

## 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 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34	:	Employee benefits

The adoption of these new or revised standards has no material impact on the financial results of the Group.

### (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.

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 unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

**1 PRINCIPAL ACCOUNTING POLICIES (Continued)****(b) Consolidation (Continued)**

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.

Goodwill on acquisitions 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 acquisitions 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.

## 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

For acquisitions 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 profit and loss account 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 profit and loss account 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 profit and loss account 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 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

### (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 investments 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.

**1 PRINCIPAL ACCOUNTING POLICIES (Continued)****(e) Investments (Continued)****(i) Unlisted investments (Continued)**

(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 differences between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

**(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.

**1 PRINCIPAL ACCOUNTING POLICIES (Continued)****(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 accounts 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 account 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, other 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.

**(j) 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.

**(k) 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.

**1 PRINCIPAL ACCOUNTING POLICIES (Continued)****(l) Provisions**

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.

**(m) 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 Investment Management Limited (formerly known as China Assets Management Limited) ("CAIML") (see note 18) 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 CAIML for the year ended 31st December 2002 amounted to US\$1,232,363 (2001: US\$1,237,757).

CAIML is also entitled to receive a performance bonus based on a specified formula as defined in the abovementioned management agreement. No performance bonus had been paid for the year ended 31st December 2002 (2001: nil).

## 3 TURNOVER AND SEGMENT INFORMATION

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

	2002 US\$	2001 US\$
Turnover		
Interest income	101,057	269,147
Dividend income from listed investments	99,273	102,273
	<b>200,330</b>	<b>371,420</b>

### 3 TURNOVER AND SEGMENT INFORMATION *(Continued)*

#### Primary reporting format — business segments

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

- Investment 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 main geographical areas:

- Hong Kong — investment holding
- Mainland China — manufacturing and distribution of pharmaceutical products, 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:

	2002						
	Investment 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	200,330	—	—	—	—	—	200,330
Segment results	483,420	—	—	—	—	—	483,420
Unallocated income	—	—	—	—	—	—	274,044
Unallocated expenses *	—	—	—	—	—	—	(1,814,994)
Gain on disposal of investment in Nangang Toll Road	—	—	—	—	4,689,158	—	4,689,158
Write-back of provision for impairment loss on investment in Dongfu Toll Road	—	—	—	—	500,000	—	500,000
Write-off of amount due from an associated company	—	—	(228,070)	—	—	—	(228,070)
Loss on disposal of partial interest in an associated company	—	—	—	(91,695)	—	—	(91,695)
Operating profit							3,811,863
Share of profits/(losses) of associated companies	1,514,799	2,593,454	(3,380,351)	(55,217)	—	—	672,685
Taxation	(318,077)	(535,042)	—	(48,350)	—	—	(901,469)
Profit attributable to shareholders							3,583,079
Segment assets	17,228,686	—	2,824,282	—	5,662,701	—	25,715,669
Investments in associated companies	27,251,296	26,014,163	—	3,494,628	—	(233,600)	56,526,487
Total assets							82,242,156
Segment liabilities	759,254	—	—	—	—	—	759,254
Unallocated liabilities							97,650
Total liabilities							856,904

### 3 TURNOVER AND SEGMENT INFORMATION (Continued)

#### Primary reporting format — business segments (Continued)

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

	2001						
	Investment 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	371,420	—	—	—	—	—	371,420
Segment results	(579,836)	—	—	—	—	—	(579,836)
Unallocated income	—	—	—	—	—	—	74,106
Unallocated expenses *	—	—	—	—	—	—	(1,520,629)
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)	—	—	(702,577)
Profit attributable to shareholders							2,421,707
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	60,942,034
Total assets							78,356,904
Segment liabilities	625,866	—	—	—	—	—	625,866
Unallocated liabilities							97,650
Total liabilities							723,516

\* Included in this balance is the management fee of US\$1,232,363 (2001: US\$1,237,757) paid to a related company (note 2).

