

ING Beijing

Investment Company Limited



Annual Report 2003

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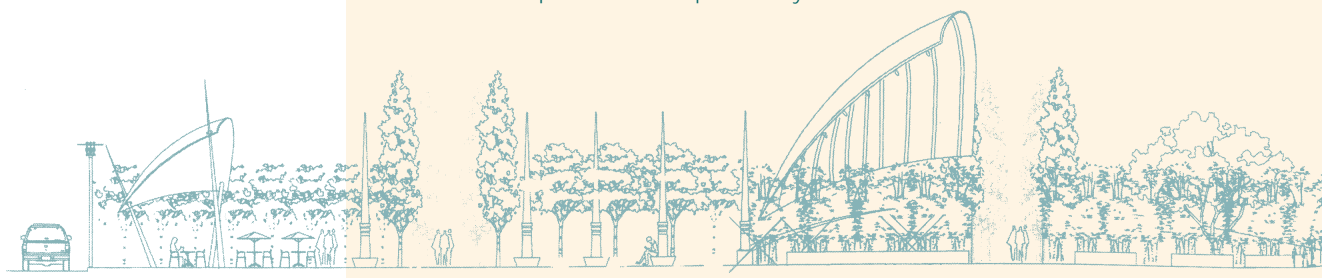
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Five Year Group Financial Summary

Chairman's Statement

For the year ended 31st December 2003, the audited net profit for ING Beijing Investment Company Limited ("ING Beijing" or the "Company") and its subsidiaries (the "Group") totaled HKD8,181,299. The consolidated net asset value per share of the Company was HKD0.337 as at 31st December 2003. The Group's audited net loss for the year up to 31st December 2002, and net asset value per share as at 31st December 2002 were HKD19,990,416 and HKD0.309 respectively.

The profit for the year was mainly contributed from the disposal of Everbright Timber Industry (Shenzhen) Company Limited, sale of Skyworth shares and write back of impairment loss previously made.



HIGHLIGHTS OF THE YEAR

According to the preliminary figures release by National Bureau of Statistics of China, China's Gross Domestic Product (GDP) exceeded US\$ 1,400 billion (Rmb11,670 billion) in year 2003 representing a growth of 9.1% from 2002. The GDP per capita reached US\$1,090, exceeded US\$1,000 the first time.

Based on information from Beijing Statistical Bureau, Beijing's GDP amounted to Rmb361 billion in year 2003, marking a 10.5% growth despite the negative effect of SARS. Beijing's economy has maintained a two-digit growth for the past five years.

Total investment in the Beijing real estate industry rose up to Rmb120 billion, representing a 21.5% increase compared with the year 2002.

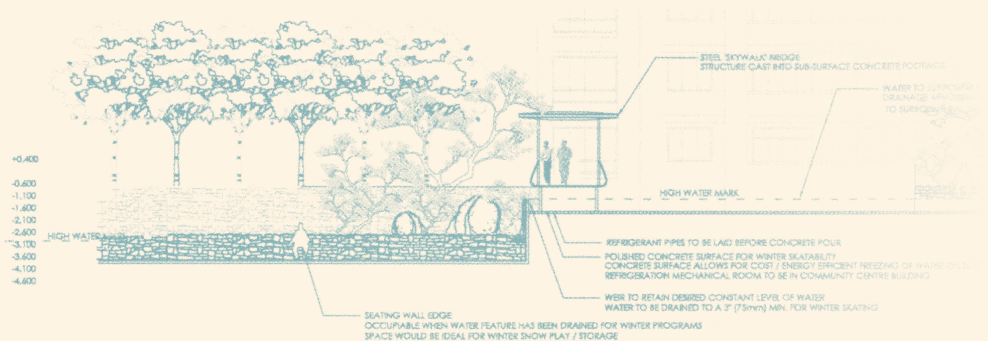
For the year 2003, commodity housing of 19 million square meters were sold, up by 11%. Sales revenue amounted to Rmb90 billion, recording a 10.4% increase over the year 2002. All these statistics reinforced the Group's decision two years ago to refocus its investment in the real estate sector.

Chairman's Statement

REAL ESTATE TRANSACTIONS

ING Beijing invested in China Property Development (Holdings) Limited ("CPDH") in February 2002. Through subsequent share placement to a strategic investor to co-develop the project, the Company now holds 30% in CPDH. CPDH holds an 80% interest in a Beijing residential development project, the Pacific Town Project. The project is a 240,000 square meters high-end residential development project located in the northeast corner of Beijing just off the Fourth Ring Road. The project is situated in an up market district popular with foreigners and the diplomatic community. Average sale price of the property units is expected to be around Rmb9,000 per square meter for fully fitted apartments and Rmb15,000 per square meter for villas. The Pacific Town Project received its planning approval in July 2003, and is now preparing for its first sale launch in July 2004.

The Group invested HKD35 million in the Taiyanggong Zone F Project in October 2003. Formalisation of the investment is subject to approval by local authorities in Beijing. Taiyanggong Zone F Project is also known as Sun Star City. It is a 413,000 square meters residential development project targeting the middle sector. It is located between northeast Third and Fourth Ring Road in Beijing. It is only 2 km from the Yansa Business District, 5 km from the Central Business District, and 15 minutes drive to the Beijing International Airport. At the hub of the two business centers above, Taiyanggong Zone F Project benefits from a convenient and multi-dimensional hub of transportation system. After the pre-sales launch in August 2003, more than 80% of the units in its 110,000 square meters phase I project has been sold. Phase I is expected to complete and ready for occupation by the end of 2004. The construction work for phase II has been started in March 2004 and is expected to complete by August 2005.



Chairman's Statement

NEW GOVERNMENT POLICY

In the past, over 90% of land transactions in Beijing were carried out through private negotiation, which resulted in many problems, including land speculation and under valuation of state owned assets.

In an effort to regulate the land transfer system, the Beijing Municipal Government issued a policy In June 2002 to require all land transfers to follow open procedures through auction, competitive tendering, or public notice. The new system is likely to reduce land supply to the market in the medium term and produce upward pressure on property prices in the immediate market. All these are expected to favour ING Beijing's real estate investments in Beijing.



OTHER INVESTMENTS

Beijing Far East Instrument Company Limited ("Far East") is the only remaining non-property related investment in the Company's portfolio. Over the year, Far East has improved the credit control measure and expanded its business volume in 2003. In the competitive instrument manufacturing market, Far East explored technology application from industrial self-control system into building self-control system. It helped Far East to win the service contract of the Lotus Plaza project, a 100,000 square meter grade A office development project in Beijing. Far East also joined hand with an environmental protection engineering company in Shi Jia Zhuang to venture into the environmental protection business. Far East's production factory is situated in a prime location in Beijing close to the Beijing International Exhibition Centre, which carries good property development potential.

In March 2003, the Group successfully disposed its investment in Everbright Timber Industry (Shenzhen) Company Limited ("Everbright Timber"). Everbright Timber was one of the biggest timber processing company in China. The Asian financial crisis in 1997 has caused timber prices to tumble and changed the entire structure of the

Chairman's Statement

timber industry in China. Since then Everbright Timber was suffering from severe competition from cheap imported timber products. The Company had fully provided for its investment in Everbright Timber, and the disposal of the investment has enabled the Company to generate a gain of HK\$3.5 million including dividend recovered of HK\$1.5 million.

