

ING BEIJING

Investment Company Limited



Annual Report 2002

CONTENTS

2	Chairman's Statement
8	Investment Portfolio
12	Biographical Details of Directors
16	Corporate Information
17	Report of the Directors
27	Notice of Annual General Meeting
32	Auditors' Report
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34	Consolidated Income Statement
35	Consolidated Balance Sheet
37	Balance Sheet
38	Consolidated Statement of Changes in Equity
39	Consolidated Cash Flow Statement
41	Notes on the Financial Statements
66	Five Year Group Financial Summary

Chairman's Statement

..... We believe that the Beijing property market will have healthy development in the years ahead. With our years of knowledge in the Beijing market and our relationship with local companies, we will continue to look for opportunities in the property sector and are confident that the sector will bring satisfactory return to our shareholders



For the year ended 31st December 2002, the audited net loss for ING Beijing Investment Company Limited ("ING Beijing" or the "Company") and its subsidiaries (the "Group") totaled HKD 19,990,416. The consolidated net asset value per share of the Company was HKD 0.309 as at 31st December 2002. The Group's audited net loss for the year up to 31st December 2001, and the consolidated net asset value per share of the Company as at 31st December 2001 were HKD 207,157,136 and HKD 0.318 respectively.

The loss for the year was arrived at after providing losses against certain investments as a result of changes in the market environment.

HIGHLIGHTS During 2002, the Group realized its convertible loan advanced to
OF THE Companion-China Limited and its investment in Skynet Limited.
YEAR

Due to uncertainties surrounding the world economy and the continued depression of the IT and telecommunication sectors, the Company has decided to provide in full for its investment in ChinaGo Limited ("ChinaGo") and the remaining unprovided portion of its investment in Beijing Asia Pacific First Star Communications Technology Co., Limited ("APFS"). ChinaGo is an information technology services provider specializing in internet email services and software solutions, ING Beijing invested USD 3 million in ChinaGo in April 2000. APFS is a nationwide

Chairman's Statement

radio paging service operator. The radio paging industry in China has suffered from severe competition from mobile phone operators due to the increasing affordability of mobile phones in recent years. ING Beijing invested USD 7.8 million in APFS in 1995. After providing for the above two investments, ING Beijing's remaining portfolio includes Beijing Far East Instrument Co., Limited ("Far East"), Skyworth Digital Holdings Limited and China Property Development (Holdings) Limited ("CPDH").

Far East is one of the leading instrument manufacturers in China. After a slow down of the company's business in the late 90s affected by increasing competition from imported products, the company has completed its restructuring process. Its joint venture, Beijing Rosemount Far East Instrument Co. Ltd., ("Rosemount") which produces advanced industrial instruments, is showing result. Far East generated a net profit of Rmb 2.75 million for the year ended 2002.

In March 2002, ING Beijing entered into a conditional agreement to sell 9% out of its 35% equity interest in Far East to a strategic partner for a consideration of Rmb 14 million. The consideration is payable over a period of 5 years. The strategic partner has also acquired a further 16% equity interest in Far East from its holding company. The introduction of the strategic partner is intended to help Far East to move into the business of large system integration and supply of electrical systems to the property sector. The strategic partner is one of the biggest property developers in Beijing, which develops over 1.9 million square meters of property area in 2001.

Chairman's Statement

The continuous economic growth and the government's policy to encourage home purchases to speed up housing reform have resulted in strong demand for housing in the domestic market in China. ING Beijing has thus identified property sector as one of its new investment area. In February 2002, ING Beijing established CPDH and in April allocated USD 1.0 million to fund two residential property development projects in Beijing. A third project was added later in August 2002. The three projects are:

Pacific Town Project

Pacific Town Project is a high-end residential development project with mixed town houses and apartments design. The project is located within the prestigious Lido area at the northeastern corner of Beijing outside the Fourth Ring Road. The area is popular with foreign expatriates, 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.

Pacific Town covers a site of 129,800 square meters. The projects plans to build 240,000 square meters residential area and 100,000 square meters commercial area. The residential development includes 60,000 square meters of town houses and 180,000 square meters of high-rise apartments.

