Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKSE"). A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of certain non-trading securities as explained in the accounting policies set out below.

(c) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries *(Continued)*

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(g)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's and jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate and jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates and jointly controlled entities *(Continued)*

In the Company's balance sheet, its investment in associates and jointly controlled entities are stated at cost less impairment losses (see note 1(g)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(g)).

In respect of acquisitions of associates or jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(g)) is included in the carrying amount of the interest in associates and jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement is included in the calculation of the profit or loss on disposal.

(f) Other investments

(i) Investments held for trading are stated in the consolidated balance sheet at fair value. Changes in fair value are recognised in the consolidated income statement as they arise.

(ii) Non-trading investments are stated in the consolidated balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the investment is sold, collected, or otherwise disposed of, or until there is objective evidence that the investment is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the consolidated income statement.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments *(Continued)*

(iii) Transfers from the investment revaluation reserve to the consolidated income statement as a result of impairments are reversed when the circumstances and events that led to the impairments cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iv) Profits or losses on disposal of investments are accounted for in the consolidated income statement as they arise. In the case of non-trading investments, the profit or loss includes any amount previously held in the investment revaluation reserve in respect of that investment.

(g) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that investments in subsidiaries, associates, jointly controlled entities and goodwill may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets *(Continued)*

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(i) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Income tax *(Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Income tax *(Continued)*

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(j) Revenue recognition

Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the applicable rates of interest.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Revenue recognition *(Continued)*

Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(k) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of PRC subsidiaries, associates and jointly controlled entities are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of an associate or a jointly controlled entity, the cumulative amount of the exchange differences which relate to that associate or jointly controlled entity is included in the calculation of the profit or loss on disposal.

(l) Related parties

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment and are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Unallocated items mainly comprise financial and corporate assets, corporate and financing expenses.

2 TURNOVER

The principal activity of the Company and of its subsidiaries is the holding of equity investments primarily in companies or entities with significant business interests or involvement in the People's Republic of China ("the PRC"). In particular, the Group focused on investing in Sino-foreign joint ventures in the PRC and companies with substantial operations or investments in the PRC.

Share of jointly controlled entities' turnover represents the Group's share of jointly controlled entities' invoiced value of goods sold.

2 TURNOVER *(Continued)*

Group turnover represents interest income and dividend income from listed investments. The amount of each significant category of revenue recognised in turnover during the year is as follows:

		2003		2002
Interest income from deposits with banks and other financial institutions	**$**	**291,901**	$	898,474
Dividend income from listed investments		**2,140,950**		6,425,520
	$	**2,432,851**	$	7,323,994

3 SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's business segments which are based on the nature of business of its associates, jointly controlled entities and other investee companies. No geographical segment information is presented as the revenue of the Group, its associates and jointly controlled entities and the Group's results were substantially derived from the PRC.

The Group's associates, jointly controlled entities and other investee companies comprise the following main business segments:

Manufacture of industrial products: Electronic and electrical instruments, plywood and timber products.

Manufacture of consumer products: Audio-visual products and ceramic tiles.

Communications: Provision of paging, internet content, software and solutions and paid e-mail services and offline magazine publishing.

Real estate: Development of residential and commercial properties for sale.

Segment revenue includes the Group's share of jointly controlled entities' turnover. Segment results, assets and liabilities include only those relating to the Group.

(Expressed in Hong Kong dollars)

3 SEGMENTAL INFORMATION *(Continued)*

	Segment revenue		Segment results	
	Group and share of jointly controlled entities' turnover		Contribution to profit/(loss) from ordinary activities before taxation	
	2003	2002	**2003**	2002
Manufacture of industrial products	**$ 46,860,690**	$ 86,586,919	**$ 4,204,259**	$ 16,037,926
Manufacture of consumer products	**2,140,950**	6,425,520	**23,699,981**	8,281,297
Communications	**–**	–	**(403,009)**	(37,035,235)
Real estate	**–**	–	**(14,235,609)**	(705,687)
Unallocated	**291,901**	898,474	**(4,890,361)**	(6,447,567)
	$ 49,293,541	$ 93,910,913	**$ 8,375,261**	$ (19,869,266)