REDOMICILE SCHEME

The Board approved the Redomicile Scheme of ING Beijing Investment Company Limited in August 2003 through incorporation of a new holding company in the Cayman Islands with the name of "First International Investment Company Limited". The first scheme document was submitted to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9th October 2003 and announcement was put out on newspapers immediately afterwards.

In February 2004, the Board resolved to change the name of the new holding company to "New Capital International Investment Limited". Revised documents and the updated scheme document had been submitted to the Stock Exchange.

FUTURE PROSPECTS

With the stable growth of China's economy, favorable government policies, entry to the World Trade Organization and the hosting of the 2008 Olympic Games, China's property sector is set to benefit and develop under a healthy environment. ING Beijing, with years of experience and knowledge in the Beijing market, will be well positioned to capture the opportunities in the buoyant Beijing property sector. The Directors are pleased with the Company's new positioning and are confident with the prospects of the industry and the Group.



Investment Portfolio

The fair value of the portfolio as at 31st December 2003 was as follows:

Investee Companies	Date of Investment	Valuation at 31 Dec 2003
Far East	Jul 1994	HKD47.77 million
Skyworth	Jun 1999	HKD44.50 million
CPDH	April 2002	HKD78.00 million
TYG Zone F	Oct 2003	HKD35.00 million

CHINA PROPERTY DEVELOPMENT (HOLDINGS) LIMITED ("CPDH")

China Property Development (Holdings) Limited ("CPDH") is established in February 2002 by ING Beijing. CPDH has undergone share placement in October 2002 to a strategic investor and reducing ING Beijing's equity stake in CPDH to 30%. Subsequently, CPDH acquired an 80% interest in a residential development project, the Pacific Town Project.

THE PACIFIC TOWN PROJECT

The Pacific Town Project is a high-end residential development project with mixed villas and apartments design. The project is located in the up-market Lido area at the northeastern corner of Beijing outside the Fourth Ring Road. The area is popular with foreigners. Three major hotels and a number of international schools are situated at such area.

River Ba runs along the southern side of the site.

The Beijing International Airport, CBD and Yansa Business District are all within 10 minutes drive by car.



Investment Portfolio



The Pacific Town Project covers a site area of 129,800 square meters. The project plans to build 240,000 square meters residential space with mixed high-rise apartments and villas. The plan will create different classes of property products to target different customer sectors.

The Pacific Town Project has paid the full amount of its land premium for the phase I project and has up to the end of the year to pay off the land premium for the remaining site. The recently announced regulations regarding the transfer of land in Beijing

which require all land transactions to be effected through either auction, competitive tendering or public notice, does not affect the ownership of the Pacific Town Project.

The project obtained its Planning Approval on 2 July 2003. Construction works will start in May 2004 immediately after site clearance. The sale of the phase 1 project is expected to commence in June/July 2004. Average selling price per square meter of the apartments and villas are expected to be not less than Rmb9,500 and Rmb18,000 respectively.



Investment Portfolio



TAIYANGGONG ZONE F PROJECT ("TYG ZONE F")

In year 2002, the government of Chaoyang District announced its plan to invest RMB7 billion to develop the Taiyanggong new district. The district is planned as a high quality residential community with comprehensive facilities to be completed in 2005. The total land area amount to 3 million square meters, among which 1.58 million square meters will be constructed as a green belt along the 4th Ring Road and 776,500 square meters will be for residential housing development. The district will be divided into seven zones, from zone A to zone G. Taiyanggong Park Phase I has been built with a total area of 100,000 square meters. In proximity to the park is an 18-hole golf course. River Ba runs across the district, adding to the natural landscape of the urban location.

The TYG Zone F Project, also known as Sun Star City, is a 413,000 square meters residential development project targeting the middle sector. It locates between northeast Third and Fourth Ring Road in Beijing. It is only 2 km from Yansa Business District, 5 km from the Central Business District, and 10 km from Beijing International Airport.



The Project is targeting the middle market with property units from 80 square meters to 150 square meters in size. The pre-sale launched in August 2003 received excellent result. More than 70% of the units has been sold out within the first four months. The phase I apartments were priced at an average price of Rmb6,500 per square meter for a bare unit without fittings.

Investment Portfolio

The project company is actively preparing to start work for the phase II project. Construction Land Permit for phase II has been granted and pre-sale of phase II is expected to start in August 2004.

BEIJING FAR EAST INSTRUMENT CO., LTD. ("FAR EAST")

In 2003, the sale revenue of Far East increased by 11% and reached Rmb107 million. The profit for the year was Rmb4 million.

In 2003, the production of measuring equipment increased by 47% to Rmb91 million. Far East has also been selected by Rosemount Inc. ("Rosemount") as the global supplier of assembly components. Rosemount is a leading instrument manufacturer in the United States and is a subsidiary of the Emerson Group.

Far East has successfully developed intelligent building control system using its industrial control technology. The new system helped Far East to win the Lotus Plaza project which involves the supply and design of building control system for a 100,000 square meters grade A office development project in Beijing.

Far East has also entered the environmental protection sector. Far East joined hand with an environmental protection engineering company in Shi Jia Zhuang to venture into the environmental protection business. Far East paid Rmb4.5 million for a 45% shareholding in the engineering company. Since established in May, the joint venture has obtained several provincial water treatment projects near Shi Jia Zhuang.

RMB'm	03	02	YDY
Revenue	107.89	96.73	+11.5%
Pre-tax Profit	5.343	3.122	+71.1%
Post-tax Profit	4.752	2.755	+72.5%

Biographical Details of Directors

MR. LIU XIAO GUANG

Executive Director

Mr. Liu, aged 49, was appointed Executive Director of the Company in March, 1994. He was the deputy director of the Beijing Municipal Planning Commission, deputy secretary-general of the City Planning and Construction Exchange and an adjunct professor of Beijing Commerce College. Mr. Liu has extensive experience in the management and supervision of large project investment, and in various sectors and industries, including finance, securities, futures, foreign currency, real estate, commerce, foreign trade, tourism, consultancy and government investment fund. Mr. Liu has also participated extensively in the review and approval of foreign investment projects as well as in supervising the preparation of foreign investment research and feasibility studies in Beijing. Mr. Liu currently is the vice chairman and deputy general manager of Beijing Capital Group, a large-sized enterprise group directly under the supervision of Beijing Municipal Government. Mr. Liu currently is also the chairman of Beijing Capital Land Ltd., a joint stock limited company incorporated under the laws of the People's Republic of China and whose shares are listed on The Stock Exchange of Hong Kong Limited. Mr. Liu holds a bachelor degree in economics from the Beijing Commerce College.

MR. CHENG BING REN

Executive Director

Mr. Cheng, aged 52, was appointed Executive Director of the Company in March, 1994. He is the deputy general manager of the Beijing International Trust and Investment Corporation ("BITIC") and the chairman of Beijing International Management Consultant Corporation. Since Mr. Cheng joined BITIC in 1987, he has been primarily responsible for managing BITIC's trust management business, which is one of the core businesses of BITIC.

