

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 revised Statement of Standard Accounting Practice No. 12 "Income Taxes" ("SSAP 12") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group's accounting policies and the effect of adopting this revised policy are set out in note 1(g) 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.

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.

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

Notes to the Accounts

1. Principal accounting policies *(Continued)*

(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.

Notes to the Accounts

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 acquisition, 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*

Unlisted investments are stated at cost less provision for impairment losses. 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.

Notes to the Accounts

1. Principal accounting policies (*Continued*)

(e) Investments (*Continued*)

(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.

(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 provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 does not have material financial impact to the Group's accounts.

Notes to the Accounts

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.

Notes to the Accounts

1. Principal accounting policies (*Continued*)

(l) Provisions

Provisions are recognised when the Group and the Company 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 and subsequently amended on 8th April 1992, China Assets Investment Management Limited ("CAIML") (note 19) 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.

Notes to the Accounts

2. Investment management fee (*Continued*)

Management fee paid to CAIML for the year ended 31st December 2003 amounted to US\$1,055,508 (2002: US\$1,232,363).

CAIML is also entitled to receive a performance bonus based on a specified formula as defined in the Management Agreement. No performance bonus had been paid for the year ended 31st December 2003 (2002: 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:

	2003 US\$	2002 US\$
Turnover		
Interest income	289,835	101,057
Dividend income from listed investments	25,504	99,273
	315,339	200,330

Primary reporting format — business segments

The principal activity of the Company is investment holding carried out in Hong Kong and the Mainland China with its associated companies/investee companies operating in four main business segments with toll roads operation disposed during the year:

- Investments holding
- Manufacturing and distribution of pharmaceutical products
- 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 four business segments mainly operate in two main geographical areas:

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

There are no sales between the geographical segments.

Notes to the Accounts

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:

	2003						
	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	315,339	—	—	—	—	—	315,339
Segment results	484,324	—	—	—	—	—	484,324
Unallocated income							10,177
Unallocated expenses*							(1,499,476)
Net gain on disposal of investment in Dongfu Toll Road	—	—	—	—	3,316,904	—	3,316,904
Loss on disposal of an unlisted investment	—	—	(823,727)	—	—	—	(823,727)
Net gain on disposal of interests in associated companies	—	—	—	2,822,412	—	—	2,822,412
Deemed profit on dilution of interests in an associated company	—	3,393,009	—	—	—	—	3,393,009
Operating profit							7,703,623
Share of profits/(losses) of associated companies	2,301,477	1,441,783	—	(592,622)	—	—	3,150,638
Taxation	(462,341)	(520,567)	—	(23,421)	—	—	(1,006,329)
Profit attributable to shareholders							9,847,932
Segment assets	32,747,710	29,393,410	—	—	—	—	62,141,120
Investments in associated companies	28,957,696	—	—	505,548	—	(261,995)	29,201,249
Total assets							91,342,369
Segment liabilities	192,496	—	—	—	—	—	192,496
Unallocated liabilities							92,820
Total liabilities							285,316

Notes to the Accounts

3. Turnover and segment information (*Continued*)

Primary reporting format — business segments (*Continued*)

	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

* Included in this balance is the management fee of US\$1,055,508 (2002: US\$1,232,363) paid to a related company (note 2).

Notes to the Accounts

3. Turnover and segment information (Continued)

Secondary reporting format — geographical segments

	2003		
	Turnover	Segment results	Total assets
	US\$	US\$	US\$
Hong Kong	315,339	484,324	12,408,438
Mainland China	—	—	49,732,682
	315,339	484,324	62,141,120
Unallocated income		10,177	
Unallocated expenses *		(1,499,476)	
Net gain on disposal of investment in Dongfu Toll Road		3,316,904	
Net gain on disposal of interest in associated companies		2,822,412	
Deemed profit on dilution of interests in an associated company		3,393,009	
Loss on disposal of an unlisted investment		(823,727)	
Operating profit		7,703,623	
Share of results of associated companies		3,150,638	
Taxation		(1,006,329)	
		9,847,932	
Investments in associated companies			29,201,249
Total assets			91,342,369

