on disposal.

### **(i) Segment reporting**

In accordance with the Group's internal financial reporting the Group has determined that business segment be presented as the primary reporting format and geographical segment as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of investments, receivables and operating cash. Segment liabilities comprise operating liabilities.

In respect of geographical segment reporting, turnover is based on the country in which the income is received or receivable. Total assets and capital expenditure are where the assets are located.

## **1 Principal accounting policies** *(continued)*

### **(j) Dividends**

In accordance with the revised SSAP 9, the Group and the Company no longer recognise dividends proposed or declared after the balance sheet date as a liability or an asset at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparative presented have been restated to conform to the changed policy.

As detailed in Note 13, this change has resulted in an increase in opening accumulated losses of the Company at 1st January 2001 by US\$1,373,305 (1st January 2000: US\$1,064,505) which is the reversal of 2000 (1999) final dividend receivables from its associated companies previously recorded as an asset as at 31st December 2000 (31st December 1999) although not declared by its associated companies until after the balance sheet date.

### **(k) Revenue recognition**

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### **(l) Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

### **(m) Provisions**

In accordance with SSAP 28, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

## 1 Principal accounting policies *(continued)*

### (n) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

## 2 Investment management fee

Pursuant to a Management Agreement dated 28th March 1991, China Assets Management Limited ("CAML") (see *note 16*) is entitled to receive from the Company a management fee calculated at the following rates:

- (i) 2.75% per annum on the aggregate cost to the Company of the investments (less any provisions in respect thereof) held by it from time to time; and
- (ii) 1% per annum on the value of uninvested net assets, representing net asset value of the Company less the aggregate cost of investments made by the Company.

Management fee paid to CAML for the year ended 31st December 2001 amounted to US\$1,237,757 (2000: US\$1,234,491).

CAML is also entitled to receive a performance bonus based on a specified formulae as defined in the Management Agreement. No performance bonus had been paid for the year ended 31st December 2001 (2000: nil).

### 3 Turnover and segment information

The principal activity of the Company is investment holding in Hong Kong and the Mainland China. Revenues recognised during the year arose only on the Company's Hong Kong investments as follows:

	<b>2001</b> <b>US\$</b>	2000 US\$
Turnover		
Interest income	<b>269,147</b>	511,593
Dividend income from listed investments	<b>102,273</b>	23,512
	<b><u>371,420</u></b>	<u>535,105</u>

#### Primary reporting format – business segments

The principal activities of the Company is investment holding carried out in Hong Kong and the Mainland China with its associated companies/investee companies operating in five main business segments:

- Investments holding
- Manufacturing and distribution of pharmaceutical products
- Manufacturing and distribution of PVC sheets
- Manufacturing and distribution of steel products
- Toll roads operation

There are no sales or other transactions between the business segments.

#### Secondary reporting format – geographical segments

The Group's five business segments mainly operate in two geographical areas:

- Hong Kong — investments holding
- Mainland China — manufacturing and distribution of pharmaceutical, PVC sheets and steel products, and toll roads operation

There are no sales between the geographical segments.



### 3 Turnover and segment information (continued)

#### Primary reporting format – business segments

An analysis of the Group's revenue and results for the year by business segments is as follows:

	2001						
	Investments holding US\$	Manufacturing and distribution of pharmaceutical products US\$	Manufacturing and distribution of PVC sheets US\$	Manufacturing and distribution of steel products US\$	Toll roads operation US\$	Others US\$	Total US\$
Segment revenue	<u>371,420</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>371,420</u>
Segment results	<u>(579,836)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(579,836)</u>
Unallocated income							74,106
Unallocated expenses*							<u>(1,520,629)</u>
Operating loss							(2,026,359)
Share of profits of associated companies	2,515,887	1,538,593	709,563	386,600	–	–	5,150,643
Taxation	(280,525)	(255,190)	(101,240)	(65,622)	–	–	<u>(702,577)</u>
Profit attributable to shareholders							<u>2,421,707</u>
Segment assets	9,559,697	–	–	–	7,855,173	–	17,414,870
Investments in associated companies	25,853,673	24,572,216	6,433,043	3,998,152	–	84,950	<u>60,942,034</u>
Total assets							<u>78,356,904</u>
Segment liabilities	625,866	–	–	–	–	–	625,866
Unallocated liabilities							<u>97,650</u>
Total liabilities							<u>723,516</u>