MR. YU SEK KEE

Executive Director

Mr. Yu, aged 52, was appointed Executive Director of the Company in July 1996. He is an Executive Director of Chinney Alliance Group Limited. Mr. Yu has 20 years of experience in banking and financial management. Prior to joining Chinney Alliance Group Limited, he was the general manager of the Hong Kong branch of a North American bank and held various senior positions in the banking industry. Mr. Yu holds a master degree in business administration from the University of British Columbia, Canada and a bachelor degree in computer science from the University of Western Ontario, Canada.

Biographical Details of Directors

MR. LAWRENCE H. WOOD

Executive Director

Mr. Wood (also known as Wu Yuk Shing or Hu Xu Cheng), aged 42, was appointed Executive Director of the Company in March, 1994. He is also a director of each of the subsidiaries of the Company. Mr. Wood is a graduate of the Beijing Economics College. Over the past ten years, he has worked with the Beijing International Trade Association and the Beijing International Trade Research Institute, during which period his responsibilities included performing financial and economic research and providing professional advice on Beijing Government's cross-provincial investments and foreign investments. Mr. Wood also has experience in financial, market and product analysis.

MR. POON KAI LEUNG

Non-executive Director

Mr. James Poon, aged 39, was appointed Non-executive Director of the Company in August 2001. He is currently the Director, Head of Corporate Financial Services of ING Bank Shanghai Branch. Prior to that, Mr. Poon was the General Manager of ING Bank Shenzhen Branch and has joined ING Bank since 1993. Over the past five years, Mr. Poon has been actively involved in arranging syndication and project financing for Chinese and multinational corporations in China. He was the Chairman of the Association of Shenzhen Foreign Financial Institutions in 2000 and 2001, Vice-Chairman of the Shenzhen Information Industry Association and Director of Hong Kong Chamber of Commerce in China – Guangdong in 2001. Mr. Poon holds a Master Degree of Business Administration and a Ph.D. Degree in Finance from the Chinese University of Hong Kong and is the Fellow Member of the Society of Registered Financial Planners Limited in Hong Kong.

MR. TONG NG SIU YEE

Non-executive Director

Mr. Ng, aged 49, was appointed Non-executive Director of the Company in March, 1994. Mr. Ng has extensive experience in PRC businesses. He is the CEO of Daydreamer Animations Ltd and also directly involved in the development and production of cartoon films and comics.

Biographical Details of Directors

MR. LIU XUE MIN

Independent Non-executive Director

Mr. Liu, aged 45, was appointed Non-executive Director of the Company in March, 1994 and was redesignated as Independent Non-executive Director of the Company in May, 2003. Mr. Liu graduated from the Beijing Economics College. Mr. Liu is also a director of Beijing Jingfang Economic Development Company.

MR. KWONG CHUN WAI MICHAEL

Independent Non-executive Director

Mr. Kwong, aged 39, was appointed Independent Non-executive Director of the Company in August, 2003. Mr. Kwong has worked in leading media corporations as senior executives and served in the past as executive committee member of the Chartered Institute of Marketing (HK Branch) and Training Director of the Hong Kong Institute of Marketing. Mr. Kwong is a Fellow of the International Institute of Management, Life Member of the Hong Kong Institute of Marketing and Member of the Hong Kong Logistics Association. Mr. Kwong is currently a Director of the Hong Kong Economic and Trade Association, Principal Examiner of Cambridge Career Awards in Business, University of Cambridge Local Examination Syndicate (UK) and a business strategist specializing in the area of marketing and business administration. Mr. Kwong holds degrees from the University of Nottingham (U.K.) and Newport University (U.S.).

Corporate Information

BOARD OF DIRECTORS

Chairman

Mr. Liu Xiao Guang

Executive Directors

Mr. Cheng Bing Ren

Mr. Lawrence H. Wood

(also known as Wu Yuk Shing
or Hu Xu Cheng)

Mr. Yu Sek Kee

Non-Executive Directors

Mr. Poon Kai Leung

Mr. Tong Ng Siu Yee

Independent Non-Executive Directors

Mr. Liu Xue Min

Mr. Kwong Chun Wai, Michael

INVESTMENT MANAGER

Baring Capital (China) Management Limited

Hong Kong

39th Floor, One International Finance
Centre

1 Harbour View Street

Central, Hong Kong

Tel: (852) 2846 3080

Fax: (852) 2501 0609

Beijing

Room 1501, Landmark Building
No.8, North Dongsanhuan Road

Beijing 100004, China

Tel: (8610) 6590 6926

Fax: (8610) 6590 6936

Company Secretary

Mrs. Lui Fung Mei Yee, Mabel

Administrator

ING Management (Hong Kong) Limited

Auditors

KPMG

Solicitors

Dibb Lupton Alsop

Custodian

ING Management (Hong Kong) Limited

Principal Bankers

Bank of China Limited

ING Bank N.V.

Union Bank of Hong Kong Limited

The Bank of East Asia, Limited

Share Registrars

Standard Registrars Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai, Hong Kong

Registered Office

41st Floor

Bank of China Tower

1 Garden Road

Central

Hong Kong

Report of the Directors

The directors present their report to the shareholders together with the audited financial statements for the financial year ended 31st December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company and of its subsidiaries is the holding of equity investments primarily in companies or other entities with business interests or involvement in the People's Republic of China or Hong Kong.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Particulars of the Company's principal subsidiaries, associates and jointly controlled entities at 31st December 2003 are set out on pages 60 to 67 of this report.

RESULTS

The results of the Group for the financial year ended 31st December 2003 are set out in the consolidated income statement as set out on page 38 of this report.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is given on page 78 of this report.

DIVIDENDS

The directors do not recommend the payment of a final dividend in respect of the financial year ended 31st December 2003.

SHARE CAPITAL

Details of the Company's authorised and issued share capital during the financial year are set out in note 15 to the financial statements on pages 71 to 72 of this report.

RESERVES

Movements in the reserves during the financial year are set out in note 16 to the financial statements on pages 73 to 75 of this report.

Report of the Directors

DIRECTORS

The directors of the Company during the financial year were:

- Mr. Liu Xiao Guang
- Mr. Cheng Bing Ren
- Mr. John Ashton Dare
- Mr. Lawrence H Wood (also known as Wu Yuk Shing or Hu Xu Cheng)
- Mr. Yu Sek Kee
- Mr. Liu Xue Min
- Mr. Poon Kai Leung
- Mr. Kelvin Tan Wee Peng
- Mr. Tong Ng Siu Yee
- Mr. Li Kai Cheong Samson
- Ms. Wu Suk Ching Annie
- Mr. Kwong Chun Wai Michael

Mr. Kelvin Tan Wee Peng resigned as director on 28th March 2003. Mr. John Ashton Dare, Mr. Li Kai Cheong Samson and Ms. Wu Suk Ching Annie retired as directors by rotation in accordance with Article 97 of the Company's articles of association at the annual general meeting held on 22 May 2003. Mr. Kwong Chun Wai Michael was appointed as director on 15th August 2003 and he will retire from the board of directors in accordance with Article 93 of the Company's articles of association at the forthcoming annual general meeting. Mr. Cheng Bing Ren and Mr. Tong Ng Siu Yee will retire by rotation from the board of directors in accordance with Article 97 of the Company's articles of association at the forthcoming annual general meeting. Mr. Cheng Bing Ren, Mr. Tong Ng Siu Yee and Mr. Kwong Chun Wai Michael, all being eligible, offer themselves for re-election.