	Segment assets		Segment liabilities	
	2003	2002	**2003**	2002
Manufacture of industrial products	**$ 29,234,376**	$ 27,780,064	**$ –**	$ –
Manufacture of consumer products	**44,497,050**	35,111,580	**–**	–
Communications	**–**	–	**–**	–
Real estate	**98,617,196**	78,923,038	**–**	–
Unallocated	**15,995,602**	31,826,174	**(6,617,495)**	(7,015,321)
	$188,344,224	$ 173,640,856	**$ (6,617,495)**	$ (7,015,321)

	Write-back of/ (provision for) impairment losses		Capital expenditure incurred	
	2003	2002	**2003**	2002
Manufacture of consumer products	**$ 16,240,360**	$ –	**$ –**	$ –
Communications	**–**	(35,857,021)	**–**	–
Real estate	**–**	–	**35,000,000**	74,413,724
	$ 16,240,360	$ (35,857,021)	**$ 35,000,000**	$ 74,413,724

(Expressed in Hong Kong dollars)

4 PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations is arrived at after charging/(crediting):

		2003		2002
(a) Other net loss				
Net exchange loss	**$**	**2,882**	$	115,536
Others		**–**		(100,000)
	$	**2,882**	$	15,536

		2003		2002
(b) Operating expenses				
Administrative fee *(Note)*	**$**	**690,000**	$	690,000
Audit fee		**610,000**		600,000
Consultancy fee		**89,661**		226,368
Custodian fee		**150,000**		240,000
Legal and secretarial fees		**885,912**		4,119,988
Management fee *(Note)*		**2,414,581**		4,527,374
Project fee		**267,798**		544,129
Other operating expenses		**2,738,492**		4,631,438
	$	**7,846,444**	$	15,579,297

Note: Administrative fee is paid to ING Management (Hong Kong) Limited, a wholly owned subsidiary of ING Groep N.V., pursuant to the agreements as disclosed in the directors' report. ING Groep N.V. is a substantial shareholder of the Company.

Management fee is paid to Baring Capital (China) Management Limited ("BCCM") pursuant to the terms of the agreements as disclosed in the directors' report. BCCM is also a wholly owned subsidiary of ING Groep N.V.

(Expressed in Hong Kong dollars)

4 PROFIT/(LOSS) FROM OPERATIONS *(Continued)*

Profit/(loss) from operations is arrived at after charging/(crediting): ***(Continued)***

		2003		2002
(c) Gain on disposal of interest in jointly controlled entity				
Everbright Timber Industry (Shenzhen) Company Limited				
Sale proceeds, net of expenses	**$**	**(2,064,532)**	$	–
Carrying value of investment		**–**		–
	$	**(2,064,532)**	$	–
(d) Loss on disposal of non-trading unlisted investments				
Skynet Limited				
Sale proceeds, net of expenses	**$**	**–**	$	(356,045)
Carrying value of investment		**–**		500,000
	$	**–**	$	143,955
(e) Loss on disposal of convertible loan				
Companion-China Limited				
Sale proceeds, net of expenses	**$**	**–**	$	(47,315,310)
Carrying value of convertible loan		**–**		47,500,000
	$	**–**	$	184,690

(Expressed in Hong Kong dollars)

4 PROFIT/(LOSS) FROM OPERATIONS *(Continued)*

Profit/(loss) from operations is arrived at after charging/(crediting): *(Continued)*

		2003	2002
(f)	Gain on disposal of non-trading listed investments		
	Skyworth Digital Holdings Limited		
	Sales proceeds, net of expenses	**$ (21,413,708)**	$ (30,314,000)
	Carrying value of investment	**15,400,000**	27,600,000
		$ (6,013,708)	$ (2,714,000)
(g)	(Write-back of)/provision for impairment losses on non-trading investments		
	Skyworth Digital Holdings Limited	**$ (16,240,360)**	$ –
	Beijing Asia Pacific First Star Communications Technology Co. Ltd.	**–**	12,299,130
	ChinaGo Limited	**–**	23,557,891
		$ (16,240,360)	$ 35,857,021

5 INCOME TAX

(a) Income tax in the consolidated income statement represents the Group's share of jointly controlled entities' taxation.

No provision for Hong Kong profits tax has been made for the year ended 31 December 2003 as the Group has no assessable profits for the year.