## 3 TURNOVER AND SEGMENT INFORMATION (Continued)

## Secondary reporting format — geographical segments

	2002		
	Turnover	Segment	Total
	US\$	results	assets
		US\$	US\$
Hong Kong	200,330	483,420	8,418,030
Mainland China	—	—	17,297,639
	<u>200,330</u>	<u>483,420</u>	<u>25,715,669</u>
Unallocated income		274,044	
Unallocated expenses *		(1,814,994)	
Gain on disposal of investment in Nangang Toll Road		4,689,158	
Write-back of provision for impairment loss on investment in Dongfu Toll Road		500,000	
Write-off of amount due from an associated company		(228,070)	
Loss of disposal of partial interest in an associated company		<u>(91,695)</u>	
Operating profit		3,811,863	
Share of results of associated companies		672,685	
Taxation		<u>(901,469)</u>	
		<u>3,583,079</u>	
Investments in associated companies			<u>56,526,487</u>
Total assets			<u>82,242,156</u>

## 3 TURNOVER AND SEGMENT INFORMATION (Continued)

## Secondary reporting format — geographical segments (Continued)

	2001		
	Turnover	Segment results	Total Assets
	US\$	US\$	US\$
Hong Kong	371,420	(579,836)	9,559,697
Mainland China	—	—	7,855,173
	<u>371,420</u>	<u>(579,836)</u>	<u>17,414,870</u>
Unallocated income		74,106	
Unallocated expenses *		<u>(1,520,629)</u>	
Operating loss		(2,026,359)	
Share of results of associated companies		5,150,643	
Taxation		<u>(702,577)</u>	
		<u>2,421,707</u>	
Investments in associated companies			<u>60,942,034</u>
Total assets			<u>78,356,904</u>

There is no capital expenditure for the year (2001: Nil).

\* Included in this balance is the management fee of US\$1,232,363 (2001: US\$1,237,757) paid to a related company (note 2).

**4 OPERATING PROFIT/(LOSS)**

Operating profit/(loss) is stated after crediting and charging the following:

	2002 US\$	2001 US\$
<b>Crediting</b>		
<i>Included in other operating income</i>		
Gain on disposal of investment in Nangang Toll Road (including the write-back of provision for impairment loss of US\$2,000,000) (note 11(a))	4,689,158	—
Write-back of provision for impairment loss on investment in Dongfu Toll Road (note 11(a))	500,000	—
Gains on disposal of listed investments	164,355	113,268
Unrealised gains on listed investments	177,691	—
<b>Charging</b>		
<i>Included in administrative expenses</i>		
Auditors' remuneration		
— Current year	104,650	105,000
— Under/(over) provision in previous years	4,712	(5,004)
Net exchange losses	10,640	7,036
<i>Included in other operating expenses</i>		
Loss on disposal of partial interest in an associated company	91,695	—
Loss on disposal of an unlisted investment	58,956	—
Write-off of amount due from an associated company	228,070	—
Provision for impairment losses on an unlisted investment	—	644,041
Unrealised losses on listed investments	—	420,483

## 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:

	2002 US\$	2001 US\$
Share of taxation attributable to associated companies	901,469	702,577

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 US\$1,968,857 (2001: loss of US\$95,659).

## 7 EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to shareholders of US\$3,583,079 (2001: US\$2,421,707) and on the 74,383,160 (2001: 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:

	2002 US\$	2001 US\$
Fees (equivalent to HK\$320,000) (2001: HK\$260,000)	41,031	33,344

Directors' fees disclosed above include US\$24,735 (2001: US\$15,390) 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 2001 and 2002.

**8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)**

The five individuals whose emoluments were the highest in the Group for both years were also directors and their emoluments are mentioned above.

The Company is managed by CAIML and no individual was employed directly by the Company or its subsidiaries during 2001 and 2002.

**9 INVESTMENTS IN SUBSIDIARIES**

	Company	
	2002	2001
	US\$	US\$
Unlisted shares, at cost ( <i>note (b)</i> )	140,071	62
Amounts due from subsidiaries ( <i>note (a)</i> )	12,168,438	4,606,767
Less: provision for doubtful debts	(394,435)	(944,041)
	11,774,003	3,662,726
	11,914,074	3,662,788

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

## 9 INVESTMENTS IN SUBSIDIARIES (Continued)

(b) The following is a list of subsidiaries held directly by the Company at 31st December 2002:

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest held	
				2002	2001
Balance Target Investments Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	100%	100%
Capital Structure Investments Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	100%	100%
Direct Investment Enterprises Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	100%	100%
Essential Choice Investments Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	100%	100%
Global Lead Technology Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	100%	—
Ruby Power Investments Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	100%	100%
Sino Manufacturing Limited	British Virgin Islands	Dormant	1 share of US\$1 each	100%	100%
Wonderful Effort Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	100%	100%
Scientific China Investments Limited	Hong Kong	Dormant	2 shares of HK\$1 each	100%	—
Zhong Guan Business Consultancy (Shanghai) Co. Ltd.	People's Republic of China	Business consultancy	Registered capital of US\$140,000	100%	—

Note: The subsidiaries operate principally in their places of incorporation.