None of the retiring directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES. UNDERLYING SHARES AND DEBENTURES

As at 31st December 2003, the interests or short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register required to be kept therein, or which were required, pursuant to Model Code for Securities Transactions by Directors of Listed Company, to be notified to the Company and the Stock Exchange, were as follows:

Rights to acquire ordinary shares of the Company:

A share option scheme was approved by the Company in an extraordinary general meeting held on 16th August 2001 under which the board of directors of the Company may, at its discretion, grant to any executive director or senior employee of the Company, or any director or senior employee of any subsidiaries from time to time of the Company, to subscribe for the Company's shares. Details of the share option scheme are set out in note 15 to the financial statements on page 72. Details of the movements of directors' interests in options during the year are as follows:

Name	Date of grant	Exercise price per share	Exercise period	Number of shares to be issued upon exercise of options at 01.01.03	Option granted during the year (01.01.03 - 31.12.03)	Number of shares to be issued upon exercise of options at 31.12.03
Director						
Mr. Liu Xiao Guang	27.11.01	HK\$0.298	28.05.02 - 27.11.04	5,388,900	-	5,388,900
Mr. Cheng Bing Ken	27.11.01	HK\$0.298	28.05.02 - 27.11.04	2,694,450	-	2,694,450
Mr. Lawrence H. Wood	27.11.01	HK\$0.298	28.05.02 - 27.11.04	5,388,900	-	5,388,900
Mr. Yu Sek Kee	27.11.01	HK\$0.300	28.05.02 - 27.11.04	2,694,450	-	2,694,450

Report of the Directors

Save as disclosed herein, as at 31st December 2003, none of the Directors of the Company or their respective associates had any interests or short positions in any shares, underlying shares or debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register required to be kept therein, or which were required, pursuant to Model Code for Securities Transactions by Directors of Listed Company, to be notified to the Company and the Stock Exchange.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

So far as is known to the Directors, as at 31st December 2003, the persons/companies who have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholder	No. of Ordinary Shares
ING Groep N.V.	85,140,000
N.V. Haagsche Herverzekering Maatschapping van 1836	85,140,000

Note:

For the avoidance of double counting, it should be noted that in accordance with the provisions of the SFO, ING Groep N.V. is deemed to be interested in the same parcel of shares of 85,140,000 held by N.V. Haagsche Herverzekering Maatschapping van 1836 by virtue of its interest in that company.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material beneficial interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

Report of the Directors

SHARE OPTION SCHEME

As at 31st December 2003, the particulars in relation to the share option scheme of the Company that are required to be disclosed under Rules 17.07 and 17.09 of Chapter 17 of the Listing Rules, were as follows:

(A) SHARE OPTION SCHEME OF THE COMPANY

Since the adoption of the share option scheme of the Company on 16th August 2001, other than the options detailed below and the options which have been cancelled or lapsed in accordance with the terms of the above share option scheme, no options to subscribe for ordinary shares in the Company have been granted to any eligible participants under the share option scheme during the financial year.

Name	Date of grant	Exercise price per share	Exercise period	Number of shares to be issued upon exercise of options at 01.01.03	Option granted during the year (01.01.03 – 31.12.03)	Number of shares to be issued upon exercise of options at 31.12.03
Director						
Mr. Liu Xiao Guang	27.11.01	HK\$0.298	28.05.02 – 27.11.04	5,388,900	–	5,388,900
Mr. Cheng Bing Ken	27.11.01	HK\$0.298	28.05.02 – 27.11.04	2,694,450	–	2,694,450
Mr. Lawrence H. Wood	27.11.01	HK\$0.298	28.05.02 – 27.11.04	5,388,900	–	5,388,900
Mr. Yu Sek Kee	27.11.01	HK\$0.300	28.05.02 – 27.11.04	2,694,450	–	2,694,450
Other Participant	27.11.01	HK\$0.298	28.05.02 – 27.11.04	5,388,900	–	5,388,900

Report of the Directors

(B) SUMMARY OF THE SHARE OPTION SCHEME OF THE COMPANY IS SET OUT AS FOLLOWS:

- Purpose: To give incentive to any executive director or senior employee of the Company, or any director or senior employee of any subsidiaries from time to time of the Company
- Participants: any executive director or senior employee of the Company, or any director or senior employee of any subsidiaries from time to time of the Company
- Total number of ordinary shares available for issue and percentage of the issued share capital that it represents as at the date of the annual report: 53,884,000 ordinary shares and 9.99% of the issued share capital
- Maximum entitlement of each participant: Not to exceed 1% of the issued share capital in any 12 month period
- Period within which the securities must be taken up under an option: 30 calendar months commencing from the expiration of the first 6 calendar months period after the offer date of the relevant option
- Minimum period for which an option must be held before it can be exercised: 6 calendar months after the offer date of the relevant option
- Amount payable on acceptance of an option: HK\$10

Report of the Directors

- | | |
|---|--|
| ▪ Period within which payments/calls/loans must be made/repaid: | Not applicable |
| ▪ Basis of determining the exercise price | The closing price of the share on the date of acceptance of the relevant option or the average closing price of the 5 trading days preceding the day of acceptance of the relevant option, whichever is higher |
| ▪ The remaining life of the share option scheme: | Valid until 16 August 2006 unless otherwise terminated under the terms of the option scheme |

MANAGEMENT CONTRACTS

Under an investment management agreement made between the Company and Baring Capital (China) Management Limited (then known as ING Luxfund Management (Hong Kong) Limited) (the "Investment Manager") dated 25th April 1994, the Investment Manager agreed to provide investment management services in relation to the investment portfolio of the Group for a period of three years from the date of the agreement. The Investment Manager, in accordance with the terms of the agreement as revised by a supplemental agreement dated 22nd May 1998 and a second supplemental agreement dated 7th January 1999, is entitled to a fee calculated at the rate of 2.00 per cent. per annum of the net asset value of the Company, payable quarterly in advance. The Investment Manager is also entitled, with effect from the financial year ended 31st December 1999, to receive an incentive fee calculated at (i) 10 per cent. of the realised profit of the Company for a financial year if the realised profit per issued share does not exceed 10 per cent.; (ii) 15 per cent. of the realised profit if the realised profit per issued share exceeds 10 per cent. but is below 15 per cent.; or (iii) 20 per cent. of the realised profit if the realised profit per share equals or exceeds 15 per cent. The agreement is determinable by either the Investment Manager or the Company giving to the other party not less than 6 months' prior notice of termination.