(Expressed in Hong Kong dollars)

5 INCOME TAX *(Continued)*

(b) Reconciliation between tax expense and accounting profit/(loss) at applicable tax rates:

		2003		2002
Profit/(loss) before tax	**$**	**8,375,261**	$	(19,869,266)
Notional tax on profit before tax calculated at the rates applicable to profits in the countries concerned	**$**	**1,233,296**	$	(3,096,759)
Tax effect of non-deductible expenses		**3,459,534**		7,796,220
Tax effect of non-taxable revenue		**(5,235,916)**		(5,342,329)
Tax effect of unused tax losses not recognised		**737,048**		764,018
Actual tax expense	**$**	**193,962**	$	121,150

In March 2003, the Hong Kong Government announced an increase in Hong Kong profits tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's 2003 financial statements.

(c) Taxation in the consolidated balance sheet represents balance of provision for Hong Kong profits tax relating to the prior years.

(d) The Group has not recognised deferred tax assets in respect of the Group's share of tax losses of $4,548,684 (2002: $2,315,206) incurred by its associates. The tax losses will expire during 2007 to 2008.

(Expressed in Hong Kong dollars)

6 DIRECTORS' REMUNERATION

(a) Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

		2003		2002
Fees	**$**	**131,671**	$	173,260
Salaries and other emoluments		**660,000**		660,000
	$	**791,671**	$	833,260

No remuneration was paid to the non-executive directors of the Company.

The remuneration of each of the directors is within the band of $Nil – $1,000,000.

The above emoluments does not include the value of share options granted to certain directors under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph "Share option scheme" in the directors' report and note 15 on the financial statements.

(b) Individuals with highest emoluments

The five highest paid individuals are all directors of the Group whose emoluments have been disclosed in note (a) above.

7 PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit/(loss) attributable to shareholders includes a profit of $5,165,705 (2002: loss of $22,162,454) which has been dealt with in the financial statements of the Company.

(Expressed in Hong Kong dollars)

8 EARNINGS/(LOSS) PER SHARE

(a) Basic

The calculation of basic earnings/(loss) per share is based on the profit attributable to shareholders of $8,181,299 (2002: loss of $19,990,416) on the weighted average number of 539,512,583 (2002: 539,512,000) ordinary shares in issue during the year.

(b) Diluted

Diluted earnings per share is not shown for the years ended 31 December 2003 and 2002 as the potential ordinary shares were anti-dilutive.

9 INTEREST IN SUBSIDIARIES

	The Company	
	2003	2002
Unlisted shares, at cost	**$ 58**	$ 50
Amounts due from subsidiaries, net of provisions	**86,909,562**	66,176,723
	$ 86,909,620	$ 66,176,773

The amounts due from subsidiaries comprise mainly advances to subsidiaries for investments in entities in the PRC including Hong Kong.

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

The following wholly owned subsidiaries are all private limited companies, incorporated in the British Virgin Islands and are intermediate investment holding companies. The class of shares held is ordinary. All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's financial statements.

(Expressed in Hong Kong dollars)

9 INTEREST IN SUBSIDIARIES *(Continued)*

Name of subsidiary	**Issued and paid up capital held by the Company**
Ever Talent Investments Ltd.	1 share of US$1
Kencheers Investments Ltd.	1 share of US$1
Joint Cheer Investments Ltd.	1 share of US$1
Pacific Investment Project Inc.	1 share of HK$1
Pacific Equity Venture Inc.	1 share of HK$1
Simonson International Development Ltd.	1 share of US$1
Motion Technology Ltd.	1 share of US$1
Mobile Office Investments Ltd.	1 share of US$1
Success Journey Ltd.	1 share of US$1

10 INTEREST IN ASSOCIATES

	The Group		**The Company**	
	2003	2002	**2003**	2002
Unlisted shares, at cost	**$ –**	$ –	**$78,000,008**	$ 78,000,008
Share of net assets	**63,625,224**	78,954,923	**–**	–
Amount due to associate	**(8,028)**	(31,885)	**(8,028)**	(31,885)
	$63,617,196	$ 78,923,038	**$77,991,980**	$ 77,968,123

10 INTEREST IN ASSOCIATES *(Continued)*

Additional information in respect of the Group's associates is given as follows:

	2003	2002
	$'000	*$'000*
Non-current assets	**$ 12,889**	$ 13,092
Current assets	**250,928**	160,899
Current liabilities	**(23,857)**	(23,259)
Non-current liabilities	**(118,491)**	–
Total turnover	**–**	–
Total losses before taxation	**26,367**	5,264
Group's share of losses before taxation	**13,811**	964
Group's share of associates' contingent liabilities	**–**	–
Group's share of associates' capital commitments *(note 18(a))*	**65,751**	62,591

The following list contains only the particulars of associates, all of which are unlisted companies, which principally affected the results or assets of the Group.

