

Notes to the Financial Statements

For the year ended 31 December 2002

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company acts as an investment holding company. The activities of the principal subsidiaries and associates are set out in notes 25 and 13 respectively to the financial statements.

The financial statements are expressed in United States dollars, the currency in which most of its transactions are carried out.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Company has adopted a number of new and revised Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants which became effective during the year. The adoption of these new and revised SSAPs has resulted in a change in the presentation of the cash flow statement and inclusion of a statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries, associates, jointly controlled entities at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.



3. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

Contractual joint ventures

The Group's contractual joint venture arrangements are investments in joint ventures in which the Group receives predetermined annual returns over the terms of the joint ventures but is not entitled to share any distribution on termination of the joint ventures. Accordingly, contractual joint ventures are initially recorded at cost and reduced by subsequent capital repayments and any identified impairment loss. Payments receivable each year under the joint venture agreements are apportioned between income and the reduction of the carrying value of the investments so as to give a constant periodic rate of return on the investments.

Notes to the Financial Statements (continued)

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost. At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any identified impairment loss.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Revenue recognition

Income from contractual joint ventures is recognised by reference to the predetermined returns so as to give a constant periodic rate of return on the net investments annually.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.



3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions in foreign currencies other than United States dollars are translated into United States dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than United States dollars are re-translated into United States dollars at the approximate rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas subsidiaries and associates are translated at exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Translation differences arising, if any, are classified as equity and transferred to the Group's exchange equalisation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

4. TURNOVER

Turnover represents the amounts received and receivable on investments during the year as follows:

	THE GROUP	
	2002	2001
	US\$	US\$
Interest income	872,129	1,856,098
Income from contractual joint ventures	—	750,000
Dividend income from listed investments in securities	57,703	142,470
Dividend income from unlisted investments in securities	1,514,114	941,164
	2,443,946	3,689,732

Notes to the Financial Statements (continued)

For the year ended 31 December 2002

5. SEGMENTAL INFORMATION

During the year, the Group was principally involved in investing in companies with significant business involvement in the People's Republic of China ("PRC"). Accordingly, no analysis of segment information by principal activity is presented. The Group's turnover, contribution to operating profit, assets and liabilities for the year ended 31 December 2002, analysed by geographical locations of the investee companies, were as follows:

For the year ended 31 December 2002

	Hong Kong US\$	The PRC US\$	Others US\$	Consolidated US\$
TURNOVER				
Group turnover	459,544	1,794,894	189,508	2,443,946
RESULT				
Segment result	(815,312)	7,699,577	189,508	7,073,773
Other operating income	–	–	34,303	34,303
Unallocated corporate expenses	–	–	(2,738,703)	(2,738,703)
Profit from operations	(815,312)	7,699,577	(2,514,892)	4,369,373
Finance costs	–	(115,706)	–	(115,706)
Share of results of associates	–	407,410	–	407,410
Profit before taxation	(815,312)	7,991,281	(2,514,892)	4,661,077
Taxation	(4,257)	(69,185)	–	(73,442)
Profit attributable to shareholders	(819,569)	7,922,096	(2,514,892)	4,587,635
OTHER INFORMATION				
Write-back of impairment loss in respect of contractual joint ventures	–	100,153	–	100,153
Impairment loss recognised in respect of contractual joint venture	–	(2,401,975)	–	(2,401,975)



Notes to the Financial Statements (continued)

For the year ended 31 December 2002

5. SEGMENTAL INFORMATION (Continued)

BALANCE SHEET

At 31 December 2002

	Hong Kong US\$	The PRC US\$	Others US\$	Consolidated US\$
ASSETS				
Segment assets	31,372,162	3,107,707	24,895	34,504,764
Investments in associates	–	16,322,474	–	16,322,474
Investments in contractual joint ventures	–	2,578,025	–	2,578,025
Investments in securities	4,608,265	68,304,212	3,141,023	76,053,500
Consolidated total assets	35,980,427	90,312,418	3,165,918	129,458,763
LIABILITIES				
Segment liabilities	959,777	241,639	–	1,201,416
Unallocated liabilities	–	–	17,215	17,215
	959,777	241,639	17,215	1,218,631