Report of the Directors

Under an agreement between the Company and Internationale Nederlanden Capital Markets (Hong Kong) Limited ("INGCM") dated 25th April 1994, INGCM agreed to provide administrative services to the Company. The agreement is for an initial term of one year from the date of the agreement, which term may be renewed for a further term of two years subject to the agreement between the parties to the agreement. The agreement was assigned from INGCM to ING Management (Hong Kong) Limited (the "Administrator") with effect from 1st November 1994. Pursuant to the terms of a supplemental agreement entered into between the Company and the Administrator dated 25th July 1995, the term of appointment of the Administrator was renewed for a further term of two years commencing on 25th April 1995, which term may be renewed for a further term of two years subject to agreement between the Company and the Administrator. By a further supplemental agreement dated 22nd May 1998, the appointment of the Administrator was renewed subject to termination by either the Administrator or the Company giving to the other party not less than 6 months' prior notice of termination.

ARRANGEMENTS TO PURCHASE SHARES BY DIRECTORS

At no time during the financial year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities during the financial year.

INVESTMENTS

Details of the Group's investments as at 31st December 2003 are set out on pages 68 to 70.

BANK LOAN, OVERDRAFTS AND OTHER BORROWINGS

The Group has no bank loan, overdraft or other borrowing outstanding as at 31st December 2003.

Report of the Directors

INTEREST CAPITALISED

There is no interest capitalised by the Group during the financial year.

AUDIT COMMITTEE

The Audit Committee comprises three Non-executive Directors, two of them being independent. This Committee acts in an advisory capacity and makes recommendations to the Board. It met on 14th April 2004 to review the Group's 2003 final results before it was tabled for the Board's approval.

CODE OF BEST PRACTICE

The Company has complied with Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the financial year except that Non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with Article 97 of the Company's Articles of Association.

AUDITORS

The financial statements have been audited by KPMG, who retire and being eligible, offer themselves for re-appointment.

By Order of the Board of Directors of
ING Beijing Investment Company Limited
Liu Xiao Guang
Chairman

Hong Kong, 23 April 2004

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of members of the Company will be held at 41st Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Friday, 28th day of May, 2004 at 3:00 p.m. for the purpose of transacting the following business:

1. To adopt the Audited Financial Statements together with the Reports of the Directors and Auditors for the year ended 31st December 2003.
2. To re-elect retiring Directors.
3. To re-appoint Auditors and to authorise the Directors to fix their remuneration.

As special businesses, to consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

4. **“THAT** the general mandate unconditionally given to the Directors to allot, issue and deal with shares in the share capital of the Company, and to make or grant offers, agreements and options in respect thereof including warrants to subscribe shares, which would or might require the exercise of such powers, be and it is hereby generally and unconditionally approved in substitution for and to the exclusion of any existing authority previously granted, subject to the following conditions:
 - (a) the mandate shall not extend beyond the Relevant Period (as defined below), except that the Directors might during the Relevant Period make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;

Notice of Annual General Meeting

- (b) the aggregate nominal amount of share capital allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Directors, otherwise than pursuant to (i) a Rights Issue (as defined below), (ii) the exercise of the subscription rights attaching to any warrant in the Company or (iii) the exercise of any options granted under any option scheme adopted by the Company, shall not exceed 20 per cent. of the aggregate nominal value of the share capital of the Company in issue at the date of passing of this Resolution; and

- (c) for the purposes of this Resolution,

“Relevant Period” means the period from the date of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the revocation or variation of the mandate given under this Resolution by an ordinary resolution of the shareholders in general meeting; or
- (iii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held.

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares of the Company on the register of members on a fixed record date in proportion to their then holdings of shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restriction or obligation under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong).”

Notice of Annual General Meeting

5. **“THAT** a general mandate be and is hereby unconditionally given to the Directors of the Company, in substitution for and to the exclusion of any existing authority previously granted, to exercise all powers of the Company to repurchase shares in the share capital of the Company on the Stock Exchange or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, provided that:

- (a) the mandate shall not extend beyond the Relevant Period (as defined below);
- (b) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in this Resolution shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this Resolution; and
- (c) for the purposes of this Resolution,

“Relevant Period” means the period from the date of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the revocation or variation of the mandate given under this Resolution by ordinary resolution of the shareholders in general meeting; or
- (iii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held.”

Notice of Annual General Meeting

6. **“THAT** conditional upon the passing of the Resolutions Nos. 4 and 5 as set out in the notice of the Meeting of which this Resolution forms part, the general mandate granted to the Directors of the Company to allot shares pursuant to the said Resolution No. 4 be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to the said Resolution No. 5”

As special business, to consider and, if thought fit, to pass with or without modifications the following resolution as a Special Resolution:

SPECIAL RESOLUTION

7. “THAT the Articles of Association of the Company be and are hereby amended in the following manner:

(A) Article 2(a)

- (i) by deleting the existing definition of “associate” in its entirety and substituting therefor the following new definition:

“associate” shall have the meaning ascribed to it under the Listing Rules;

- (ii) by adding the following new definition immediately after the definition of “Investment Manager”:

“the Listing Rules” shall mean the Rules Governing the Listing of Securities on the Stock Exchange and any amendments thereto for the time being in force;

Notice of Annual General Meeting

- (iii) by adding the following new definition immediately after the definition of “paid up”:

“recognised clearing house” shall mean a clearing house recognised by the laws of the jurisdiction in which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction;

- (B) Article 12

by deleting the existing Article 12 in its entirety and substituting therefor the following new Article 12:

- 12. Every person except a stock exchange nominee in respect of which the Company is not by law required to complete and have ready for delivery a certificate whose name is entered in the register as a holder of any shares shall be entitled to receive within such period of time as prescribed by the Ordinance or the Listing Rules after allotment or lodgement of a transfer to him of those shares (or within such other period as the terms of issue shall provide) one certificate for all those shares of any one class or several certificates each for one or more of the shares of the class in question upon payment, (i) in the case of an allotment, for every certificate after the first of such sum (if any) not exceeding the maximum amount prescribed from time to time by the Stock Exchange or (ii) in the case of a transfer, of such sum (if any) not exceeding the maximum amount prescribed from time to time by the Stock Exchange. In the case of a share held jointly by several persons, the Company shall not be bound to issue more than one certificate therefor and delivery of a certificate to one of several joint holders shall

Notice of Annual General Meeting

be sufficient delivery to all. A Member (except such a nominee) who transfers some but not all of the shares comprised in a certificate shall be entitled to a certificate for the balance with a fee (if any) not exceeding the maximum amount prescribed from time to time by the Stock Exchange.

(C) Article 36

by deleting the words “HK\$2 (or such higher amount as shall for the time being be approved by the Stock Exchange” after the word “exceeding” in the first line of Article 36(f) and substituting therefor the words “the maximum amount prescribed from time to time by the Stock Exchange”.

(D) Article 72A

by deleting the words “within the meaning of the Securities (Clearing Houses) Ordinance (Cap. 420 of the Laws of Hong Kong)” after the words “a recognised clearing house” in the first line of Article 72A.

(E) Article 73

- (i) by inserting the words “unless a poll is taken as may from time to time be required under the Listing Rules or any other applicable laws, rules or regulations or” immediately before the word “unless” in the second line of Article 73(a).
- (ii) by inserting the words “a poll is taken as may from time to time be required under the Listing Rules or any other applicable laws, rules or regulations or unless” immediately after the word “Unless” at the beginning of Article 73(b).