First phase of the project will develop 80,000 square meters of high-end residential apartments targeting the pre-sale to begin in early 2004.

West Mountain Badachu Project

Beijing Guan Jing New Town Community is one of the largest sites dedicated for residential community development in Beijing with gross floor area of over 1.5 million square meters. Located in proximity of Beijing's West Mountain District, the Community spreads from the Fifth Ring Road to the foot of West Mountain.

Located next to the West Fifth Ring Road, the Community is well connected by Beijing's road infrastructure together with easy access to Beijing Financial Street District, Zhongguangcun Business District, and West Mountain scenery spots.

First phase of the project will focus in high-end residential development covering two sites with total land area of 168,600 square meters, and gross floor area of 440,900 square meters.

Taiyanggong F Zone Project

Taiyanggong F Zone Project is a high-end residential development project close to Shun Jing Golf Course, the only 9-hole golf course (planning to further upgrade to 18-holes) within the Fourth Ring Road in Beijing. Located in the northeastern part of the City, next to the northern Fourth Ring Road, the project is in proximity to Asian Games Village business district and the Third Embassy District. It is also easily accessible to the Airport Expressway and within 15 minutes drive to the Beijing International Airport.

Taiyanggong F Zone Project covers a site area of 107,500 square meters. The total planned gross floor area to be developed is to reach 308,120 square meters, including 276,900 square meters of residential area and 31,220 square meters of related facilities.

Chairman's Statement

During the year, ING Beijing's interest in CPDH was reduced to approximately 30% as a result of issue of new shares to a strategic co-investor participating in the property projects. The Pacific Town Project is now at its planning stage. The other two investments in West Mountain Badachu Project and Taiyanggong F Zone Project are pending approval from local authorities.

2002 ECONOMIC OVERVIEW For the year 2002, China achieved a record trade surplus of USD 30.4 billion, with export increased 22.3% compared with the year 2001. Retail sales was 8.8% higher while consumer price index fell by 0.8%. Along with the fast expanding economy, the country's tax revenue increased by 12.1% compared to a year ago.

In Beijing, GDP grew 10.2% in the year 2002 to reach Rmb 313 billion. The value added industrial production increased 7.9% to Rmb 87 billion. In the years up to the 2008 Olympics, the government planned to invest Rmb 45 billion in environmental protection projects. The China Construction Bank will provide USD 1 billion for the proposed No. 5 subway in Beijing. This is part of the government plan to invest USD 7 billion in eight light railway projects over the next six years. A total of new 1,370 foreign funded businesses were established in Beijing in 2002, up 19.4%.

BEIJING'S NEW 2008 TARGET The Beijing Municipal Government has pushed ahead its 2010 targets forward to 2008 to facilitate the hosting of the Beijing Olympic Games. Such aggressive targets will not be met without a rapid growing real estate market. Per capita GDP is targeted to reach USD 6,000 by 2008. The growth will be led by fixed asset investment. The real estate sector accounted for 54.5% of fixed asset investment in 2002.

Chairman's Statement

NEW POLICY ANNOUNCED TO ENCOURAGE HOME PURCHASE A new tax rebate policy was announced in February 2003, showing the government's eagerness to encourage growth in the property sector. With effect from 1st March 2003, senior management working in foreign invested enterprises in Beijing is entitled to individual income tax refund when they purchase car or home property. The tax refund is computed based on 80% of the income tax paid during last year. The highest refund tax might be up to the total amount of the price of a car or a home property.

The move is believed to be a strong push to the high-end property market. By the end of 2001, the total foreign invested companies operating in Beijing reached 5,281, adding the representative offices of foreign companies in Beijing, the total number of foreign entities based in Beijing amounted over 12,000. It is estimated that the tax incentive policy will trigger new demand for high-end properties in Beijing, from the applicable candidates of the policy taking advantage of the tax rebate.