## 10 INVESTMENTS IN ASSOCIATED COMPANIES

	Group		Company	
	2002 US\$	2001 US\$	2002 US\$	2001 US\$
Share of net assets other than goodwill	59,584,363	60,561,912	—	—
Shares listed in Hong Kong, at cost	—	—	13,802,288	13,119,537
Unlisted investments, at cost	—	—	15,134,739	25,745,196
Convertible loan stock	—	—	735,000	735,000
	59,584,363	60,561,912	29,672,027	39,599,733
Provision for impairment losses	—	—	(3,451,255)	(11,346,085)
	59,584,363	60,561,912	26,220,772	28,253,648
Reclassification to other investments (note 12 (a))	(2,824,282)	—	(2,824,282)	—
	56,760,081	60,561,912	23,396,490	28,253,648
Amounts due from associated companies	587,582	888,460	508,338	742,113
Amount due to an associated company	(312,838)	—	(312,838)	—
	274,744	888,460	195,500	742,113
Provision for doubtful debts	(508,338)	(508,338)	(508,338)	(508,338)
	(233,594)	380,122	(312,838)	233,775
	56,526,487	60,942,034	23,083,652	28,487,423
Investments at cost:				
Shares listed in Hong Kong	13,802,288	13,119,537		
Unlisted investments	31,171,086	33,121,883		
Convertible loan stock	735,000	735,000		
	45,708,374	46,976,420		
Provision for impairment losses	(19,258,574)	(15,148,085)		
	26,449,800	31,828,335		
Market value of listed shares in Hong Kong	12,891,520	15,263,354	12,891,520	15,263,354

**10 INVESTMENTS IN ASSOCIATED COMPANIES (Continued)**

- (a) The following is a list of the associated companies held directly/indirectly by the Company at 31st December 2002:

Name	Place of incorporation	Principal activities	Interest held	
			2002	2001
First Shanghai Investments Limited (see note (i) below)	Hong Kong	Investment holding	21.16%	21.04%
Shandong Lukang Pharmaceutical Co., Ltd. (see note (ii) below)	People's Republic of China	Manufacture and sale of pharmaceutical products	17.45%	17.45%
Suzhou Universal Chain Transmission Co., Ltd. (see note (iii) below)	People's Republic of China	Production and sale of industrial chains	30%*	33-1/3%*
Wuxi Huate Steel Strip Co., Ltd. (see note (iv) below)	People's Republic of China	Manufacture and sale of steel	29.75%*	29.75%*
Wuxi Huasheng Precision Alloy Material Co., Ltd. (see note (v) below)	People's Republic of China	Manufacture and sale of steel	29.75%*	29.75%*
Dezhou Zhenhua Glass Co., Ltd. (see note (vi) below)	People's Republic of China	Production and sale of glass products	30%*	30%*
Hong Kong Strong Profit Limited (see note (vii) below)	Hong Kong	Investment in a joint venture for the production of man-made fabrics	49%	49%
Wuxi Tristar Iron & Steel Co., Ltd. (see note (viii) below)	People's Republic of China	Manufacture and sale of steel	25%*	25%
Wuxi United Iron & Steel Co., Ltd. (see note (ix) below)	People's Republic of China	Manufacture and sale of steel	25%*	25%

\* Held indirectly by the Company

**10 INVESTMENTS IN ASSOCIATED COMPANIES (Continued)****(a) (Continued)***Note:*

- (i) First Shanghai Investments Limited ("FSIL") is a company listed on The Stock Exchange of Hong Kong Limited with issued share capital of HK\$234,664,741 (2001: HK\$226,264,741).
- (ii) Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang") is a joint stock limited company listed on the Shanghai Securities Exchange in 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.
- (iii) 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\$1,683,675 (2001: US\$2,000,000) for its 30.00% (2001: 33-1/3%) share. A provision of US\$934,489 has been made against the investment to reflect the Company's share of its net assets value.
- (iv) Wuxi Huate Steel Strip Co., Ltd. ("Huate") is a joint venture between a Company's subsidiary, Xishan City Iron & Steel Factory and Xishan City Qianqiao Town Industrial Group Company. 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.
- (v) 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 October 2000. The registered capital of the joint venture is US\$2,500,000 of which the Group has contributed US\$505,931 (2001: US\$422,859) for its 29.75% share.
- (vi) 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.
- (vii) Hong Kong Strong Profit Limited ("HKSP") holds a 25% interest in a joint venture, Zhejiang Huayu Crafts Weaving & Dyeing Co., Ltd ("Huayu"). The registered and paid-up capital of the joint venture is US\$6,000,000 of which HKSP contributed US\$1,500,000. During the year, HKSP has disposed its entire interests in Huayu at a total consideration of US\$318,545. Full provision for impairment losses was made against the investment in HKSP in the Company's balance sheet.
- (viii) Wuxi Tristar Iron and Steel Co., Ltd. is a joint venture between a Company's subsidiary 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.