Notes to the Accounts

3. Turnover and segment information (*Continued*)

Secondary reporting format — geographical segments (*Continued*)

	2002		
	Turnover	Segment	Total
	US\$	results	assets
	US\$	US\$	US\$
Hong Kong	200,330	483,420	8,418,030
Mainland China	—	—	17,297,639
	200,330	483,420	25,715,669
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		(91,695)	
Operating profit		3,811,863	
Share of results of associated companies		672,685	
Taxation		(901,469)	
		3,583,079	
Investments in associated companies			56,526,487
Total assets			82,242,156

There is no capital expenditure for the year (2002: Nil).

* Included in this balance is the management fee of US\$1,055,508 (2002: US\$1,232,363) paid to a related company (note 2).

Notes to the Accounts

4. Operating profit

Operating profit is stated after crediting and charging the following:

	2003 US\$	2002 US\$
Crediting		
<i>Included in other operating income</i>		
Net gain on disposal of investment in Dongfu Toll Road (<i>note 11(a)</i>)	3,316,904	—
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
Deemed profit on dilution of interests in an associated company	3,393,009	—
Net gain on disposal of interests in associated companies (<i>note 10(a)(v)</i>)	2,822,412	—
Gains on disposal of listed investments	637,948	164,355
Unrealised gain on listed investments	31,038	177,691
Net exchange gain	10,177	—

Charging

<i>Included in administrative expenses</i>		
Auditors' remuneration		
— Current year	101,320	104,650
— (Over)/under provision in previous years	(5,529)	4,712
Provision for doubtful debts	500,000	—
Net exchange losses	—	10,640
<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 (<i>note 13</i>)	823,727	58,956
Write-off of amount due from an associated company	—	228,070

Notes to the Accounts

5. Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2002: 16%) on the 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:

	2003 US\$	2002 US\$
Current taxation:		
— Hong Kong profits tax	31,340	—
— Overseas taxation	33,168	—
	<hr/> 64,508	<hr/> —
Share of taxation attributable to associated companies	941,821	901,469
	<hr/>	<hr/>
Taxation charge	1,006,329	901,469
	<hr/>	<hr/>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2003 US\$	2002 US\$
Profit before taxation	10,854,261	4,484,548
	<hr/>	<hr/>
Calculated at a taxation rate of 17.5% (2002: 16%)	1,899,496	717,528
Effect of different taxation rates in other countries	296,627	114,164
Income not subject to taxation	(1,810,855)	(960,892)
Expenses not deductible	621,061	1,030,669
	<hr/>	<hr/>
Taxation charge	1,006,329	901,469
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There was no material unprovided deferred taxation for the year (2002: nil).

Notes to the Accounts

6. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of US\$4,916,943 (2002: US\$1,968,857).

7. Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of US\$9,847,932 (2002: US\$3,583,079) and on the 74,383,160 (2002: 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:

	2003	2002
	US\$	US\$
Fees (equivalent to HK\$368,000) (2002: HK\$320,000)	47,395	41,031

Directors' fees disclosed above include US\$26,660 (2002: US\$24,735) 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 2002 and 2003.

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 2002 and 2003.

Notes to the Accounts

9. Investments in subsidiaries

	Company	
	2003	2002
	US\$	US\$
Unlisted shares, at cost (note (b))	140,071	140,071
Amounts due from subsidiaries (note (a))	22,621,154	12,168,438
Less: provision for doubtful debts	(623,962)	(394,435)
	21,997,192	11,774,003
	22,137,263	11,914,074

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

(b) The following is a list of subsidiaries held directly by the Company at 31st December 2003:

Name	Place of incorporation	Principal activities	Particulars of issued share capital/ registered capital	Interest held	
				2003	2002
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%	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%	100%
Zhong Guan Business Consultancy (Shanghai) Co. Ltd.	People's Republic of China	Dormant	Registered capital of US\$140,000	100%	100%