**3 Turnover and segment information** *(continued)***Primary reporting format – business segments** *(continued)*

	2000						
	Investments holding US\$	Manufacturing and distribution of pharmaceutical products US\$	Manufacturing and distribution of PVC sheets US\$	Manufacturing and distribution of steel products US\$	Toll roads operation US\$	Others US\$	Total US\$
Segment revenue	<u>535,105</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>535,105</u>
Segment results	<u>114,703</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>114,703</u>
Unallocated income							87,101
Unallocated expenses *							<u>(1,831,632)</u>
Operating loss							(1,629,828)
Share of profits of associated companies	1,877,585	1,480,669	430,005	598,515	—	—	4,386,774
Taxation	(298,807)	(224,271)	(109,907)	(88,321)	—	—	<u>(721,306)</u>
Profit attributable to shareholders							<u>2,035,640</u>
Segment assets	9,881,668	—	—	—	8,608,002	—	18,489,670
Investments in associated companies	22,072,214	23,834,245	5,806,906	3,853,829	—	112,775	<u>55,679,969</u>
Total assets							<u>74,169,639</u>
Segment liabilities	434,977	—	—	—	—	—	434,977
Unallocation liabilities							<u>107,000</u>
Total liabilities							<u>541,977</u>

\* Included in this balance is the management fee of US\$1,237,757 (2000: US\$1,234,491) paid to a related company (note 2).

**3 Turnover and segment information** *(continued)***Secondary reporting format – geographical segments**

	<b>2001</b>		
	<b>Turnover</b>	<b>Segment</b>	<b>Total</b>
	<b>US\$</b>	<b>results</b>	<b>assets</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Hong Kong	<b>371,420</b>	<b>(579,836)</b>	<b>9,559,697</b>
Mainland China	<b>—</b>	<b>—</b>	<b>7,855,173</b>
	<b><u>371,420</u></b>	<b><u>(579,836)</u></b>	<b><u>17,414,870</u></b>
Unallocated income		<b>74,106</b>	
Unallocated expenses*		<b><u>(1,520,629)</u></b>	
Operating loss		<b>(2,026,359)</b>	
Share of profits of associated companies		<b>5,150,643</b>	
Taxation		<b><u>(702,577)</u></b>	
Profit attributable to shareholders		<b><u>2,421,707</u></b>	
Investments in associated companies			<b><u>60,942,034</u></b>
Total assets			<b><u>78,356,904</u></b>
	<b>2000</b>		
	<b>Turnover</b>	<b>Segment</b>	<b>Total</b>
	<b>US\$</b>	<b>results</b>	<b>assets</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Hong Kong	535,105	114,703	9,881,668
Mainland China	—	—	8,608,002
	<b><u>535,105</u></b>	<b><u>114,703</u></b>	<b><u>18,489,670</u></b>
Unallocated income		87,101	
Unallocated expenses*		<b><u>(1,831,632)</u></b>	
Operating loss		<b>(1,629,828)</b>	
Share of profits of associated companies		4,386,774	
Taxation		<b><u>(721,306)</u></b>	
Profit attributable to shareholders		<b><u>2,035,640</u></b>	
Investments in associated companies			<b><u>55,679,969</u></b>
Total assets			<b><u>74,169,639</u></b>

There is no capital expenditure for the year (2000: Nil).

\* Included in this balance is the management fee of US\$1,237,757 (2000: US\$1,234,491) paid to a related company (note 2).