(Expressed in Hong Kong dollars)

10 INTEREST IN ASSOCIATES *(Continued)*

Name of the associate	Place of incorporation/ establishment	Particulars of issued capital	Proportion of ownership interest held by The Company	Proportion of ownership interest held by The Group	Principal activity
China Property Development (Holdings) Limited	Cayman Islands	3,667 shares of US$0.01 each, *(note)*	30%	–	Investment holding
Sound Advantage Limited	British Virgin Islands ("BVI")	1 ordinary share of US$1	–	30%	Investment holding
Choice Capital Limited	BVI	1 ordinary share of US$1	–	30%	Investment holding
World Lexus Pacific Limited	Hong Kong	1,000,000 ordinary shares of $1 each	–	24%	Investment holding
Beijing Pacific Palace Real Estate Development Co Ltd	PRC	Registered and paid-up capital of US$12,000,000	–	24%	Property development

Note: As at 31 December 2003, 1,100 shares held by the Group were fully paid up and the remaining 2,567 shares were partly called and paid up. The uncalled share capital amounted to US$15,670,000.

China Property Development (Holdings) Limited ("CPDH") was formerly a wholly owned subsidiary of the Group. The Group's interest in CPDH was diluted to 30% when it issued new shares to China Property Development Fund Limited in October 2002. This resulted in a gain on deemed disposal of $5,506,894 which was recognised in the consolidated income statement for the year ended 31 December 2002.

10 INTEREST IN ASSOCIATES *(Continued)*

Sound Advantage Limited ("Sound Advantage") and Choice Capital Limited ("Choice Capital") are wholly owned subsidiaries of CPDH. They hold equity interests of 30% and 50% in World Lexus Pacific Limited ("World Lexus") respectively.

World Lexus's sole asset is a wholly owned PRC subsidiary, Beijing Pacific Palace Real Estate Development Co Ltd ("Beijing Pacific Palace"). Beijing Pacific Palace was established in 2001 as a cooperative joint venture for an operating period of 50 years, by World Lexus and Beijing Jiangtaixiang Real Estate Development Co Ltd ("the PRC partner"). It is engaged in a property development project at the Lido area of Jiangtai Town, Chaoyang District, Beijing, the PRC ("Pacific Town project").

The total investment and registered capital of Beijing Pacific Palace are US$30 million and US$12 million respectively. Pursuant to the joint venture agreement dated 28 November 2000, World Lexus is entitled to all the profits of Beijing Pacific Palace and the PRC partner is only entitled to a land compensation fee amounting to RMB45,100,000 (equivalent to $42.5 million) payable in four instalments within two years from the date of agreement. Up to 31 December 2003, RMB10 million (equivalent to $9.4 million) has been paid. The Company's directors consider that no penalty will be payable as a result of the delay in the payment of the land compensation fee to the PRC partner.

The Pacific Town project is a medium density residential area with a mixed development of high rise apartments and villas. The development of the project will be carried out in several phases. The project has a total gross floor area in excess of 240,000 square metres. Phase I of the project of approximately 80,000 square metres of luxury fitted apartments is planned to start sale in July 2004.

During the year, Beijing Pacific Palace has obtained the planning approval, construction land use planning permit as well as resettlement permit from the relevant government authorities. Resettlement has commenced and is expected to be completed by the end of May 2004.

10 INTEREST IN ASSOCIATES *(Continued)*

Subsequent to the year end date, CPDH entered into negotiations with the minority shareholders of World Lexus, the company which owns 100% of the Pacific Town project, to acquire the 20% equity interest in World Lexus. Negotiations are still in progress as of the date these financial statements are authorised for issue by the Company's directors. In the event that the acquisition is executed, CPDH may be required to reimburse a certain amount of the preliminary costs of the Pacific Town project incurred by the minority shareholders prior to CPDH's acquisition of the 80% equity interest in World Lexus in 2002. However, the amount is subject to agreement between CPDH and the minority shareholders and their provision of adequate documentation and evidence to support the costs incurred. The Company's directors have confirmed with the directors of CPDH that neither CPDH nor Beijing Pacific Palace has an obligation to reimburse any preliminary costs to the minority shareholders as at 31 December 2003. Accordingly, any preliminary costs to be reimbursed will be accounted for on completion of the sale and purchase agreement together with the consideration for the purchase of the 20% interest in World Lexus.