OTHER POLICIES ANNOUNCED SINCE JULY 2002:	July 2002	Requirement of Government auction for all land transfers, thus controlling the supply of land to the market.
	July 2002	Lowered property deed tax from 4% to 1.5% to stimulate property demand.
	Sept 2002	Allowing banks to start mortgage lending to second hand properties, encouraging the development of the secondary market. This is expected to generate new demand of new homes from wealthy families wanting to upgrade their living.
	Sept 2002	Merging domestic and overseas sale markets. Allowing foreigners to enter the domestic property market which previously only open to local buyers.
	Oct 2002	Subsidizing mortgage payments to reduce mortgage rate from 5% to 4% for all provident fund holders.
	Feb 2003	Tax rebate to foreign expatriates working in Beijing for purchase of residential properties.

Chairman's Statement

FUTURE PROSPECTS With the country's robust GDP growth, the property market is likely to enjoy healthy development as people's living standard continues to improve. Together with the government's announced new measures to boost the property market, all these led to our belief that the Beijing property market will have healthy development in the years ahead. Together with our years of knowledge in the Beijing market and our relationship with local companies, we will continue to look for opportunities in the property sector and are confident that the sector will bring satisfactory return to our shareholders. The Directors are both confident and optimistic on the prospects of the Group.

Investment Portfolio

FAIR VALUE OF THE PORTFOLIO The fair value of the portfolio as at 31st December 2002 was as follow:

Investee Companies	Date of Investment	31 Dec 2002 Valuation
Far East	Jul 1994	HKD47.8 million
Skyworth	Jun 1999	HKD35.1 million
CPDH	April 2002	HKD78 million

CHINA PROPERTY DEVELOPMENT (HOLDINGS) LIMITED (“CPDH”) In February 2002, ING Beijing established China Property Development (Holdings) Limited (“CPDH”). It is intended to be a platform for bringing in strategic co-investors to invest in a number of property development projects focusing on middle to high-end residential sectors in Beijing. Investment agreements for the two projects, West Mountain Badachu Project and Taiyanggong F Zone Project, have been entered into by CPDH in March 2002 and are awaiting approval by relevant authorities.

CPDH is to invest within 3 months from the issuance of the business licence a sum of Rmb 42.68 million for a 30% interest in the registered capital of the West Mountain Badachu Project, a high-end residential development project located in western suburb of Beijing. CPDH has an option to invest a further sum of Rmb 34.68 million by way of a shareholders' loan within 12 months from the issuance of the business licence, and to increase proportionately the profit sharing entitlement of the project from 16.55% up to 30%. CPDH is also to invest within 3 months from the issuance of the business licence a sum of Rmb 40 million for a 30% interest in the registered capital of Taiyanggong F Zone Project, a high-end residential development project located in the northeastern part of Beijing. CPDH has an option to invest a further sum of Rmb 97 million by way of a shareholders' loan within 12 months from the issuance of the business licence, and to increase proportionately the profit sharing entitlement of the project from 8.75% up to 30%.

During the year, CPDH has undergone share placement to a strategic investor and reducing ING Beijing's equity interest in CPDH to approximately 30%. In addition, CPDH acquired an 80% interest in its third residential development project, Pacific Town Project.

Investment Portfolio

Chaoyang International Business Festival



CPDH made its first public appearance in the Chaoyang International Business Festival in September 2002. CPDH exhibited its planned Pacific Town Project in a 80 square meters area with site plan and video presentation. Chairman of ING Beijing, Mr. Liu Xiao Guang and senior officials of the Chaoyang District Government of Beijing visited the exhibition site and gave positive opinion on the project. The exhibition also attracted great media attention. The festival is organized annually by the Chaoyang District Government.

Pacific Town Project Progress

The Pacific Town Project site is classified under the “Green Belt” city redevelopment programme, and is not affected by recently announced Directive No. 33 regarding public auction for transfer of land.

The Pacific Town Project is located in the Lido area of Jiangtai Town, Chaoyang District. Lido area is a popular community area for foreign expatriates and upper middle class local families. It has a number of international schools situated in the area and has convenient access to the Airport Expressway, and the 4th Ring Road System. Access to the Central Business District (CBD) of Beijing is only 15 minutes by car during morning hour traffic.

The Pacific Town Project is a unique high-end residential development project planned for mixed development with residential apartments and town houses. The total site area is around 129,800 square meters with planned gross floor area of around 240,000 square meters.