## 4 Operating loss

Operating loss is stated after crediting and charging the following:

	<b>2001</b>	2000
	<b>US\$</b>	US\$
<b>Crediting</b>		
<i>Other operating income</i>		
Provision for investment in an associated company written back	—	25,641
Gains on disposal of listed investments	<b>113,268</b>	413,657
	<u><b>113,268</b></u>	<u>413,657</u>
<b>Charging</b>		
<i>Administrative expenses</i>		
Auditors' remuneration		
Current year	<b>105,000</b>	107,000
Previous year (over)/underprovision	<b>(5,004)</b>	1,322
Net exchange loss	<b>7,036</b>	1,681
<i>Other operating expenses</i>		
Provision for impairment losses on an unlisted investment	<b>644,041</b>	300,000
Unrealised losses on listed investments	<b>420,483</b>	534,059
Loss on disposal of an associated company	—	168,757
	<u><b>1,071,560</b></u>	<u>1,002,646</u>

## 5 Taxation

No provision for Hong Kong profits tax has been made in the accounts as the Company has no estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	<b>2001</b>	2000
	<b>US\$</b>	US\$
Share of taxation attributable to associated companies	<b>702,577</b>	721,306
	<u><b>702,577</b></u>	<u>721,306</u>

There was no material unprovided deferred taxation for the year.

## 6 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of US\$95,659 (2000: restated, loss of US\$645,095).

## 7 Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of US\$2,421,707 (2000: US\$2,035,640) and on the 74,383,160 (2000: 74,383,160) shares in issue during the year.

## 8 Directors' and senior management's emoluments

The aggregate emoluments payable to directors of the Company during the year are as follows:

	<b>2001</b> <b>US\$</b>	2000 <i>US\$</i>
Fees (equivalent to HK\$260,000) (2000: HK\$240,000)	<b><u>33,344</u></b>	<u>30,772</u>

Directors' fees disclosed above include US\$15,390 (2000: US\$15,386) paid to independent non-executive directors.

Remuneration of all directors falls within the band of HK\$nil to HK\$1,000,000. No director of the Company waived any emoluments during 2000 and 2001.

The Company is managed by CAML and no individual was employed directly by the Company or its subsidiaries during 2000 and 2001.

## 9 Investments in subsidiaries

	<b>Company</b> <b>2001</b> <b>US\$</b>	2000 <i>US\$</i>
Unlisted shares, at cost	<b><u>62</u></b>	<u>62</u>
Amounts due from subsidiaries	<b>4,606,767</b>	3,984,606
Less: provision for doubtful debts	<b><u>(944,041)</u></b>	<u>(300,000)</u>
	<b><u>3,662,726</u></b>	<u>3,684,606</u>
	<b><u>3,662,788</u></b>	<u>3,684,668</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms.

**9 Investments in subsidiaries** *(continued)*

The following is a list of subsidiaries held directly by the Company at 31st December 2001:

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest held	
				2001	2000
Sino Manufacturing Limited	British Virgin Islands	Dormant	1 share of US\$1 each	<b>100%</b>	100%
Wonderful Effort Limited	British Virgin Islands	Dormant	10 shares of US\$1 each	<b>100%</b>	100%
Ruby Power Investments Limited	British Virgin Islands	Dormant	10 shares of US\$1 each	<b>100%</b>	100%
Direct Investment Enterprises Limited	British Virgin Islands	Dormant	10 shares of US\$1 each	<b>100%</b>	100%
Twin Tiger Limited	British Virgin Islands	Investment holding	1 share of US\$1 each	<b>100%</b>	100%
Balance Target Investments Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	<b>100%</b>	100%
Capital Structure Investments Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	<b>100%</b>	100%
Essential Choice Investments Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	<b>100%</b>	100%

Note: —

The subsidiaries operate principally in their places of incorporation.