Pursuant to the private placement memorandum of CPDH dated 13 September 2003, CPDH has appointed certain related parties of the Company to act as fund manager, project manager, advisor, administrator, marketing agent and placement agent. These related parties are either companies wholly owned by ING Groep N.V. or companies in which a director of the Company is a member of the senior management. During the year ended 31 December 2003, CPDH paid total fees of US$2,654,247 (equivalent to $20.7 million) (2002: $Nil) to these related parties.

In December 2003, CPDH obtained a convertible loan of US$15 million (equivalent to $117 million) from a subsidiary of Nan Fung Development Limited. The convertible loan carries an annual interest rate of 15.5% and is due for repayment on 2 December 2005. At the option of the lender, the loan may be convertible into shares of CPDH in accordance with a pre-determined conversion rate, on the earlier of i) 2 June 2005 or ii) four weeks after pre-sale or 1 month after the official sale of the Pacific Town project, whichever is earlier. The loan is secured by CPDH's 100% equity interests in Sound Advantage and Choice Capital and the 80% equity interests in World Lexus held by Sound Advantage and Choice Capital.

11 INTEREST IN JOINTLY CONTROLLED ENTITIES

		The Group		
		2003		2002
Share of net assets	**$**	**26,484,133**	$	26,050,351
Amounts due from jointly controlled entities, net of provision		**2,750,243**		1,729,713
	$	**29,234,376**	$	27,780,064

Amounts due from jointly controlled entities ("JCE") are unsecured, interest free and have no fixed terms of repayment.

Additional information in respect of the Group's JCE is given below. The 2002 figures included the information of two JCEs, Beijing Far East Instrument Company Limited ("Beijing Far East") and Everbright Timber Industry (Shenzhen) Company Limited ("SETI"). The information for the current year relates to Beijing Far East only as SETI was disposed of in March 2003 as described below. The carrying value of Beijing North Star Hyundai Pipe Company Limited has been fully provided in the 1998 financial statements.

		2003		2002
		$'000		*$'000*
Non-current assets	**$**	**40,710**	$	295,527
Current assets		**88,269**		303,955
Current liabilities		**(53,310)**		(582,479)
Total turnover		**101,680**		330,293
Total losses before taxation		**–**		(18,915)
Total profits before taxation		**5,014**		2,940
Group's share of profits before taxation		**1,755**		1,029
Group's share of JCE's contingent liabilities		**–**		–
Group's share of JCE's capital commitments		**–**		–

(Expressed in Hong Kong dollars)

11 INTEREST IN JOINTLY CONTROLLED ENTITIES *(Continued)*

Details of the indirectly held JCEs as at 31 December 2003, all of which are Sino-foreign joint venture companies incorporated and operating in the PRC, are as follows:

Name of joint venture	Proportion of ownership interest attributable to the Group	Registered capital	Principal activities
Beijing Far East Instrument Company Limited	35%	RMB151,926,184	Electronic and electrical instrument manufacturing
Beijing North Star Hyundai Pipe Company Limited	28%	US$11,300,000	Pipe manufacturing

In March 2002, the Group entered into a conditional agreement with Beijing Capital Group Limited pursuant to which, the Group agreed to sell an equity interest of 9% in Beijing Far East for a consideration of approximately RMB14 million (equivalent to $13 million), subject to the fulfilment of certain conditions. The consideration is payable over a period of 5 years. Up to 31 December 2003, the disposal has not been accounted for as the conditions have not been satisfied.

On 29 November 2002, the Company entered into a deed of cancellation with China Everbright Holdings Company Limited ("CE Holdings"), the ultimate holding company of SETI, to terminate certain agreements in respect of the Company's investment in SETI. Pursuant to the deed of cancellation, CE Holdings paid an amount of $16,301,103 to the Group as consideration for the cancellation of the investment agreements ("Consideration"). The Consideration received was recognised as income in the consolidated income statement for the year ended 31 December 2002 as the carrying value of SETI had been fully written off in 2001.