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

Notes to the Accounts

10. Investments in associated companies

	Group		Company	
	2003	2002	2003	2002
	US\$	US\$	US\$	US\$
Share of net assets				
other than goodwill	58,856,648	59,584,363	—	—
Shares listed in Hong Kong,				
at cost	—	—	13,802,288	13,802,288
Unlisted investments, at cost	—	—	9,594,830	15,134,739
Convertible loan stock	—	—	735,000	735,000
	58,856,648	59,584,363	24,132,118	29,672,027
Provision for impairment losses	—	—	(735,627)	(3,451,255)
	58,856,648	59,584,363	23,396,491	26,220,772
Reclassification (note 11 (b) and note 13)	(29,393,410)	(2,824,282)	(9,594,203)	(2,824,282)
	29,463,238	56,760,081	13,802,288	23,396,490
Amounts due from associated companies	551,583	587,582	508,338	508,338
Amount due to an associated company	(305,234)	(312,838)	(305,234)	(312,838)
	246,349	274,744	203,104	195,500
Provision for doubtful debts	(508,338)	(508,338)	(508,338)	(508,338)
	(261,989)	(233,594)	(305,234)	(312,838)
	29,201,249	56,526,487	13,497,054	23,083,652
Investments at cost:				
Shares listed in Hong Kong	13,802,288	13,802,288		
Unlisted investments	4,886,302	31,171,086		
Convertible loan stock	735,000	735,000		
	19,423,590	45,708,374		
Provision for impairment losses	(5,101,644)	(19,258,574)		
	14,321,946	26,449,800		
Market value of listed shares in Hong Kong	26,217,326	12,891,520	26,217,326	12,891,520

Notes to the Accounts

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 2003:

Name	Place of incorporation	Principal activities	Interest held	
			2003	2002
First Shanghai Investments Limited (<i>see note (i) below</i>)	Hong Kong	Investment holding	21.15%	21.16%
Suzhou Universal Chain Transmission Co., Ltd. (<i>see note (ii) below</i>)	People's Republic of China	Production and sale of industrial chains	30%*	30%*
Dezhou Zhenhua Glass Co., Ltd. (<i>see note (iii) below</i>)	People's Republic of China	Production and sale of glass products	30%*	30%*
Hong Kong Strong Profit Limited (<i>See note (iv) below</i>)	Hong Kong	Dormant	49%	49%
Wuxi Huate Steel Strip Co., Ltd. (<i>see note (v) below</i>)	People's Republic of China	Manufacture and sale of steel	—	29.75%*
Wuxi Huasheng Precision Alloy Material Co., Ltd. (<i>see note (v) below</i>)	People's Republic of China	Manufacture and sale of steel	—	29.75%*
Wuxi Tristar Iron & Steel Co., Ltd. (<i>see note (v) below</i>)	People's Republic of China	Manufacture and sale of steel	—	25%*
Wuxi United Iron & Steel Co., Ltd. (<i>see note (v) below</i>)	People's Republic of China	Manufacture and sale of steel	—	25%*

* Held indirectly by the Company

Notes to the Accounts

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\$234,738,341 (2002: HK\$234,664,741).
- (ii) 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 (2002: US\$1,683,675) for its 30.00% (2002: 30.00%) share. A provision of US\$1,178,127 (2002: US\$934,489) has been made against the investment to reflect the Group's share of its net assets value.
- (iii) 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.
- (iv) Hong Kong Strong Profit Limited ("HKSP") is in the negotiation of a proposed liquidation. Full provision for impairment losses was made against the investment in HKSP in the Company's balance sheet.
- (v) The Group has disposed of its entire interests in these companies during the year at a gain on disposal totalling US\$2,822,412.