**10 INVESTMENTS IN ASSOCIATED COMPANIES (Continued)**

(a) (Continued)

Note: (Continued)

- (ix) Wuxi United Iron & Steel Co., Ltd. is a joint venture between a Company's subsidiary 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.

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

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

	2002 US\$'000	2001 US\$'000
<b>Lukang</b>		
Profit and loss account		
Turnover	124,527	93,171
Profit before taxation	14,860	8,816
Group's share of profit before taxation (note 3)	2,593	1,539
Balance sheet		
Non-current assets	199,388	187,151
Current assets	82,795	99,938
Current liabilities	(80,965)	(82,220)
Long-term liabilities	(52,141)	(67,995)
Net assets	149,077	136,874
Group's share of net assets (note 3)	26,014	24,572

## 10 INVESTMENTS IN ASSOCIATED COMPANIES (Continued)

- (b) Additional information in respect of the Group's major associated companies is given as follows: (Continued)

	2002 US\$'000	2001 US\$'000
<b>FSIL</b>		
Profit and loss account		
Turnover	22,004	38,260
Profit before taxation	7,925	9,998
Group's share of profit before taxation (note 3)	1,515	2,516
Balance sheet		
Non-current assets	111,853	98,285
Current assets	48,994	59,237
Current liabilities	(5,459)	(10,361)
Long-term liabilities	(6,722)	(5,592)
Net assets	148,666	141,569
Group's share of net assets (note 3)	27,251	25,854

## 11 INVESTMENTS

	Note	Group		Company	
		2002 US\$	2001 US\$	2002 US\$	2001 US\$
Unlisted investments					
Unlisted investments in toll roads, at amortised cost	(a)	5,662,701	7,855,173	5,662,701	7,855,173
Unlisted shares	(b)	1,200,000	154,993	—	—
		6,862,701	8,010,166	5,662,701	7,855,173
Other investments					
Shares listed in Hong Kong, at market value		1,499,961	1,545,957	1,499,961	1,545,957
		8,362,662	9,556,123	7,162,662	9,401,130

## (a) Unlisted investments in toll roads

	Group		Company	
	2002 US\$	2001 US\$	2002 US\$	2001 US\$
Unlisted investments in toll roads, at amortised cost	6,115,565	11,108,002	6,115,565	11,108,002
Less: amortisation for the year	(452,864)	(752,829)	(452,864)	(752,829)
	5,662,701	10,355,173	5,662,701	10,355,173
Less: provision for impairment losses	—	(2,500,000)	—	(2,500,000)
	5,662,701	7,855,173	5,662,701	7,855,173

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 Toll Road") and Zhongshan Nangang Road and Bridge Company Limited ("Nangang Toll Road") with carrying value of US\$5,662,701 (2001: US\$5,615,565) and US\$Nil (2001: US\$2,239,608) respectively. Both joint ventures are engaged in the operation of toll roads in Mainland China.

## 11 INVESTMENTS (Continued)

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

Under the joint venture agreement relating to Dongfu Toll Road, 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 Toll Road, 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.

During the year, the Company has entered into an agreement with a PRC third party to dispose of its entire interest in Nangang Toll Road at a total cash consideration of US\$6,923,994. The gain on disposal of Nangang Toll Road of US\$4,689,158 (including the write-back of the provision for impairment loss of US\$2,000,000 made in previous years) has been included in the current year consolidated profit and loss account.

During the year, the Company has also written back the provision for impairment loss of Dongfu Toll Road of US\$500,000 made in previous years on the basis that the Company is in the process of finalizing a disposal agreement with a PRC party to dispose its entire interest in Dongfu Toll Road.