During the year, the Group disposed of its 22.87% equity interest in SETI for a cash consideration of $2,170,000. As the carrying value of SETI was fully written off in 2001, the disposal resulted in a gain of $2,064,532 (net of related expenses of $105,468) which has been included in the consolidated income statement for the year ended 31 December 2003. In addition, the Group received an amount of $1,528,897 representing a portion of the dividends declared by SETI in prior years. This has also been recognised as income in the consolidated income statement for the year as the dividends receivable from SETI were fully provided for in 2001.

(Expressed in Hong Kong dollars)

12 NON-TRADING INVESTMENTS

	Note	The Group **2003**		2002
Investment in unlisted joint venture	*(a)*	**$ 61,495,650**	$	61,495,650
Less: Impairment loss		**(61,495,650)**		(61,495,650)
		$ –	$	–
Investments in unlisted companies	*(b)*	**$ 23,557,891**	$	23,557,891
Less: Impairment losses		**(23,557,891)**		(23,557,891)
		$ –	$	–
Listed investments	*(c)*	**$ 20,537,100**	$	38,506,921
Less: Impairment losses		**–**		(18,810,181)
		$ 20,537,100	$	19,696,740
Revaluation surplus		**23,959,950**		15,414,840
		$ 44,497,050	$	35,111,580
		$ 44,497,050	$	35,111,580

(Expressed in Hong Kong dollars)

12 NON-TRADING INVESTMENTS *(Continued)*

Details of the Group's non-trading investments are as follows:

Name of the company	Place of incorporation/ establishment	Place of operation	Particulars of issued and paid up capital	Proportion of ownership interest attributable to the Group	Principal activity
Beijing Asia Pacific First Star Communications Technology Co. Ltd.	PRC	PRC	Registered capital of US$29,800,000	18%	Provision of paging services
ChinaGo Limited	Cayman Islands	PRC	5,611,110 ordinary shares of US$0.01 each	10.44%	Offline magazine publishing, software and solutions, and paid email-services
Skyworth Digital Holdings Limited	Hong Kong	PRC	2,147,216,000 ordinary shares of $0.10 each	1.092%	Manufacture and sale of audio-visual products

Notes:

(a) This represents the Group's investment in an unlisted joint venture, Beijing Asia Pacific First Star Communications Technology Co. Ltd. ("APFS"). The cost of investment is approximately $60.8 million (being the equivalent of US$7.8 million) representing capital contribution for an 18 per cent equity interest in APFS and consideration for a technology co-operation agreement with one of the joint venture partners, together with the capitalised acquisition costs. At 31 December 2003, the other joint venture partners are Beijing Jingfang Economy Development Company and Beijing Asia Pacific Group. This joint venture is being accounted for as a non-trading investment as the Group does not have significant influence or joint control over its operations. An impairment loss of $61,495,650 was made at 31 December 2002.

(Expressed in Hong Kong dollars)

12 NON-TRADING INVESTMENTS *(Continued)*

Notes: (Continued)

(b) The amount represents the Group's investment of approximately $23 million (being equivalent of US$2.9 million) in ChinaGo Limited, in which the Group held an equity interest of 10.44%, together with the capitalised acquisition costs. An impairment loss of $23,557,891 was made as at 31 December 2002.

(c) The Group holds 42,819,000 ordinary shares of Skyworth Digital Holdings Limited ("Skyworth Digital"), a company listed on the HKSE. As at 31 December 2003, the shares were stated at their market value at $1.95 per share as quoted on the HKSE. A revaluation surplus of $24,785,470 has been transferred to investment revaluation reserve during the year ended 31 December 2003. An impairment loss was previously charged to the consolidated income statement for the year ended 31 December 2001. Following the directors' review of the operating results and share prices of Skyworth Digital in recent years, they consider an amount of $16,240,360 should be written back. This was credited to the consolidated income statement for the year as reversal of impairment losses previously made.

13 INVESTMENT DEPOSIT

The amount represents a purchase consideration paid to acquire a 15% equity interest in a joint venture entity in the PRC. The PRC joint venture is engaged in the development of residential properties at the Taiyanggong Zone F in Beijing, the PRC. The completion of the acquisition is expected to take place in July 2004.