Notice of Annual General Meeting

(F) Article 82A

by adding the following new Article 82A immediately after Article 82:

82A. Where the Company has knowledge that any member is, under any applicable laws and the Listing Rules from time to time, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(G) Article 92

by deleting the words “special resolution” and substituting therefor the words “an ordinary resolution” in the first line of Article 92.

(H) Article 94

by deleting the existing Article 94 in its entirety and substituting therefor the following new Article 94:

94. No person, other than a retiring Director, shall, unless recommended by the Directors for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been given to the Company provided that the minimum length of the period, during which such notices are given, shall be at least seven days. The period for lodgment of such notices shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

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(I) Article 96

by deleting the words “a special resolution” in the first line of Article 96(e) and substituting therefor the words “an ordinary resolution”.

(J) Article 103

by inserting the following new paragraph immediately after paragraph (e) of Article 103:

- (f) An alternate Director shall be deemed to be the agent of the Director who appoints him. A Director who appoints an alternate Director shall be vicariously liable for any tort committed by the alternate Director while acting in the capacity of alternate Director.

(K) Article 114

by deleting the existing Article 114 in its entirety and substituting therefor the following new Article 114:

114. A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract, arrangement or proposal in which he or to his knowledge any of his associates has a material interest, and if he shall do so his vote shall not be counted and he shall not be counted in the quorum on such resolution of the Board, but this prohibition shall not apply to any of the following matters namely:

- (a) any contract or arrangement for the giving by the Company of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any his associates at the request of or for the benefit of the Company and any of its subsidiaries;

Notice of Annual General Meeting

- (b) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (c) any contract, arrangement or proposal concerning an offer of the shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (d) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (e) any contact, arrangement or proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director and/or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in 5 per cent. or more of the issued shares or voting rights of any class of shares of such company (or of any third company through which his interest or that of his associates is derived);

Notice of Annual General Meeting

- (f) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to the Directors, his associates and employees of the Company or any of its subsidiaries and does not give the Director or his associate(s) any privilege not generally accorded to the employees to whom such scheme or fund relates; and
- (g) any proposal or arrangement concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of the employees of the Company or any of its subsidiaries under which the Director or his associate(s) may benefit.

(L) Article 115

by deleting the existing Article 115 in its entirety and substituting therefor the following new Article 115:

115. A company shall be deemed to be a company in which a Director and/or his associate(s) own(s) 5 per cent. or more if and so long as (but only if and so long as) he and/or his associate(s) is/are (either directly or indirectly) the holder(s) of or beneficially interested in 5 per cent. or more of any class of the equity share capital of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights available to members of such company. For the purpose of this Article there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares

Notice of Annual General Meeting

comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.

(M) Article 116

by inserting the words “and/or his associate(s)” after the words “a Director” in the first line of Article 116;

(N) Article 117

by deleting the existing Article 117 in its entirety and substituting therefor the following new Article 117:

117. If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote or be counted in the quorum and such question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall be counted in the quorum but shall not vote thereon)

Notice of Annual General Meeting

and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board.”

8. To discuss any other business, if necessary.

By Order of the Board

Liu Xiao Guang

Chairman

Hong Kong, 23rd April 2004.

Registered Office:

41st Floor
Bank of China Tower
1 Garden Road
Central
Hong Kong

Notes:

- (a) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend instead of him and to vote on a poll. A proxy need not be a member of the Company. In order to be valid, proxy forms should be returned to the registered office of the Company not less than 48 hours before the time fixed for holding the Meeting.
- (b) With reference to the Ordinary Resolution proposed under item 4 above, approval is being sought from members as a general mandate to authorise allotment of additional shares in the share capital of the Company in order to ensure flexibility and discretion to the Directors in the event that it becomes desirable to issue any shares of the Company up to twenty per cent. of the issued share capital of the Company. The Directors have no immediate plans to issue any new shares of the Company after the passing of that Ordinary Resolution pursuant to the mandate to be given thereunder.

Notice of Annual General Meeting

- (c) An explanatory statement in relation to the Ordinary Resolution proposed under item 5 above will be sent to members of the Company together with this Notice.
- (d) The register of members will be closed from 21st May 2004 to 27th May 2004 both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the Annual General Meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Waichai, Hong Kong, no later than 4:00 p.m. on 20th May 2004.

Auditors' Report

AUDITORS' REPORT TO THE SHAREHOLDERS OF ING BEIJING INVESTMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 38 to 77 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

Auditors' Report

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003, and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
Hong Kong, 23 April 2004

Consolidated Income Statement

for the year ended 31 December 2003
(Expressed in Hong Kong dollars)

	Note	2003	2002
Turnover: Group and share of jointly controlled entities' turnover	3	\$ 49,293,541	\$ 93,910,913
Less: Share of jointly controlled entities' turnover		(46,860,690)	(86,586,919)
Group turnover	2	\$ 2,432,851	\$ 7,323,994
Other net loss	4(a)	(2,882)	(15,536)
Gain on disposal of interest in jointly controlled entity	4(c) & 11	2,064,532	–
Write-back of amount due from jointly controlled entity	11	1,528,897	–
Gain on disposal of non-trading listed investments	4(f)	6,013,708	2,714,000
Gain on deemed disposal of subsidiaries	10	–	5,506,894
Consideration for cancellation of investment agreements	11	–	16,301,103
Write-back of/(provision for) impairment losses on non-trading investments	4(g)	16,240,360	(35,857,021)
Loss on disposal of convertible loan and non-trading unlisted investments	4(d) & (e)	–	(328,645)
Operating expenses	4(b)	(7,846,444)	(15,579,297)
Profit/(loss) from operations	4	\$ 20,431,022	\$ (19,934,508)
Share of losses of associates		(13,810,728)	(963,800)
Share of profits of jointly controlled entities		1,754,967	1,029,042
Profit/(loss) from ordinary activities before taxation		\$ 8,375,261	\$ (19,869,266)
Income tax	5(a)	(193,962)	(121,150)
Profit/(loss) attributable to shareholders	16(a)	\$ 8,181,299	\$ (19,990,416)
Earnings/(loss) per share			
Basic	8	1.52 cents	(3.71 cents)

The notes on pages 44 to 77 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2003
(Expressed in Hong Kong dollars)

	Note	2003	2002
Non-current assets			
Interest in associates	10	\$ 63,617,196	\$ 78,923,038
Interest in jointly controlled entities	11	29,234,376	27,780,064
Non-trading investments	12	44,497,050	35,111,580
Investment deposit	13	35,000,000	–
		<u>\$ 172,348,622</u>	<u>\$ 141,814,682</u>
Current assets			
Prepayments and other receivables		\$ 1,525,093	\$ 197,119
Cash and cash equivalents	14	14,470,509	31,629,055
		<u>\$ 15,995,602</u>	<u>\$ 31,826,174</u>
Current liabilities			
Accounts payable and accruals		\$ 1,617,495	\$ 2,015,321
Current taxation	5(c)	5,000,000	5,000,000
		<u>\$ 6,617,495</u>	<u>\$ 7,015,321</u>
Net current assets		<u>\$ 9,378,107</u>	<u>\$ 24,810,853</u>
Net assets		<u>\$ 181,726,729</u>	<u>\$ 166,625,535</u>
Capital and reserves			
Share capital	15	\$ 53,951,400	\$ 53,951,200
Reserves	16(a)	127,775,329	112,674,335
		<u>\$ 181,726,729</u>	<u>\$ 166,625,535</u>
Net asset value per share	17	<u>\$ 0.337</u>	<u>\$ 0.309</u>

Approved and authorised for issue by the board of directors on 23 April 2004

Lawrence H. Wood

Directors

Liu Xue Min

The notes on pages 44 to 77 form part of these financial statements.