## (b) Unlisted shares

	Group		Company	
	2002 US\$	2001 US\$	2002 US\$	2001 US\$
Unlisted shares, at cost	1,200,000	1,099,034	—	—
Provision for impairment losses	—	(944,041)	—	—
	1,200,000	154,993	—	—

## 12 OTHER INVESTMENTS

		Group		Company	
	Note	2002 US\$	2001 US\$	2002 US\$	2001 US\$
Unlisted shares	(a)	2,824,282	—	2,824,282	—
Convertible notes	(b)	256,410	—	—	—
		3,080,692	—	2,824,282	—

12 OTHER INVESTMENTS (*Continued*)

- (a) (i) The balance represents the Group's and the Company's 28.05% (2001: 28.05%) equity interests held in Shenzhen SPEC Plastics Holdings Co., Ltd. ("SPPC"). In 2001, the Company's investment in SPPC at cost of US\$5,539,909 and the Group's share of net asset value of SPPC of US\$6,204,633 were included in the investment in associated companies (note 10).

In October 2002, the Company made a legal claim against Shenzhen Petrochemical Industry (Group) Co. Ltd. ("SPEC"), the holding company of SPPC, in relation to the damages arising from the Company's investment in SPPC. Subsequent to the year end date on 20th January 2003, the PRC court made a judgement in favour of the Company whereby SPPC was ordered to pay the Company a total sum of RMB71,364,780 (equivalent to US\$8.6 million) including the related legal fees and litigation costs of RMB0.6 million (the "Judgement Debts").

The Company was informed by the management of SPEC that SPEC was in financial difficulties and was unable to repay the Judgement Debts. The Company and SPEC entered into a settlement agreement on 28th March 2003 (the "Settlement Agreement") whereby SPEC agreed to transfer its 90.57% and 5% equity interests held in two PRC companies ("Asset Swap") respectively to the Company as full settlement of the Judgement Debts. These two PRC companies are principally engaged in the manufacturing of pharmaceutical products and air-conditioning products. Upon completion of the Asset Swap, the Company will fully discharge SPEC from the Judgement Debts and transfer its 28.05% ownership in SPPC to SPEC. The completion of the Asset Swap is subject to the approval from the relevant PRC authorities and the Directors expect that the approval result will be available in approximately three months' time from the date of the Settlement Agreement.

Both the Company's and the Group's investments in SPPC have been written down to their recoverable value of the Asset Swap of US\$2,824,282, representing the net tangible asset value of the Asset Swap based on valuation reports performed by PRC independent valuers. The amounts written down by the Company and the Group have been taken to the profit and loss account.

As a result of the above transaction, the Directors consider that the use of equity method in accounting for the interest in SPPC is not appropriate because SPPC is operating under a severe long-term restriction that significantly impairs its ability to transfer funds to the Group. Accordingly, the net carrying value of investment in SPPC of both the Company and the Group of US\$2,824,282 have been reclassified from investment in associated companies to other investment as at year end (note 10).

- (ii) The Company's 28.05% equity interests held in SPPC has been frozen by the PRC court for a period from 20th December 2002 to 20th June 2003.
- (b) The convertible note is convertible into ordinary shares of an investee company before the maturity date on 23rd July 2003 at a conversion price of HK\$0.2 per share.



**13 BANK BALANCES AND CASH**

Included in the bank balances and cash of the Group are Renminbi deposits and cash in Mainland China of US\$7,610,656 (2001: Nil). Renminbi is not a freely convertible currency.

**14 SHARE CAPITAL**

	Company	
	2002 US\$	2001 US\$
Authorised:		
160,000,000 shares of US\$0.10 each	16,000,000	16,000,000
Issued and fully paid:		
74,383,160 shares of US\$0.10 each	7,438,316	7,438,316