14 CASH AND CASH EQUIVALENTS

	The Group		**The Company**	
	2003	2002	**2003**	2002
Deposits with banks and other financial institutions	**$13,890,347**	$ 30,778,303	**$13,890,347**	$ 30,778,303
Cash at bank and in hand	**580,162**	850,752	**570,935**	834,942
	$14,470,509	$ 31,629,055	**$14,461,282**	$ 31,613,245

(Expressed in Hong Kong dollars)

15 SHARE CAPITAL

	2003			2002		
	No. of shares		**Amount**	No. of shares		Amount
Authorised:						
Ordinary shares of $0.10 each	**1,200,000,000**	**$**	**120,000,000**	1,200,000,000	$	120,000,000
Issued and fully paid:						
At 1 January	**539,512,000**	**$**	**53,951,200**	539,512,000	$	53,951,200
Exercise of warrants	**2,000**		**200**	–		–
At 31 December	**539,514,000**	**$**	**53,951,400**	539,512,000	$	53,951,200

(a) Pursuant to an ordinary resolution passed at the extraordinary general meeting held on 16 August 2001, 107,768,000 warrants in the proportion of one warrant for every five existing shares held on 16 August 2001 were issued by the Company. The warrants may be converted into shares of $0.10 each at the initial subscription price of $0.2244 per share at any time from 16 August 2001 to 15 August 2003, both dates inclusive. During 2001, 672,000 ordinary shares were issued on exercise of 672,000 warrants. A total of 2,000 warrants were exercised during the year. The remaining 107,094,000 warrants have lapsed on 15 August 2003.

(Expressed in Hong Kong dollars)

15 SHARE CAPITAL *(Continued)*

(b) The Company has a share option scheme under which the Board of Directors of the Company may grant options to employees of the Company and its subsidiaries, including directors, to subscribe for shares of the Company. Each option gives the holder the right to subscribe for one share. The subscription price will be the higher of:

(i) the closing price of the shares of the Company as stated in the HKSE's daily quotation sheet on the date of grant (being a business day), and

(ii) the average closing price of the shares of the Company as stated in the HKSE's daily quotations sheets for the five business days immediately preceding the date of grant.

At 31 December 2003, the number of outstanding options granted or outstanding is as follows:

Date options granted	**Period during which options exercisable**	**Exercise price**	Number of options granted and oustanding at 31 December 2002	**Cancelled during the year**	**Number of options granted and outstanding at 31 December 2003**
27 November 2001	28 May 2002 to 27 November 2004	0.298	21,555,600	**(2,694,450)**	**18,861,150**
11 December 2001	28 May 2002 to 27 November 2004	0.3	2,694,450	**–**	**2,694,450**
12 December 2001	28 May 2002 to 27 November 2004	0.3	2,694,450	**(2,694,450)**	**–**
			26,944,500	**(5,388,900)**	**21,555,600**

There were no options granted or exercised during the years ended 2003 and 2002.

(Expressed in Hong Kong dollars)

16 RESERVES

(a) The Group

	Share premium	Exchange reserves	Investment revaluation reserve	Accumulated losses	Total
At 1 January 2003	$ 498,097,415	$ 3,098,294	$ 15,414,840	$ (403,936,214)	$ 112,674,335
Profit for the year	-	-	-	8,181,299	8,181,299
Exchange differences on translation of financial statements of PRC jointly controlled entities	-	(106,693)	-	-	(106,693)
Share of exchange and other reserves of associates	-	(1,418)	-	(1,517,553)	(1,518,971)
Surplus on revaluation of non-trading investments	-	-	24,785,470	-	24,785,470
Shares issued from exercise of warrants	249	-	-	-	249
Transfer from income statement	-	-	(16,240,360)	-	(16,240,360)
At 31 December 2003	$ 498,097,664	$ 2,990,183	$ 23,959,950	$ (397,272,468)	$ 127,775,329

(Expressed in Hong Kong dollars)

16 RESERVES *(Continued)*

(a) The Group *(Continued)*

	Share premium	Exchange reserves	Investment revaluation reserve	Accumulated losses	Total
At 1 January 2002	$ 498,097,415	$ 3,236,285	$ –	$ (383,945,798)	$ 117,387,902
Loss for the year	–	–	–	(19,990,416)	(19,990,416)
Exchange differences on translation of financial statements of PRC jointly controlled entities	–	(136,096)	–	–	(136,096)
Share of exchange reserve of associates	–	(1,895)	–	–	(1,895)
Net deficit on revaluation of non-trading investments	–	–	(20,442,181)	–	(20,442,181)
Transfer to income statement	–	–	35,857,021	–	35,857,021
At 31 December 2002	$ 498,097,415	$ 3,098,294	$ 15,414,840	$ (403,936,214)	$ 112,674,335

The Group's accumulated losses include $14,774,528 (2002: $963,800) and $40,354,525 (2002: $163,248,179), being the accumulated losses attributable to associates and jointly controlled entities respectively.