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

Notes to the Accounts

10. Investments in associated companies *(Continued)*

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

	2003 US\$'000	2002 US\$'000
FSIL		
Profit and loss account		
Turnover	36,236	22,004
Profit before taxation	13,846	7,925
Group's share of profit before taxation <i>(note 3)</i>	2,301	1,515
Balance sheet		
Non-current assets	126,996	111,995
Current assets	99,724	48,994
Current liabilities	(53,659)	(5,459)
Non-current liabilities	(172)	(142)
Minority interest	(10,638)	(6,722)
Net assets	162,251	148,666
Group's share of net assets <i>(note 3)</i>	28,958	27,251

Notes to the Accounts

11. Investments

	Note	Group		Company	
		2003	2002	2003	2002
		US\$	US\$	US\$	US\$
Unlisted investments					
Unlisted investment in toll road, at amortised cost	(a)	—	5,662,701	—	5,662,701
Unlisted investment, at cost	(b)	29,393,410	—	9,594,203	—
Unlisted shares, at cost		1,200,000	1,200,000	—	—
		30,593,410	6,862,701	9,594,203	5,662,701
Other investments					
Shares listed in Hong Kong, at market value		59,888	1,499,961	59,888	1,499,961
		30,653,298	8,362,662	9,654,091	7,162,662

- (a) The Company holds 35% equity interests in a joint venture, namely Zhongshan Dongfu Road and Bridge Investment Company Limited ("Dongfu Toll Road"). During the year, the Company has entered into an agreement with a PRC third party to dispose of its entire interest in Dongfu Toll Road at a total cash consideration of US\$9,292,603 with a net gain of US\$3,316,904.
- (b) At 31st December 2003, the carrying amount of interests in the following company exceeded 10% of total assets of the Company and the Group.

Name	Place of incorporation	Principal activities	Particulars of issued share capital held	Interest held	
				2003	2002
Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang") (Note)	People's Republic of China	Manufacture and sale of pharmaceutical products	63,658,870 foreign legal person shares	15.46%	17.45%

Notes to the Accounts

11. Investments (*Continued*)

(b) (*Continued*)

Note:

With effect from 1st August 2003, the Directors of the Group consider that the use of equity method to account for the interest in Luking is not appropriate as the Group ceased to have significant influence in Lukang. Accordingly, the net carrying value of investment in Lukang of both the Company and the Group of US\$9,594,203 and US\$29,393,410, respectively, have been reclassified from investments in associated companies to investments (note 10).

12. Other receivables and prepayment

Included in other receivables and prepayment are consideration receivables in respect of disposals of investments during the year. At 31st December 2003, these considerations were receivable as follows:

	Group		Company	
	2003	2002	2003	2002
	US\$	US\$	US\$	US\$
Not later than one year	2,108,466	—	666,667	—
Later than one year and not later than five years	590,849	—	333,333	—
	2,699,315	—	1,000,000	—
Less: Provision for doubtful debts	(500,000)	—	(500,000)	—
	2,199,315	—	500,000	—
Less: current portion, net of provision	(1,608,466)	—	(166,667)	—
Non-current portion	590,849	—	333,333	—

Notes to the Accounts

13. Other investments

	<i>Note</i>	Group		Company	
		2003 <i>US\$</i>	2002 <i>US\$</i>	2003 <i>US\$</i>	2002 <i>US\$</i>
Unlisted shares	(a)	—	2,824,282	—	2,824,282
Convertible notes		—	256,410	—	—
		—	3,080,692	—	2,824,282

(a) Prior year's balances represented the Group's and the Company's 28.05% equity interests held in Shenzhen SPEC Plastics Holdings Co., Ltd. During the year, the Group has disposed of the investment at a loss of US\$823,727.

14. Bank balances and cash

Included in the bank balances and cash of the Group are Renminbi deposits and cash in Mainland China of US\$18,895,719 (2002: US\$7,610,656). Renminbi is not a freely convertible currency.