## 15 RESERVES

## Group

	Share premium US\$	Capital reserve US\$ (note a)	Accumulated losses US\$	Total US\$
<b>At 1st January 2002</b>	<b>68,445,344</b>	<b>7,856,982</b>	<b>(6,107,254)</b>	<b>70,195,072</b>
Profit attributable to shareholders	—	—	3,583,079	3,583,079
Exchange difference arising on translation of associated companies	—	(6,161)	—	(6,161)
Release of exchange differences upon disposal of partial interest in an associated company to the profit and loss account	—	174,946	—	174,946
<b>At 31st December 2002</b>	<b>68,445,344</b>	<b>8,025,767</b>	<b>(2,524,175)</b>	<b>73,946,936</b>
Company and subsidiaries	68,445,344	8,034,132	(21,789,574)	54,689,902
Associated companies	—	(8,365)	19,265,399	19,257,034
	68,445,344	8,025,767	(2,524,175)	73,946,936
<b>At 1st January 2001</b>	<b>68,445,344</b>	<b>6,272,963</b>	<b>(8,528,961)</b>	<b>66,189,346</b>
Profit attributable to shareholders	—	—	2,421,707	2,421,707
Exchange differences arising on translation of associated companies	—	101,836	—	101,836
Share of post acquisition reserves of associated companies	—	1,482,183	—	1,482,183
<b>At 31st December 2001</b>	<b>68,445,344</b>	<b>7,856,982</b>	<b>(6,107,254)</b>	<b>70,195,072</b>
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
	68,445,344	7,856,982	(6,107,254)	70,195,072

## 15 RESERVES (Continued)

## Group (Continued)

- (a) Capital reserve includes goodwill/negative goodwill arising on acquisitions of associated companies by the Group, exchange differences on translation of the accounts of associated companies and share of post acquisition reserves of associated companies.

## Company

	Share premium US\$	Accumulated losses US\$	Total US\$
At 1st January 2002	68,445,344	(26,983,847)	41,461,497
Profit for the year	—	1,968,857	1,968,857
At 31st December 2002	68,445,344	(25,014,990)	43,430,354
At 1st January 2001	68,445,344	(26,888,188)	41,557,156
Loss for the year	—	(95,659)	(95,659)
At 31st December 2001	68,445,344	(26,983,847)	41,461,497

**16 RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES**

	2002 US\$	2001 US\$
Operating profit/(loss)	3,811,863	(2,026,359)
Dividend income from listed investments	(99,273)	(102,273)
Interest income	(101,057)	(269,147)
Gains on disposal of listed investments	(164,355)	(113,268)
Unrealised (gains)/losses on listed investments	(177,691)	420,483
Loss on disposal of partial interest in an associated company	91,695	—
Writ-off of amount due from an associated company	228,070	—
Loss on disposal of an unlisted investment	58,956	—
Realisation of exchange differences	134,363	—
Gain on disposal of investment in Nangang Toll Road	(4,689,158)	—
Write-back of provision for impairment loss of investment in Dongfu Toll Road	(500,000)	—
Provision for impairment losses on other unlisted investments	—	644,041
Operating losses before working capital changes	(1,406,587)	(1,446,523)
Decrease in other receivables and prepayments	169,112	99,341
Decrease in net amount due from a related company	85,272	112,036
Decrease/(increase) in amounts due from associated companies	385,646	(12,593)
(Decrease)/increase in accounts payable	(205,486)	6,856
Decrease in accrued expenses	—	(9,350)
Net cash outflow from operating activities	(972,043)	(1,250,233)

## 17 CAPITAL COMMITMENTS

	Group	
	2002	2001
	US\$	US\$
Contracted but not provided for ( <i>note a</i> )	237,869	320,941

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

	2002	2001
	US\$	US\$
Contracted but not provided for	895,686	419,765

- (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 2002 (2001: Nil).

## 18 RELATED PARTY TRANSACTIONS

- (a) During the year and in the normal course of its business, the Company paid a management fee of US\$1,232,363 (2001: US\$1,237,757) to CAIML, a related company (*note 2*).

Mr Lao Yuan Yi, the chairman of the Company, Mr Shi Yucheng, Charlie, and Mr Wang Jun Yan, both executive directors of the Company, and Mr Yeung Wai Kin, a non-executive director of the Company, are also directors of CAIML. Mr Tsui Che Yin, Frank, a non-executive director of the Company, was a director of CAIML up to 1st October 2002 and is a shareholder of CAIML.

- (b) The balance with CAIML of US\$13,229 (2001: US\$98,501) represented the prepaid management fee at year end. The balance had been used to offset against the management fee payable by the Company for the first quarter of 2003.

**19 SUBSEQUENT EVENTS**

On 20th January 2003, the PRC Court in Shenzhen made a judgement in favour of the Company in respect of a legal claim against SPEC in relation to the damages arising from the Company's investment in SPPC. On 28th March 2003, the Company and SPEC has entered into the Settlement Agreement for the abovementioned judgement (note 12(a)).

**20 APPROVAL OF ACCOUNTS**

The accounts were approved by the board of directors on 11th April 2003.