The project has been formally approved and registered by the local government in July 2002. The project is currently finalizing its design and planning approval procedures.



First stage of ground clearance was started in September 2002. A 20-meter wide land belt along the river has been cleared for renovation of the River Ba embankment. Next stage of land clearance of around 30,000 square meters of land for the first phase development of around 80,000 square meters of residential apartments is expected to start soon after planning approval. Pre-sale of the property is targetting to commence in early 2004.

Investment Portfolio

SKYWORTH DIGITAL HOLDINGS LIMITED (“SKYWORTH”) For the six months ended 30th September 2002, Skyworth’s turnover jumped a year-on-year 68% to HKD 2.95 billion as compared with that of the same period of the previous financial year in 2001. Net profit for the period was HKD 22.33 million, against a net loss of HKD 65.76 million for the same period in 2001.

The growth of Skyworth was driven by increased sales in higher end televisions in both China and the overseas markets and lower cost due to the enhancement in production by its R&D force. For the six months from April to September 2002, Skyworth's total TV sales volume reached 2.65 million units, in which China accounted for 79%. With the launch of a wide selection of well-received Progressive Scan TVs and big-screen TVs, and the peak lunar new year shopping season, it is expected the sales for the full 12 months period up to 31st March 2003 would be encouraging.

Skyworth has been venturing into digital television business. Its wholly-owned subsidiary, Skyworth Broadband Technology Ltd. will focus in the manufacturing and distributing of DVB-S and ADSL modem. As all analogue cable subscribers will be required to switch to digital not later than 2015, the number of digital users is expected to grow. To grasp this opportunity, Skyworth has signed agreements with 4 city's cable network operators to supply digital set-top boxes and with 5 telecommunication operators to supply ADSL modems.

The Group has received an interim dividend of HKD 0.05 per share totally around HKD 5.14 million in February 2002 and a final dividend of HKD 0.03 per share totaling around HKD 1.28 million from Skyworth in September 2002.

(HKD' m)	6 months ended 30 Sept 02	6 months ended 30 Sept 01
Revenue	2,951	1,760
Pre-tax Profit	30.8	(66.9)
Post-tax Profit	22.3	(65.7)

Investment Portfolio

BEIJING FAR EAST INSTRUMENT CO., LTD. (“FAR EAST”) Far East had a successful year in 2002. Revenue increased by 4.6% and reached the historical high of Rmb 96.73 million. Profit after tax was Rmb 2.75 million in 2002. The outstanding performance of its joint venture and the successful restructuring of Far East’s business have contributed to the greatly improved result.

In March 2002, ING Beijing entered into a conditional agreement to sell 9% out of its 35% equity interest in Far East to a strategic partner for a consideration of Rmb 14 million. The consideration is payable over a period of 5 years. The strategic partner has also acquired a further 16% equity interest in Far East from its holding company. The introduction of the strategic partner is intended to help Far East to move into the business of large system integration and supply of electrical systems to the property sector. The strategic partner is one of the biggest property developers in Beijing, which develops over 1.9 million square meters of property area in 2001.

(RMB' m)	2002	2001
Revenue	96.73	92.43
Pre-tax Profit	3.12	3.00
Post-tax Profit	2.75	2.83

Biographical Details of Directors

MR. LIU XIAO GUANG *Executive Director*

Mr. Liu, aged 48, 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 holds a bachelor degree in economics from the Beijing Commerce College.

MR. CHENG BING REN *Executive Director*

Mr. Cheng, aged 51, 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. JOHN ASHTON DARE *Executive Director*

Mr. Dare, aged 64, was appointed Executive Director of the Company in August 2001 and was previously a Non-executive Director of the Company since June 1999. He retired from the Barings Group in 2000 but continues to serve as the non-executive Chairman of Baring Private Equity Partners (BPEP) based in London. He is also a member of a number of boards, investment committees and advisory committees of BPEP funds in Asia, Europe and Latin America, and a director of Bloomsbury Publishing Plc and the Korean Europe Fund Limited.