## 10 Investments in associated companies

	Group		Company	
	2001 US\$	2000 US\$	2001 US\$	Restated 2000 US\$
Share of net assets	<b>60,561,912</b>	54,161,225	—	—
Shares listed in Hong Kong, at cost	—	—	<b>13,119,537</b>	12,616,399
Unlisted investments, at cost	—	—	<b>25,745,196</b>	34,381,196
Convertible loan stock	—	—	<b>735,000</b>	735,000
	<b>60,561,912</b>	54,161,225	<b>39,599,733</b>	47,732,595
Less: provision for impairment losses	—	—	<b>(11,346,085)</b>	(19,982,085)
	<b>60,561,912</b>	54,161,225	<b>28,253,648</b>	27,750,510
Amounts due from associated companies	<b>888,460</b>	2,033,955	<b>742,113</b>	624,141
Amount due to an associated company	—	(6,873)	—	(6,873)
	<b>888,460</b>	2,027,082	<b>742,113</b>	617,268
Less: provision for doubtful debts	<b>(508,338)</b>	(508,338)	<b>(508,338)</b>	(508,338)
	<b>380,122</b>	1,518,744	<b>233,775</b>	108,930
	<b>60,942,034</b>	55,679,969	<b>28,487,423</b>	27,859,440
Investments at cost:				
Shares listed in Hong Kong	<b>13,119,537</b>	12,616,399		
Unlisted investments	<b>33,121,883</b>	41,335,024		
Convertible loan stock	<b>735,000</b>	735,000		
	<b>46,976,420</b>	54,686,423		
Less: provision for impairment losses	<b>(15,148,085)</b>	(23,784,085)		
	<b>31,828,335</b>	30,902,338		
Market value of listed shares in Hong Kong	<b>15,263,354</b>	13,128,906	<b>15,263,354</b>	13,128,906

**10 Investments in associated companies** *(continued)*

The following is a list of the associated companies held directly/indirectly by the Company at 31st December 2001:

Name	Place of incorporation and operation	Principal activities	Interest held	
			2001	2000
Dezhou Zhenhua Glass Co., Ltd. (see note (a) below)	People's Republic of China	Production and sale of glass products	<b>30%*</b>	30%*
First Shanghai Investments Limited (see note (b) below)	Hong Kong	Investment holding	<b>21.04%</b>	20.66%
Foshan Nanwah Construction Material Co., Ltd. (see note (c) below)	People's Republic of China	Production and sale of construction materials	<b>30%</b>	30%
Hong Kong Strong Profit Limited (See note (d) below )	Hong Kong	Investment in a joint venture for the production of man-made fabrics	<b>49%</b>	49%
Jinan Lingyan Cement Co., Ltd. (see note (e) below)	People's Republic of China	Manufacture and sale of cement	<b>30%</b>	30%
Shandong Lukang Pharmaceutical Co., Ltd (see note (f) below)	People's Republic of China	Manufacture and sale of antibiotics	<b>17.45%</b>	17.45%
Shenzhen SPEC Plastics Holdings Co., Ltd. (See note (g) below )	People's Republic of China	Production and sale of PVC chips	<b>28.05%</b>	28.05%
Suzhou Universal Chain Transmission Co., Ltd. (see note (h) below)	People's Republic of China	Production and sale of industrial chains	<b>33<sup>1</sup>/<sub>3</sub>%*</b>	33 <sup>1</sup> / <sub>3</sub> %*



**10 Investments in associated companies** *(continued)*

Name	Place of incorporation and operation	Principal activities	Interest held	
			2001	2000
Wuxi Huate Steel Strip Co., Ltd. (see note (i) below)	People's Republic of China	Manufacture and sale of steel products	<b>29.75%*</b>	29.75%*
Wuxi Huasheng Precision Alloy Material Co., Ltd. (see note (j) below)	People's Republic of China	Manufacture and sale of steel products	<b>29.75%*</b>	—
Wuxi Tristar Iron & Steel Co., Ltd. (see note (k) below)	People's Republic of China	Manufacture and sale of steel products	<b>25%</b>	25%
Wuxi United Iron & Steel Co., Ltd. (see note (l) below)	People's Republic of China	Manufacture and sale of steel products	<b>25%</b>	25%

\* Held indirectly by the Company

Notes:

- (a) Dezhou Zhenhua Glass Co., Ltd. is a joint venture between a Company's subsidiary and Shandong Dezhou Zhenhua Glass Factory. The joint venture is for a period of 30 years from May 1994. The registered and paid-up capital of the joint venture is US\$10,673,300, of which the Group contributed US\$3,202,000 for its 30% share. Full provision for impairment losses was made against this investment.
- (b) First Shanghai Investments Limited ("FSIL") is a company listed on The Stock Exchange of Hong Kong Limited with issued share capital of HK\$226,264,741 (2000: HK\$222,755,941).
- (c) Foshan Nanwah Construction Material Co., Ltd. is a joint venture between the Company, Foshan Shiwan Nan Wah Enterprises (Group) Company and Lexus Development Limited. The joint venture is for a period of 25 years from May 1993. The paid-up capital of the joint venture is US\$9,500,000 of which the Group contributed US\$2,850,000 for its 30% share. Full provision for impairment losses was made against this investment in 1996 and the Group wrote off this investment during the year.
- (d) Hong Kong Strong Profit Limited ("HKSP") holds a 25% interest in a joint venture, Zhejiang Huayu Crafts Weaving & Dyeing Co., Ltd. The joint venture is for a period of 15 years from December 1990. The registered and paid-up capital of the joint venture is US\$6,000,000 of which HKSP contributed US\$1,500,000. Full provision for impairment losses was made against the investment in HKSP in the Company's balance sheet.

## 10 Investments in associated companies *(continued)*

Note:

- (e) Jinan Lingyan Cement Co., Ltd. ("Lingyan") is a joint venture between the Company and Changqing Cement Factory. The joint venture is for a period of 20 years from April 1993. The registered and paid-up capital of the joint venture is US\$6,700,000, of which the Group contributed US\$2,010,000 for its 30% share. On 5th February 2001, Lingyan went into bankruptcy. Full provision for impairment losses was made against this investment in 1997 and the Group wrote off this investment during the year.
- (f) Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang") is a joint stock limited company listed on the Shanghai Securities Exchange in the PRC with a share capital of RMB364,754,210. The Group contributed US\$9,594,203 for its 17.45% share and the shares held by the Group are legal person shares which cannot be freely traded on the Shanghai Securities Exchange. As the Company has appointed two directors on the board of directors of Lukang, it is in a position to exercise significant influence over Lukang's daily operations and management decisions despite a shareholding of less than 20%. On this basis, the Group's interest in Lukang is accounted for under the equity method of accounting.
- (g) Shenzhen SPEC Plastics Holdings Co., ("SPPC") Ltd. is a joint stock limited company with share capital of RMB99,300,384. The Group contributed US\$5,539,909 for its share of 28.05%.
- (h) Suzhou Universal Chain Transmission Co., Ltd. is a joint venture between a Company's subsidiary and Suzhou General Chain Factory. The joint venture is for a period of 25 years from September 1992. The registered and paid-up capital of the joint venture is US\$6,000,000, of which the Group contributed US\$2,000,000 for its 33-1/3% share. A provision of US\$600,000 has been made against the investment to reflect the Company's share of its net assets value.
- (i) Wuxi Huate Steel Strip Co., Ltd. ("Huate") is a joint venture between a Company's subsidiary, and various independent third parties. The joint venture is for a period of 30 years from December 1995. The registered and paid-up capital of the joint venture is US\$6,000,000 of which the Group contributed US\$1,881,265 for its 29.75% share.
- (j) Wuxi Huasheng Precision Alloy Material Co., Ltd is a joint venture between a Company's subsidiary and various independent third parties. The joint venture is for a period of 25 years from in October 2000. The registered capital of the joint venture is US\$2,500,000 of which the Group have contributed US\$422,859 for its 29.75% share.
- (k) Wuxi Tristar Iron and Steel Co., Ltd. is a joint venture between the Company and Wuxi Xixing Iron and Steel Co., Ltd. The joint venture is for a period of 30 years from July 1994. The registered and paid-up capital of the joint venture is US\$27,800,000, of which the Group contributed US\$6,950,000 for its 25% share. Full provision for impairment losses was made against this investment in the Company's balance sheet.
- (l) Wuxi United Iron & Steel Co., Ltd. is a joint venture between the Company and Wuxi Xixing Iron and Steel Co., Ltd. The joint venture is for a period of 30 years from June 1993. The registered and paid-up capital of the joint venture is US\$29,520,000, of which the Group contributed US\$7,380,000 for its 25% share. Full provision for impairment losses was made against this investment in the Company's balance sheet.