Balance Sheet

at 31 December 2003
(Expressed in Hong Kong dollars)

	Note	2003	2002
Non-current assets			
Interest in subsidiaries	9	\$ 86,909,620	\$ 66,176,773
Interest in associates	10	77,991,980	77,968,123
		\$ 164,901,600	\$ 144,144,896
Current assets			
Prepayments and other receivables		\$ 1,384,404	\$ 138,849
Cash and cash equivalents	14	14,461,282	31,613,245
		\$ 15,845,686	\$ 31,752,094
Current liabilities			
Accounts payable and accruals		\$ 1,574,970	\$ 1,890,828
Net current assets		\$ 14,270,716	\$ 29,861,266
Net assets		\$ 179,172,316	\$ 174,006,162
Capital and reserves			
Share capital	15	\$ 53,951,400	\$ 53,951,200
Reserves	16(b)	125,220,916	120,054,962
		\$ 179,172,316	\$ 174,006,162

Approved and authorised for issue by the board of directors on 23 April 2004

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)	
Lawrence H. Wood)	Directors
)	
)	
Liu Xue Min)	

40 The notes on pages 44 to 77 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2003
(Expressed in Hong Kong dollars)

	Note	2003	2002
Shareholders' equity as at 1 January		\$ <u>166,625,535</u>	\$ <u>171,339,102</u>
Surplus on revaluation of non-trading investments	16	\$ 24,785,470	\$ 15,414,840
Exchange differences on translation of financial statements of jointly controlled entities in the People's Republic of China ("PRC")	16	(106,693)	(136,096)
Share of exchange and other reserves of associates	16	<u>(1,518,971)</u>	<u>(1,895)</u>
Net gains not recognised in the consolidated income statement		\$ <u>23,159,806</u>	\$ <u>15,276,849</u>
Net profit/(loss) for the year	16	\$ <u>8,181,299</u>	\$ <u>(19,990,416)</u>
Reversal of revaluation deficit on non-trading investments previously charged to the consolidated income statement as impairment loss	16	\$ <u>(16,240,360)</u>	\$ <u>–</u>
Movements in shareholders' equity arising from capital transactions with shareholders:			
– Shares issued upon exercise of warrants		\$ 200	\$ –
– Net share premium received		<u>249</u>	<u>–</u>
		\$ <u>449</u>	\$ <u>–</u>
Shareholders' equity as at 31 December		\$ <u>181,726,729</u>	\$ <u>166,625,535</u>

The notes on pages 44 to 77 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2003
(Expressed in Hong Kong dollars)

	Note	2003	2002
Operating activities			
Profit/(loss) from ordinary activities before taxation		\$ 8,375,261	\$ (19,869,266)
Adjustments for:			
– Interest income		(291,901)	(898,474)
– Dividend income from listed investments		(2,140,950)	(6,425,520)
– Gain on disposal of interest in jointly controlled entity		(2,064,532)	–
– Write-back of amount due from jointly controlled entity		(1,528,897)	–
– Gain on deemed disposal of subsidiaries		–	(5,506,894)
– Consideration for cancellation of investment agreements		–	(16,301,103)
– (Write-back of)/provision for impairment losses on non-trading investments		(16,240,360)	35,857,021
– Loss on disposal of convertible loan and non-trading unlisted investments		–	328,645
– Gain on disposal of non-trading listed investments		(6,013,708)	(2,714,000)
– Share of losses of associates		13,810,728	963,800
– Share of profits of jointly controlled entities		(1,754,967)	(1,029,042)
Operating loss before changes in working capital		\$ (7,849,326)	\$ (15,594,833)
Increase in prepayments and other receivables		(1,339,380)	(103,122)
Decrease in accounts payable and accruals		(397,826)	(283,467)
(Decrease)/increase in amount due to associate		(23,857)	31,885
Net cash used in operating activities		\$ (9,610,389)	\$ (15,949,537)

Consolidated Cash Flow Statement

for the year ended 31 December 2003
(Expressed in Hong Kong dollars)

	Note	2003	2002
Investing activities			
Interest received		\$ 303,307	\$ 898,474
Dividends received from listed investments		2,140,950	6,425,520
Payment for purchase of associates		–	(74,413,724)
Proceeds from sale of interest in jointly controlled entity, net of expenses		2,064,532	–
Proceeds from sale of convertible loan, net of expenses		–	47,315,310
Proceeds from sale of non-trading unlisted investments, net of expenses		–	356,045
Proceeds from sale of non-trading listed investments, net of expenses		21,413,708	30,314,000
Amount repaid by jointly controlled entity		1,528,897	16,301,103
Payment for investment deposit		<u>(35,000,000)</u>	<u>–</u>
Net cash (used in)/generated from investing activities		\$ (7,548,606)	\$ 27,196,728
Financing activities			
Exercise of warrants		<u>\$ 449</u>	<u>\$ –</u>
Net cash from financing activities		\$ 449	\$ –
Net (decrease)/increase in cash and cash equivalents		\$ (17,158,546)	\$ 11,247,191
Cash and cash equivalents at 1 January		<u>31,629,055</u>	<u>20,381,864</u>
Cash and cash equivalents at 31 December	14	\$ <u>14,470,509</u>	\$ <u>31,629,055</u>

The notes on pages 44 to 77 form part of these financial statements.

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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

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).

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

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	<u>2,140,950</u>	<u>6,425,520</u>
	<u>\$ 2,432,851</u>	<u>\$ 7,323,994</u>

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.

Notes on the Financial Statements

(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)
	<u>\$ 49,293,541</u>	<u>\$ 93,910,913</u>	<u>\$ 8,375,261</u>	<u>\$ (19,869,266)</u>
	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)
	<u>\$ 188,344,224</u>	<u>\$ 173,640,856</u>	<u>\$ (6,617,495)</u>	<u>\$ (7,015,321)</u>
	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
	<u>\$ 16,240,360</u>	<u>\$ (35,857,021)</u>	<u>\$ 35,000,000</u>	<u>\$ 74,413,724</u>

Notes on the Financial Statements

(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	<u>–</u>	<u>(100,000)</u>
	\$ 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	<u>2,738,492</u>	<u>4,631,438</u>
	\$ 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.