Biographical Details of Directors

Mr. Dare has more than twenty years experience in private equity/venture capital, beginning in the early 1980's with the establishment of Baring Brothers Hambrecht and Quist (now BPEP) in London and in the formation of Orient Capital Corporation in Tokyo. From 1992-1995 he served as Chairman of Baring Capital Investors (now BC Partners), a European buy-out specialist. Mr. Dare joined the Barings Group in 1970, served as Managing Director of Baring Brothers Asia in Hong Kong from 1975 to 1979. Subsequently he was based in London with Barings as a senior Director involved in both international capital markets and corporate finance. Prior to joining the Barings Group Mr. Dare was with Citibank in New York and London. Mr. Dare is a graduate of Stanford University (AB 1960, MBA 1964).

MR. YU SEK KEE *Executive Director*

Mr. Yu, aged 51, 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 41, 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. LIU XUE MIN *Non-executive Director*

Mr. Liu, aged 44, was appointed Non-executive Director of the Company in March, 1994. Mr. Liu graduated from the Beijing Economics College. Mr. Liu is also a director of Beijing Jingfang Economic Development Company.

MR. POON KAI LEUNG *Non-executive Director*

Mr. James Poon, aged 38, 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.

Biographical Details of Directors

MR. TONG NG SIU YEE *Non-executive Director*

Mr. Ng, aged 48, 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.

MR. LI KAI CHEONG *Independent Non-executive Director* **SAMSON**

Mr. Li, aged 42, was appointed Non-executive Director of the Company in March 1994 and became an Independent Non-executive Director in September 1998. He is the general manager and Head of Investment Banking Division of The Bank of East Asia, Limited. Mr. Li has about ten years of experience specialising in fund management and securities dealing. He is also the managing director of East Asia Securities Company Limited, a registered member of the Stock Exchange of Hong Kong, as well as a director in a number of asset management companies.

MS. WU SUK CHING ANNIE *Independent Non-executive Director*

Ms. Wu, aged 54, was appointed Non-executive Director of the Company in March 1994 and became an Independent Non-executive Director in September 1998. She is a member of the Chinese People's Political Consultative Committee, Vice Chairman of the All China Federation of Business & Industry, Vice Chairman of the Chinese Foreign Enterprises Association and Chairman of the Women Entrepreneurs Association in China. Ms. Wu holds a bachelor degree in business administration from Armstrong University.

Corporate Information

BOARD OF DIRECTORS **Chairman**

Mr. Liu Xiao Guang

Non-Executive Directors

Mr. Liu Xue Min
Mr. Poon Kai Leung
Mr. Tong Ng Siu Yee

Executive Directors

Mr. Cheng Bin Ren
Mr. John Ashton Dare
Mr. Lawrence H. Wood
(also known as Wu Yuk Shing or
Hu Xu Cheng)
Mr. Yu Sek Kee

Independent Non-Executive Directors

Mr. Li Kai Cheong Samson
Ms. Wu Suk Ching Annie

INVESTMENT MANAGER **Baring Capital (China) Management Limited**

Hong Kong

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PRC Investment Adviser

Beijing Guanwei Investment &
Management
Advisor Corporation

Company Secretary

Mrs. Lui Fung Mei Yee, Mabel

Auditors

KPMG

Custodian

Po Sang Bank (Nominees) Limited

Share Registrars

Standard Registrars Limited
Ground Floor
Bank of East Asia Harbour View Centre
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Wanchai, Hong Kong

Beijing

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Administrator

ING Management (Hong Kong)
Limited

Solicitors

Dibb Lupton Alsop

Principal Bankers

Bank of China Limited
ING Bank N.V.
Union Bank of Hong Kong Limited
The Bank of East Asia, Limited

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 2002.

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 2002 are set out on pages 51 to 56 of this report.

RESULTS The results of the Group for the financial year ended 31st December 2002 are set out in the consolidated income statement as set out on page 34 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 66 of this report.

DIVIDENDS The directors do not recommend the payment of a final dividend in respect of the financial year ended 31st December 2002.

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 60 and 61 of this report.

Report of the Directors

RESERVES Movements in the reserves during the financial year are set out in note 16 to the financial statements on pages 61 to 63 of this report.