All the above investments are regarded by the directors as associated companies as the Group can exercise significant influence over these investments.

**10 Investments in associated companies** *(continued)*

Additional information in respect of the Group's major associated companies is given as follows:

	<b>2001</b> <b>US\$000</b>	2000 US\$000
<b>Lukang</b>		
Profit and loss account		
Turnover	<b>93,171</b>	84,491
Profit before taxation	<b>8,816</b>	8,484
Group's share of profit before taxation <i>(note 3)</i>	<b>1,539</b>	1,480
Balance sheet		
Long-term assets	<b>187,151</b>	167,676
Current assets	<b>99,938</b>	102,190
Current liabilities	<b>(82,220)</b>	(45,390)
Long-term liabilities	<b>(67,995)</b>	(91,883)
Net tangible assets	<b>136,874</b>	132,593
Group's share of net assets <i>(note 3)</i>	<b>24,572</b>	23,834
<b>FSIL</b>		
Profit and loss account		
Turnover	<b>38,260</b>	39,168
Profit before taxation	<b>9,998</b>	9,433
Group's share of profit before taxation <i>(note 3)</i>	<b>2,516</b>	1,878
Balance sheet		
Long-term assets	<b>98,285</b>	101,276
Current assets	<b>59,237</b>	41,322
Current liabilities	<b>(10,361)</b>	(11,275)
Long-term liabilities	<b>(5,592)</b>	(5,868)
Net tangible assets	<b>141,569</b>	125,455
Group's share of net assets <i>(note 3)</i>	<b>25,854</b>	22,072

## 11 Investments

	<b>Group</b>		<b>Company</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>US\$</b>	US\$	<b>US\$</b>	US\$
Unlisted investments				
Unlisted investments in toll roads, at amortised cost (Note)	<b>11,108,002</b>	11,861,247	<b>11,108,002</b>	11,861,247
Less: amortisation for the year	<b>(752,829)</b>	(753,245)	<b>(752,829)</b>	(753,245)
	<b>10,355,173</b>	11,108,002	<b>10,355,173</b>	11,108,002
Less: provision for impairment losses	<b>(2,500,000)</b>	(2,500,000)	<b>(2,500,000)</b>	(2,500,000)
	<b>7,855,173</b>	8,608,002	<b>7,855,173</b>	8,608,002
Unlisted shares, at cost	<b>1,099,034</b>	1,099,034	—	—
Less: provision for impairment losses	<b>(944,041)</b>	(300,000)	—	—
	<b>154,993</b>	799,034	—	—
	<b>8,010,166</b>	9,407,036	<b>7,855,173</b>	8,608,002
Other investments				
Shares listed in Hong Kong, at market value	<b>1,545,957</b>	1,755,752	<b>1,545,957</b>	1,755,752
	<b>9,556,123</b>	11,162,788	<b>9,401,130</b>	10,363,754

## 11 Investments (continued)

Note:

The Company holds 35% and 29.23% equity interests respectively in two joint ventures, namely Zhongshan Dongfu Road and Bridge Investment Company Limited ("Dongfu") and Zhongshan Nangang Road and Bridge Company Limited ("Nangang"). Both joint ventures are engaged in the operation of toll roads in the People's Republic of China.

Under the joint venture agreement relating to Dongfu, the Company is guaranteed a minimum return of 13% per annum on its initial capital contribution for a period of at least 7 years. Under the joint venture agreement relating to Nangang, the Company is guaranteed a minimum return ranging from 10% to 15% per annum on its initial capital contribution over the life of the joint venture. The Company's capital contributions are repayable by the joint ventures in equal instalments over the life of the joint ventures of 20 years.

The Company is in the process of negotiating with the PRC partners to recover certain outstanding balances due relating to the guaranteed minimum returns. No guaranteed income was recognised during the year (2000: nil) due to the uncertainty over its receipt. In addition, the directors are discussing the possibility of early termination of these investments. In light of these negotiations and based on the directors' current estimate, provision for impairment losses against these unlisted investments in toll roads of US\$2,500,000 (2000: US\$2,500,000) has been made in the accounts.