15. Share capital

	Company	
	2003 <i>US\$</i>	2002 <i>US\$</i>
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

Notes to the Accounts

16. Reserves

Group

	Share premium US\$	Capital reserve US\$ (note a)	(Accumulated losses)/ retained earnings US\$	Total US\$
At 1st January 2003	68,445,344	8,025,767	(2,524,175)	73,946,936
Profit attributable to shareholders	—	—	9,847,932	9,847,932
Exchange difference arising on translation of associated companies	—	120,757	—	120,757
Release of exchange differences and goodwill/negative goodwill upon disposal of interest in associated companies to the profit and loss account	—	(296,888)	—	(296,888)
At 31st December 2003	68,445,344	7,849,636	7,323,757	83,618,737
Company and subsidiaries	68,445,344	8,034,132	(19,089,681)	57,389,795
Associated companies	—	(184,496)	26,413,438	26,228,942
	68,445,344	7,849,636	7,323,757	83,618,737
At 1st January 2002	68,445,344	7,856,982	(6,107,254)	70,195,072
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 and goodwill/ negative goodwill upon disposal of partial interest in an associated company to the profit and loss account	—	174,946	—	174,946
At 31st December 2002	68,445,344	8,025,767	(2,524,175)	73,946,936
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

- (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.

Notes to the Accounts

16. Reserves (Continued)

Company

	Share premium US\$	Accumulated losses US\$	Total US\$
At 1st January 2003	68,445,344	(25,014,990)	43,430,354
Profit for the year	—	4,916,943	4,916,943
At 31st December 2003	68,445,344	(20,098,047)	48,347,297
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

Notes to the Accounts

17. Reconciliation of operating profit to net cash outflow from operating activities

	2003 US\$	2002 US\$
Operating profit	7,703,623	3,811,863
Dividend income from listed investments	(25,504)	(99,273)
Interest income	(289,835)	(101,057)
Gains on disposal of listed investments	(637,948)	(164,355)
Unrealised gains on listed investments	(31,038)	(177,691)
Loss on disposal of partial interest in an associated company	—	91,695
Write-off of amount due from an associated company	—	228,070
Loss on disposal of an unlisted investment	823,727	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)
Net gain on disposal of interest in associated companies	(2,822,412)	—
Net gain on disposal of investment in Dongfu Toll Road	(3,316,904)	—
Deemed profit on dilution of interests in an associated company	(3,393,009)	—
Operating losses before working capital changes	(1,989,300)	(1,406,587)
(Increase)/decrease in other receivables and prepayments	(2,366,362)	169,112
Decrease in net amount due from related companies	13,508	85,272
Decrease in amounts due from associated companies	—	385,646
Increase in amount due to associated companies	28,395	—
Decrease in accounts payable	(631,545)	(205,486)
Decrease in accrued expenses	(4,830)	—
Net cash outflow from operating activities	(4,950,134)	(972,043)

Notes to the Accounts

18. Capital Commitments

	Group	
	2003	2002
	US\$	US\$
Contracted but not provided for (<i>note a</i>)	—	237,869

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

	2003	2002
	US\$	US\$
Contracted but not provided for	997,495	895,686

- (a) Last year, the commitments related 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 2003 (2002: Nil).

19. Related party transactions

Significant related party transaction, which was carried out in the normal course of business is as follows:

- (a) The Company paid a management fee of US\$1,055,508 (2002: US\$1,232,363) to CAIML, a related company (note 2).

CAIML is a subsidiary of FSIL, an associated company of the Company. Mr. Lao Yuan Yi, the Chairman and an executive director of the Company, Mr. Wang Jun Yan, an executive director of the Company, and Mr. Yeung Wai Kin, a non-executive director of the Company, are also the directors of CAIML. Both Mr Lao and Mr Yeung are the directors of FSIL. Mr. Shi Yucheng, Charlie, a former executive director of the Company who resigned on 2nd April 2004, is also a director of CAIML. Mr. Tsui Che Yin, Frank, a non-executive director of the Company, is a shareholder of CAIML.

- (b) As at 31st December 2003, management fee payable to CAIML amounted to US\$279 (2002: receivable of US\$13,229). The balance was unsecured, interest-free and will be settled in the first quarter of 2004.

20 Approval of accounts

The accounts were approved by the board of directors on 13th April 2004.