(Expressed in Hong Kong dollars)

16 RESERVES *(Continued)*

(b) The Company

	Share premium	Accumulated losses	Total
At 1 January 2003	**$ 498,097,415**	**$ (378,042,453)**	**$ 120,054,962**
Profit for the year	**–**	**5,165,705**	**5,165,705**
Shares issued from exercise of warrants	**249**	**–**	**249**
At 31 December 2003	**$ 498,097,664**	**$ (372,876,748)**	**$ 125,220,916**
At 1 January 2002	$ 498,097,415	$ (355,879,999)	$ 142,217,416
Loss for the year	–	(22,162,454)	(22,162,454)
At 31 December 2002	$ 498,097,415	$ (378,042,453)	$ 120,054,962

The application of the share premium is governed by Section 48B of the Hong Kong Companies Ordinance.

The exchange reserves and investment revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for the translation of foreign currencies and revaluation of investments respectively.

The aggregate amount of reserves available for distribution to shareholders of the Company at 31 December 2003 was $Nil (2002: $Nil).

17 NET ASSET VALUE PER SHARE

The net asset value per share is computed based on the consolidated net assets of $181,726,729 (2002: $166,625,535) and 539,514,000 shares (2002: 539,512,000 shares) in issue as at 31 December 2003.

(Expressed in Hong Kong dollars)

18 COMMITMENTS

(a) Capital commitments

At 31 December 2003, the Group's share of an associate's capital commitments outstanding not provided for in the financial statements was as follows:

		2003		2002
Authorised and contracted for	$	42,572,000	$	39,412,000
Authorised but not contracted for		23,179,000		23,179,000
	$	65,751,000	$	62,591,000

The above commitments represent costs to be incurred in respect of the Pacific Town project up to the commencement of pre-sale of properties to be developed in phase I.

(b) At 31 December 2003, the Group's share of an associate's total future minimum lease payments under non-cancellable operating leases was as follows:

		2003		2002
Within 1 year	$	261,379	$	208,831
After 1 year but within 5 years		–		208,831
	$	261,379	$	417,662

An associate of the Group leases a property under an operating lease. The lease runs for an initial period of two years, with an option to renew the lease when all terms are renegotiated. The lease does not include any contingent rentals.

19 CHANGE IN ACCOUNTING POLICY

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax as set out in note 1(i).

The adoption of the revised SSAP 12 had no significant effect on the Group's results and net assets for the current and prior years.

20 REORGANISATION

The Company intends to reorganise its structure by means of a scheme of arrangement pursuant to section 166 of the Hong Kong Companies Ordinance (the "Scheme"). An announcement in relation to this proposed reorganisation was made by the Company on 9 October 2003. Pursuant to the Scheme, a new company incorporated in the Cayman Islands with limited liability ("Newco"), will become the new holding company of the Group and the Company will become a direct wholly-owned subsidiary of Newco. A document setting out the details of the Scheme ("Scheme Document") was submitted to the HKSE in October 2003. An updated Scheme Document has been submitted to the HKSE in April 2004 following the change in name of Newco. The Scheme has not been implemented as of the date these financial statements are authorised for issue by the Company's directors.

21 POST BALANCE SHEET EVENTS

(i) In February 2004, the Group sold 12,819,000 ordinary shares of Skyworth Digital at prices ranging from $2.1 to $2.425 per share for a total consideration of $28,580,450, resulting in a gain of approximately $17,043,000.

(ii) Pursuant to a subscription agreement dated 14 April 2004, the Company agreed to place 107,600,000 new shares to an independent third party at a price of $0.14 per share. The new shares shall rank pari passu in all respects with the existing issued shares of the Company. Completion of the allotment is scheduled to take place in June 2004.

(iii) Subsequent to the year end date, the Company's directors have approved a proposal to invest in the development of commercial properties at Taiyanggong Zone E in Beijing, the PRC. The proposed cost of investment is Rmb30,000,000 (equivalent to $28,269,883).

22 RELATED PARTY TRANSACTIONS

During the year, the Group and its associates paid management fees and other expenses to certain related companies, the details of which are set out in note 4(b) and note 10 on the financial statements.