DIRECTORS The directors of the Company during the financial year were:

- Mr. Liu Xiao Guang
- Mr. Cheng Bing Ren
- Mr. John Ashton Dare
- Mr. Gao Ji Lu
- 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. Gao Ji Lu resigned as director on 10th October 2002. Mr. Kelvin Tan Wee Peng resigned as director on 28th March 2003. Ms. Wu Suk Ching Annie, Mr. John Ashton Dare and Mr. Li Kai Cheong Samson will retire by rotation from the board in accordance with Article 97 of the Company's articles of association at the forthcoming annual general meeting. Ms. Wu Suk Ching Annie, Mr. John Ashton Dare and Mr. Li Kai Cheong Samson do not seek re-appointment at the forthcoming annual general meeting.

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 IN SHARES As at 31st December 2002, the interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as notified to the Company were as follows:

Interest in options to subscribe for 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 61. 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 01.01.02	Option granted during the year (01.01.02 – 31.12.02)	Number of shares to be issued upon exercise of options at 31.12.02
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 Ren	27.11.01	HK\$0.298	28.05.02 – 27.11.04	2,694,450	–	2,694,450
Mr. John Ashton Dare	12.12.01	HK\$0.300	28.05.02 – 27.11.04	2,694,450	–	2,694,450
Mr. Gao Ji Lu	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	11.12.01	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

Save as disclosed above, as at 31st December 2002, none of the directors nor the chief executive nor their respective associates had any beneficial or non-beneficial interests in shares or debt securities of the Company or its associated corporations as defined in the SDI Ordinance. Furthermore, apart from the options referred to above, none of the directors nor the chief executive nor their respective associates were granted any rights or options to subscribe for shares or debt securities of the Company or of its associated corporations.

SUBSTANTIAL SHAREHOLDERS Shown below are the names of all parties which were, directly or indirectly, interested in 10 per cent. or more of the issued share capital of the Company and the corresponding entries of the number of shares in which they were, and/or were deemed to be, interested as at 31st December 2002 as recorded in the register of substantial shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance:

Names	No. of Ordinary Shares
ING Groep N.V.	85,140,000
B.V. Algemene Beleggingsmaatschappij Kievitsdaal	85,140,000

Note:

For the avoidance of double counting, it should be noted that in accordance with sections 8(2), (3) and (4) of the SDI Ordinance, ING Groep N.V. is deemed to be interested in the same parcel of shares of 85,140,000 held by B.V. Algemene Beleggingsmaatschappij Kievitsdaal 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 2002, 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, no options to subscribe for ordinary shares in the Company have been granted to any eligible participants under the share option scheme; and no options have been cancelled or lapsed in accordance with the terms of 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 01.01.02	Option granted during the year (01.01.02 – 31.12.02)	Number of shares to be issued upon exercise of options at 31.12.02
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 Ren	27.11.01	HK\$0.298	28.05.02 – 27.11.04	2,694,450	–	2,694,450
Mr. John Ashton Dare	12.12.01	HK\$0.300	28.05.02 – 27.11.04	2,694,450	–	2,694,450
Mr. Gao Ji Lu	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	11.12.01	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 approximately 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 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

Report of the Directors

- Amount payable on acceptance of an option: HK\$10
- 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 date of acceptance of the relevant option, whichever is higher
- The remaining life of the share option scheme: Valid until 16th 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, the Investment Manager and Beijing Guanwei Investment & Management Adviser Corporation (the “PRC Investment Adviser”) dated 16th April 1998, the PRC Investment Adviser agreed to provide consultancy and advisory services in relation to the Company’s investments in the PRC. The PRC Investment Adviser is entitled to receive a consultancy fee payable quarterly in advance at the rate of 0.10 per cent. per annum on the net asset value of the Company, and a fee for sourcing and monitoring investment projects calculated at the rate of 0.65 per cent. per annum of that portion of the Company’s net asset value at each quarter day which is attributable to the investment projects entered into by the Company and which were introduced by the PRC Investment Adviser. The agreement with the PRC Investment Adviser is determinable by either the PRC Investment Adviser or the Company giving to the other party not less than 6 months’ prior notice of termination.