For the year ended 31 December 2001

	Hong Kong US\$	The PRC US\$	Others US\$	Consolidated US\$
TURNOVER				
Group turnover	830,074	2,528,246	331,412	3,689,732
RESULT				
Segment result	774,418	5,468,192	312,987	6,555,597
Other operating income	–	–	36,104	36,104
Unallocated corporate expenses	–	–	(2,581,865)	(2,581,865)
Profit from operations	774,418	5,468,192	(2,232,774)	4,009,836
Finance costs	–	(83,634)	–	(83,634)
Share of results of associates	–	1,219,678	–	1,219,678
Profit before taxation	774,418	6,604,236	(2,232,774)	5,145,880
Taxation	–	(155,028)	–	(155,028)
Profit attributable to shareholders	774,418	6,449,208	(2,232,774)	4,990,852
OTHER INFORMATION				
Allowance for bad and doubtful debts	–	(596,234)	–	(596,234)
Write-back of impairment loss in respect of contractual joint ventures	–	199,357	–	199,357

Notes to the Financial Statements (continued)

For the year ended 31 December 2002

5. SEGMENTAL INFORMATION (Continued)

BALANCE SHEET

At 31 December 2001

	Hong Kong US\$	The PRC US\$	Others US\$	Consolidated US\$
ASSETS				
Segment assets	23,012,152	23,608,157	–	46,620,309
Investments in associates	–	11,863,673	–	11,863,673
Investments in contractual joint ventures	–	14,980,000	–	14,980,000
Investments in securities	931,301	60,097,707	545,445	61,574,453
Consolidated total assets	23,943,453	110,549,537	545,445	135,038,435
LIABILITIES				
Segment liabilities	724,604	2,416,451	–	3,141,055
Unallocated liabilities	–	–	6,469,141	6,469,141
	724,604	2,416,451	6,469,141	9,610,196

6. PROFIT BEFORE TAXATION

	THE GROUP	
	2002	2001
	US\$	US\$
Profit before taxation has been arrived at after charging:		
Auditors' remuneration	51,208	51,053
Net foreign exchange losses	7,746	5,280
Investment Manager's fee	2,358,469	2,262,114
Interest expense on bank loans repayable within five years	115,706	83,634
Directors' fees	39,230	30,768



Notes to the Financial Statements (continued)

For the year ended 31 December 2002

7. DIRECTORS' EMOLUMENTS

	THE GROUP	
	2002	2001
	US\$	US\$
Directors' fees		
– Executive	15,384	15,384
– Non-executive	23,846	15,384
	39,230	30,768
Other emoluments		
– Salaries and other benefits	–	–
– Contribution to retirement benefits schemes	–	–
– Performance related incentive payment	–	–
– Incentive payment on joining	–	–
	–	–

Emoluments paid to each director in 2001 and 2002 were less than US\$125,000.

The amounts disclosed above include directors' fees of US\$12,820 (2001: US\$7,693) paid or payable to independent non-executive directors.

8. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2002 and 2001 were all directors of the Company and details of their emoluments are included in note 7 above.

9. TAXATION

	THE GROUP	
	2002	2001
	US\$	US\$
The charge comprises:		
Profits tax for the year		
Hong Kong	4,257	–
Other regions in the PRC	–	–
Taxation attributable to the Company and its subsidiaries	4,257	–
Share of taxation on results of associates		
Other regions in the PRC	69,185	155,028
	73,442	155,028

Notes to the Financial Statements (continued)

For the year ended 31 December 2002

9. TAXATION (Continued)

Hong Kong profits tax is calculated at 16% on the estimated assessable profits for the year. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. No provision for deferred taxation has been recognised in the financial statements as there were no significant timing differences arising during the year or at the balance sheet date.

10. DIVIDENDS

	2002 US\$	2001 US\$
Interim dividend paid – US0.5 cents (2001: US0.5 cents) per share	685,728	685,728
Final dividend proposed – US0.8 cents (2001: US0.8 cents) per share	1,097,165	1,097,165
	1,782,893	1,782,893

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	THE GROUP	
	2002	2001
Earnings for the purpose of basic earnings per share (US\$)	4,587,635	4,990,852
Number of ordinary shares for the purpose of basic earnings per share	137,145,600	137,145,600



Notes to the Financial Statements (continued)

For the year ended 31 December 2002

12. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002 US\$	2001 US\$
Unlisted shares, at cost	10,001,647	10,066,347
Amounts due from subsidiaries	77,651,330	66,992,175
Less: Impairment loss recognised	(21,232,686)	(16,890,599)
	66,420,291	60,167,923

Particulars of the Company's subsidiaries at 31 December 2002 are set out in note 25.