## 12 Share capital

	<b>Company</b>	
	<b>2001</b>	2000
	<b>US\$</b>	US\$
Authorized:		
160,000,000 shares of US\$0.10 each	<b><u>16,000,000</u></b>	<u>16,000,000</u>
Issued and fully paid:		
74,383,160 shares of US\$0.10 each	<b><u>7,438,316</u></b>	<u>7,438,316</u>

## 13 Reserves

### Group

	<b>Share premium</b> US\$	<b>Capital reserve*</b> US\$	<b>Accumulated losses</b> US\$	<b>Total</b> US\$
At 1st January 2000	68,445,344	7,546,897	(10,564,601)	65,427,640
Profit attributable to shareholders	—	—	2,035,640	2,035,640
Exchange difference arising on translation of associated companies	—	(215,234)	—	(215,234)
Share of post acquisition reserves of associated companies	—	(659,105)	—	(659,105)
Goodwill written off on additional investment in an associated company	—	(377,621)	—	(377,621)
Realization of negative goodwill upon disposal of an associated company	—	(21,974)	—	(21,974)
At 31st December 2000	<u>68,445,344</u>	<u>6,272,963</u>	<u>(8,528,961)</u>	<u>66,189,346</u>
Company and subsidiaries	68,445,344	8,034,132	(26,888,188)	49,591,288
Associated companies	—	(1,761,169)	18,359,227	16,598,058
	<u>68,445,344</u>	<u>6,272,963</u>	<u>(8,528,961)</u>	<u>66,189,346</u>

**13 Reserves** *(continued)***Group** *(continued)*

	<b>Share premium</b> US\$	<b>Capital reserve*</b> US\$	<b>Accumulated losses</b> US\$	<b>Total</b> US\$
At 1st January 2001	68,445,344	6,272,963	(8,528,961)	66,189,346
Profit attributable to shareholders	—	—	2,421,707	2,421,707
Exchange difference arising on translation of associated companies	—	101,836	—	101,836
Share of post acquisition reserves of associated companies	—	1,482,183	—	1,482,183
At 31st December 2001	<u>68,445,344</u>	<u>7,856,982</u>	<u>(6,107,254)</u>	<u>70,195,072</u>
Company and subsidiaries	68,445,344	8,034,132	(26,983,847)	49,495,629
Associated companies	—	(177,150)	20,876,593	20,699,443
	<u>68,445,344</u>	<u>7,856,982</u>	<u>(6,107,254)</u>	<u>70,195,072</u>

\* Capital reserve includes goodwill/negative goodwill arising on acquisition of associated companies by the Group, exchange difference on translation of the accounts of associated companies and share of post-acquisition reserves of associated companies.

**13 Reserves (continued)****Company**

	<b>Share premium</b> US\$	<b>Capital reserve</b> US\$	<b>Accumulated losses</b> US\$	<b>Total</b> US\$
At 1st January 2000				
— as previously reported	68,445,344	—	(25,178,588)	43,266,756
— effect of adopting SSAP 9 (Revised) (note a)	—	—	(1,064,505)	(1,064,505)
— as restated	68,445,344	—	(26,243,093)	42,202,251
Loss for the year				
— as previously reported	—	—	(336,295)	(336,295)
— effect of adopting SSAP 9 (Revised)	—	—	(308,800)	(308,800)
— as restated	—	—	(645,095)	(645,095)
At 31st December 2000	<u>68,445,344</u>	<u>—</u>	<u>(26,888,188)</u>	<u>41,557,156</u>
At 1st January 2001,				
— as previous reported	68,445,344	—	(25,514,883)	42,930,461
— effect of adopting SSAP 9 (Revised) (note a)	—	—	(1,373,305)	(1,373,305)
— as restated	68,445,344	—	(26,888,188)	41,557,156
Loss for the year	—	—	(95,659)	(95,659)
At 31st December 2001	<u>68,445,344</u>	<u>—</u>	<u>(26,983,847)</u>	<u>41,461,497</u>

*Note a.* Following the adoption of revised SSAP 9, opening accumulated losses of the Company at 1st January 2001 has been increased by US\$1,373,305 (1st January 2000: US\$1,064,505) which is the reversal of 2000 (1999) final dividend receivables from its associated companies previously recorded as an asset as at 31st December 2000 (31st December 1999) although not declared by its associated companies until after the balance sheet date.