Notes on the Financial Statements

(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		
<i>Everbright Timber Industry (Shenzhen) Company Limited</i>		
Sale proceeds, net of expenses	\$ (2,064,532)	\$ -
Carrying value of investment	<u>-</u>	<u>-</u>
	<u>\$ (2,064,532)</u>	<u>\$ -</u>
(d) Loss on disposal of non-trading unlisted investments		
<i>Skynet Limited</i>		
Sale proceeds, net of expenses	\$ -	\$ (356,045)
Carrying value of investment	<u>-</u>	<u>500,000</u>
	<u>\$ -</u>	<u>\$ 143,955</u>
(e) Loss on disposal of convertible loan		
<i>Companion-China Limited</i>		
Sale proceeds, net of expenses	\$ -	\$ (47,315,310)
Carrying value of convertible loan	<u>-</u>	<u>47,500,000</u>
	<u>\$ -</u>	<u>\$ 184,690</u>

Notes on the Financial Statements

(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		
<i>Skyworth Digital Holdings Limited</i>		
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		
<i>Skyworth Digital Holdings Limited</i>		
Beijing Asia Pacific First Star Communications Technology Co. Ltd.	\$ (16,240,360)	\$ –
ChinaGo Limited	–	12,299,130
	–	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.

Notes on the Financial Statements

(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	\$ <u>8,375,261</u>	\$ <u>(19,869,266)</u>
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	<u>737,048</u>	<u>764,018</u>
Actual tax expense	\$ <u>193,962</u>	\$ <u>121,150</u>

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.

Notes on the Financial Statements

(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.

Notes on the Financial Statements

(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
	\$ <u>86,909,620</u>	\$ <u>66,176,773</u>

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.

Notes on the 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)
	<u>\$ 63,617,196</u>	<u>\$ 78,923,038</u>	<u>\$ 77,991,980</u>	<u>\$ 77,968,123</u>

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

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.

Notes on the Financial Statements

(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		Principal activity
			The Company	The Group	
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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

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	<u>2,750,243</u>	<u>1,729,713</u>
	<u>\$ 29,234,376</u>	<u>\$ 27,780,064</u>

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	<u>-</u>	<u>-</u>

Notes on the Financial Statements

(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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

12 NON-TRADING INVESTMENTS

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

Notes on the Financial Statements

(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.

Notes on the Financial Statements

(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
	<u>\$14,470,509</u>	<u>\$ 31,629,055</u>	<u>\$14,461,282</u>	<u>\$ 31,613,245</u>

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

15 SHARE CAPITAL

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

- (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.

Notes on the Financial Statements

(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 outstanding 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)	-
			<u>26,944,500</u>	<u>(5,388,900)</u>	<u>21,555,600</u>

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

Notes on the Financial Statements

(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	<u>\$ 498,097,664</u>	<u>\$ 2,990,183</u>	<u>\$ 23,959,950</u>	<u>\$ (397,272,468)</u>	<u>\$ 127,775,329</u>

Notes on the Financial Statements

(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
	<u>–</u>	<u>–</u>	<u>35,857,021</u>	<u>–</u>	<u>35,857,021</u>
At 31 December 2002	<u>\$ 498,097,415</u>	<u>\$ 3,098,294</u>	<u>\$ 15,414,840</u>	<u>\$ (403,936,214)</u>	<u>\$ 112,674,335</u>

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.

Notes on the Financial Statements

(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	<u>\$ 498,097,664</u>	<u>\$ (372,876,748)</u>	<u>\$ 125,220,916</u>
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	<u>\$ 498,097,415</u>	<u>\$ (378,042,453)</u>	<u>\$ 120,054,962</u>

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.

Notes on the Financial Statements

(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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

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.

Five Year Group Financial Summary

(Expressed in Hong Kong dollars)

Results

	2003	2002	2001	2000	1999
Group turnover	\$ <u>2,432,851</u>	\$ <u>7,323,994</u>	\$ <u>1,073,971</u>	\$ <u>12,416,700</u>	\$ <u>15,805,402</u>
Profit/(loss) attributable to shareholders	\$ <u>8,181,299</u>	\$ <u>(19,990,416)</u>	\$ <u>(207,157,136)</u>	\$ <u>(43,306,021)</u>	\$ <u>(116,257,137)</u>

Assets and liabilities

Non-current assets

Interest in associates	\$ <u>63,617,196</u>	\$ <u>78,923,038</u>	\$ _____	\$ _____	\$ _____
Interest in jointly controlled entities	\$ <u>29,234,376</u>	\$ <u>27,780,064</u>	\$ <u>27,008,268</u>	\$ <u>45,081,132</u>	\$ <u>49,623,710</u>
Non-trading investments	\$ <u>44,497,050</u>	\$ <u>35,111,580</u>	\$ <u>83,653,761</u>	\$ <u>148,888,948</u>	\$ <u>153,960,282</u>
Investment deposit	\$ <u>35,000,000</u>	\$ _____	\$ _____	\$ _____	\$ _____
Convertible loan	\$ _____	\$ _____	\$ _____	\$ <u>42,870,471</u>	\$ <u>118,038,308</u>

Current assets

Trading investments	\$ _____	\$ _____	\$ _____	\$ _____	\$ <u>20,385,178</u>
Current portion of convertible loan	_____	_____	<u>47,500,000</u>	<u>54,011,776</u>	_____
Prepayments and other receivables	<u>1,525,093</u>	<u>197,119</u>	<u>93,997</u>	<u>335,737</u>	<u>382,476</u>
Cash and cash equivalents	<u>14,470,509</u>	<u>31,629,055</u>	<u>20,381,864</u>	<u>33,701,145</u>	<u>49,685,613</u>
	\$ <u>15,995,602</u>	\$ <u>31,826,174</u>	\$ <u>67,975,861</u>	\$ <u>88,048,658</u>	\$ <u>70,453,267</u>

Current liabilities

Bank overdrafts	\$ _____	\$ _____	\$ _____	\$ <u>243,215</u>	\$ <u>53,887</u>
Accounts payables and accruals	<u>1,617,495</u>	<u>2,015,321</u>	<u>2,298,788</u>	<u>1,810,523</u>	<u>1,426,620</u>
Taxation	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,216,137</u>	<u>216,137</u>
	\$ <u>6,617,495</u>	\$ <u>7,015,321</u>	\$ <u>7,298,788</u>	\$ <u>7,269,875</u>	\$ <u>1,696,644</u>

Net current assets	\$ <u>9,378,107</u>	\$ <u>24,810,853</u>	\$ <u>60,677,073</u>	\$ <u>80,778,783</u>	\$ <u>68,756,623</u>
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Net assets	\$ <u>181,726,729</u>	\$ <u>166,625,535</u>	\$ <u>171,339,102</u>	\$ <u>317,619,334</u>	\$ <u>390,378,923</u>
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Share capital	\$ <u>53,951,400</u>	\$ <u>53,951,200</u>	\$ <u>53,951,200</u>	\$ <u>53,884,000</u>	\$ <u>50,000,000</u>
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Reserves	<u>127,775,329</u>	<u>112,674,335</u>	<u>117,387,902</u>	<u>263,735,334</u>	<u>340,378,923</u>
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	\$ <u>181,726,729</u>	\$ <u>166,625,535</u>	\$ <u>171,339,102</u>	\$ <u>317,619,334</u>	\$ <u>390,378,923</u>
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