13. INTERESTS IN ASSOCIATES

	THE GROUP	
	2002 US\$	2001 US\$
Share of net assets	12,864,487	8,430,774
Amounts due from associates	11,033,416	11,008,328
	23,897,903	19,439,102
Less: Impairment loss recognised	(7,575,429)	(7,575,429)
	16,322,474	11,863,673

The amount due from associates are classified under non-current assets as the directors are of the opinion that they will not be repaid in the forthcoming year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2002

13. INTERESTS IN ASSOCIATES (Continued)

As at 31 December 2002, the Group had investments in the following associates:

Name of company	Place of incorporation/ operation	Class of share held	Principal activities	Proportion of nominal value of issued capital/ registered capital held by the Group
Daily On Property Limited	HK/PRC	Ordinary	Property development	22%
Hansen Enterprises Limited	British Virgin Islands ("BVI")/PRC	Ordinary	Property investment	35%
Zhaoyuan Jinbao Electronics Company Limited	PRC/PRC	Registered capital	Manufacturing of electronics products	30%
Langfang Oriental Education Facilities Development Company Limited	PRC/PRC	Registered capital	Dormitories investment	25%

14. CONTRACTUAL JOINT VENTURES

	THE GROUP	
	2002 US\$	2001 US\$
Unlisted shares	14,980,000	14,980,000
Less: Disposal during the year	(10,000,000)	—
Impairment loss recognised (Note)	(2,401,975)	—
	2,578,025	14,980,000



Notes to the Financial Statements (continued)

For the year ended 31 December 2002

14. CONTRACTUAL JOINT VENTURES (Continued)

Particulars of contractual joint ventures at 31 December 2002 are as follows:

Name	Principal activities	Expiry date of joint venture
Wei Fang Yin Yuan Aviation Industry Co., Ltd.	Airport construction and operation	4 May 2009
Wei Fang Zhaoyin Real Estate Development Co., Ltd.	Property development	23 June 2014
Beijing Longbao Mansion Joint Operation Project	Property investment	Note

Note: The investment in Beijing Longbao Mansion was disposed of in February 2003 and the financial implication was fully accrued in the 2002 financial statements.

15. INVESTMENTS IN SECURITIES

THE GROUP

	Held to maturity securities		Other investments		Total	
	2002 US\$	2001 US\$	2002 US\$	2001 US\$	2002 US\$	2001 US\$
Equity securities:						
Listed	–	–	3,967,015	931,301	3,967,015	931,301
Unlisted	–	–	68,346,519	60,143,174	68,346,519	60,143,174
	–	–	72,313,534	61,074,475	72,313,534	61,074,475
Debt securities:						
Unlisted	3,739,966	499,978	–	–	3,739,966	499,978
Total:						
Listed						
Hong Kong	–	–	3,967,015	931,301	3,967,015	931,301
Unlisted	3,739,966	499,978	68,346,519	60,143,174	72,086,485	60,643,152
	3,739,966	499,978	72,313,534	61,074,475	76,053,500	61,574,453
Market value of listed securities	–	–	3,967,015	931,301	3,967,015	931,301

Notes to the Financial Statements (continued)

For the year ended 31 December 2002

15. INVESTMENTS IN SECURITIES (Continued)

Carrying amount analysed for reporting purposes as:

	Held to maturity securities		Other investments		Total	
	2002 US\$	2001 US\$	2002 US\$	2001 US\$	2002 US\$	2001 US\$
Current	2,010,589	–	–	–	2,010,589	–
Non-current	1,729,377	499,978	72,313,534	61,074,475	74,042,911	61,574,453
	3,739,966	499,978	72,313,534	61,074,475	76,053,500	61,574,453

Particulars of the Group's unlisted investment portfolio which exceed 10% of the assets of the Group at 31 December 2002 disclosed pursuant to Section 129(2) of the Companies Ordinance are as follows:

Name	Place of incorporation	Class of share capital	Percentage of equity held by the Group
China Merchants Bank Company, Limited	PRC	Equity	1.19%
Industrial Bank Company, Limited	PRC	Equity	2.80%

16. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2002 US\$	2001 US\$
The aging of trade receivables is analysed as follows:		
0-6 months	251,401	500,000
7-12 months	–	170,027
Over 12 months	–	20,284
Total trade receivables	251,401	690,311
Interest receivable	101,550	120,138
Other receivables	90,138	2,378,114
	443,089	3,188,563



Notes to the Financial Statements (continued)

For the year ended 31 December 2002

17. SHARE CAPITAL

	2002 & 2001 US\$
Authorised:	
150,000,000 ordinary shares of US\$0.10 each	15,000,000
Issued and fully paid:	
137,145,600 ordinary shares of US\$0.10 each	13,714,560

18. RESERVES

THE COMPANY

	Share premium US\$	Retained profits US\$	Total US\$
Balance at 1 January 2001	81,525,984	2,701,786	84,227,770
Profit for the year	-	1,171,406	1,171,406
Final dividend paid for 2000	-	(1,097,165)	(1,097,165)
Interim dividend paid for 2001	-	(685,728)	(685,728)
Balance at 1 January 2002	81,525,984	2,090,299	83,616,283
Profit for the year	-	1,510,582	1,510,582
Final dividend paid for 2001	-	(1,097,165)	(1,097,165)
Interim dividend paid for 2002	-	(685,728)	(685,728)
At 31 December 2002	81,525,984	1,817,988	83,343,972

The amount of the Company's reserves available for distribution to shareholders, calculated in accordance with generally accepted accounting principles in Hong Kong, was US\$1,817,988 (2001: US\$2,090,299).

19. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of US\$128,240,132 (2001: US\$125,428,239) and 137,145,600 ordinary shares (2001: 137,145,600 ordinary shares) of US\$0.10 each in issue.

Notes to the Financial Statements (continued)

For the year ended 31 December 2002

20. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	THE GROUP 2002 US\$
As at 1 January 2002	6,451,925
Bank loan raised during the year	483,255
Repayments during the year	(6,935,180)
As at 31 December 2002	–

21. LEASE COMMITMENTS

At 31 December 2002, the Group and the Company had no commitments under non-cancellable operating leases (2001: Nil).

22. COMMITMENTS

At 31 December 2002, the Group had the following commitments:

	2002 US\$	2001 US\$
Commitments in respect of investment in unlisted securities:		
– contracted but not provided for	1,200,000	–
– authorised but not contracted for	–	1,000,000

23. BANK LOANS WITH ASSETS PLEDGED

At 31 December 2002, the Group had no assets (2001: bank deposit of US\$2,800,000 and 12,470,000 shares of China Merchants Bank) pledged to banks for securing bank loans granted to the Group.

24. RELATED PARTY TRANSACTION

The Company has appointed China Merchants China Investment Management Limited as the Investment Manager for both listed and unlisted investments. Certain directors of the Company are also directors and/or shareholders of the Investment Manager.

During the year, management fees totalling US\$2,358,469 (2001: US\$2,262,114) were paid or payable to the Investment Manager, which is calculated based on a fixed percentage on the value of the Group's assets as stipulated in the Agreement. The amounts owing to the Investment Manager at 31 December 2002 were US\$631,595 (2001: US\$646,467).



25. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of all subsidiaries at 31 December 2002, which are all wholly-owned and directly held by the Company, are as follows:

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital
CMCDI Zhaoyuan Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
China Merchants Industry Development (Shenzhen) Limited	PRC	Investment holding	Paid up capital of US\$10,000,000 (Wholly owned foreign enterprise)
Convoy Overseas Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
Everich Dynamic Investments Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
Foster Overseas Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
Head Union Development Limited	HK	Investment holding	2 ordinary shares of HK\$1 each (Limited liability company)
Ryan Pacific Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
Star Group Limited	HK	Investment holding	2 ordinary shares of HK\$1 each (Limited liability company)
Storey Overseas Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
Supertone Investment Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
Wheaton International Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)
Woodford Pacific Limited	BVI	Investment holding	1 ordinary share of US\$1 each (Limited liability company)

None of the subsidiaries had any debt securities subsisting at 31 December 2002 or at any time during the year.