**14 Reconciliation of operating loss to net cash outflow from operating activities**

	<b>2001</b> <b>US\$</b>	2000 <b>US\$</b>
Operating loss	<b>(2,026,359)</b>	(1,629,828)
Dividend income from listed investments	<b>(102,273)</b>	(23,512)
Gains on disposal of listed investments	<b>(113,268)</b>	(413,657)
Loss on disposal of an associated company	<b>—</b>	168,757
Unrealised losses on listed investments	<b>420,483</b>	534,059
Provision for investment in an associated company written back	<b>—</b>	(25,641)
Provision for impairment losses on an unlisted investment	<b>644,041</b>	300,000
Decrease/(increase) in other receivable and prepayments	<b>99,341</b>	(78,856)
Decrease in net amount due from a related company	<b>112,036</b>	96,417
Increase in amounts due from associated companies	<b>(12,593)</b>	(86,911)
Increase/(decrease) in accounts payable	<b>6,856</b>	(7,773)
(Decrease)/increase in accrued expenses	<b>(9,350)</b>	5,736
Interest income	<b>(269,147)</b>	(511,593)
Net cash outflow from operating activities	<b><u>(1,250,233)</u></b>	<b><u>(1,672,802)</u></b>

**15 Capital commitments**

	<b>Group</b> <b>2001</b> <b>US\$</b>	2000 <b>US\$</b>
Contracted but not provided for (note a)	<b><u>320,941</u></b>	<b><u>743,800</u></b>

The Group's share of capital commitments of an associated company not included in the above are as follows:

	<b>2001</b> <b>US\$</b>	2000 <b>US\$</b>
Contracted but not provided for	<b>419,765</b>	115,545
Authorised but not contracted for	<b>—</b>	33,351
	<b><u>419,765</u></b>	<b><u>148,896</u></b>

## 15 Capital commitments *(continued)*

- (a) The commitments relate to the unpaid capital of an investment in the Mainland China.
- (b) The Group and the Company did not have any other material commitments at 31st December 2001 (2000: Nil).

## 16 Related party transactions

- (a) During the year and in the normal course of its business, the Company paid a management fee of US\$1,237,757 (2000: US\$1,234,491) to CAML, a related company (see also note 2).

Mr Lao Yuan Yi, the chairman of the Company, Mr Tsui Che Yin, Frank and Mr Shi Yucheng, Charlie, both executive directors of the Company and Mr Yeung Wai Kin, a non-executive director of the Company, are also directors of CAML. Mr Tsui Che Yin, Frank is also a shareholder of CAML.

- (b) The balance with CAML of US\$98,501 (2000: US\$210,537) mainly represents the amount of cash received from Dongfu and Nangang in respect of the capital repayments on the toll roads on behalf of the Company. The balance is kept in a bank account of CAML and is repayable, with the interest income thereon, at the request of the Company.

## 17 Contingent liabilities

As at 31st December 2001, corporate guarantees of approximately US\$29,442,000 were given by SPPC, an associated company of the Group, against certain bank loans granted to Shenzhen Petrochemical Industry (Group) Co. Ltd. ("SPEC") and its group companies (the "SPEC Group"). SPEC is the holding company of SPPC. The Group's maximum exposure to these contingent liabilities amounted to approximately US\$6,433,000, representing the total investment of the Group in SPPC.

SPEC Group has defaulted on the repayment of the abovementioned bank loans. However, Shenzhen Municipal Government is now in the process of approving a restructuring plan to release SPPC from these corporate guarantees so as to enable SPPC to continue as a viable going concern. The directors of the Group have been advised by the management of the SPEC Group that this process is likely to be finalized shortly and therefore in the opinion of the directors, no provision for these contingent liabilities is required at this stage as they are unlikely to crystallise in the foreseeable future.

## 18 Approval of accounts

The accounts were approved by the board of directors on 19th April 2002.