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.

Report of the Directors

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 2002 are set out on pages 57 to 59.

BANK LOAN, OVERDRAFTS AND OTHER BORROWINGS The Group has no bank loan, overdraft or other borrowing outstanding as at 31st December 2002.

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

AUDIT COMMITTEE The audit committee comprises three non-executive directors of the Company, two of them being independent. This committee acts in an advisory capacity and makes recommendations to the board of directors of the Company. It met on 27th March 2003 to review the Group's 2002 final results before it was tabled for the approval of the board of directors of the Company.

Report of the Directors

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 the 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, 9 April 2003

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 22nd May 2003 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 31 December 2002.
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;
 - (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

Notice of Annual General Meeting

(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).”

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 (i) repurchase shares in the share capital of the Company and (ii) to repurchase warrants or other rights to subscribe for shares in the share capital of the Company in each case 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:

Notice of Annual General Meeting

- (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;
- (c) the aggregate subscription rights attaching to the warrants of the Company repurchased or agreed conditionally or unconditionally to be repurchased by the Company pursuant to the general mandate in this Resolution shall not exceed 10 per cent. of the aggregate subscription rights attaching to all the warrants issued by the Company and for the time being outstanding, and the said mandate be limited accordingly; and
- (d) 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.”

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

Notice of Annual General Meeting

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”

7. To discuss any other business, if necessary.

By Order of the Board

Liu Xiao Guang

Chairman

Hong Kong, 9 April 2003

Registered Office:

41st Floor

Bank of China Tower

1 Garden Road

Central

Hong Kong

Notice of Annual General Meeting

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.
- (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 15th May 2003 to 21st May 2003 both days inclusive, during which period no transfer of shares or warrants will be effected. In order to qualify for attending the Annual General Meeting, all transfers, accompanied by the relevant share or warrant 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, Wanchai, Hong Kong, no later than 4:00 p.m. on 14th May 2003.

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 34 to 65 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 to you.

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.

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.

Auditors' Report

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 2002, and of the Group's loss 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, 9 April 2003

Consolidated Income Statement

for the year ended 31 December 2002
(Expressed in Hong Kong dollars)

	Note	2002	2001
Turnover: Group and share of jointly controlled entities' turnover	3	\$ 93,910,913	\$ 95,521,951
Less: Share of jointly controlled entities' turnover		<u>(86,586,919)</u>	<u>(94,447,980)</u>
Group turnover	2	\$ 7,323,994	\$ 1,073,971
Other net loss	4(a)	(15,536)	(7,240)
Gain on deemed disposal of subsidiaries	10	5,506,894	–
Consideration for cancellation of investment agreements	11	16,301,103	–
Provision for amount due from jointly controlled entity	11	–	(19,197,572)
Impairment losses on non-trading investments	4(f)	(35,857,021)	(125,800,516)
Loss on disposal of convertible loan and non-trading unlisted investments	4(c) & (d)	(328,645)	–
Gain on disposal of non-trading listed investments	4(e)	2,714,000	–
Provision for convertible loan	13	–	(49,382,247)
Operating expenses	4(b)	<u>(15,579,297)</u>	<u>(15,567,997)</u>
Loss from operations	4	\$ (19,934,508)	\$ (208,881,601)
Share of losses of associates		(963,800)	–
Share of profits of jointly controlled entities		<u>1,029,042</u>	<u>1,000,476</u>
Loss from ordinary activities before taxation		\$ (19,869,266)	\$ (207,881,125)
Taxation	5(a)	<u>(121,150)</u>	<u>723,989</u>
Loss attributable to shareholders	16(a)	\$ <u>(19,990,416)</u>	\$ <u>(207,157,136)</u>
Loss per share			
Basic	8	<u>(3.71 cents)</u>	<u>(38.44 cents)</u>

The notes on pages 41 to 65 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2002
(Expressed in Hong Kong dollars)

	Note	2002	2001
Non-current assets			
Interest in associates	10	\$ 78,923,038	\$ —
Interest in jointly controlled entities	11	27,780,064	27,008,268
Non-trading investments	12	35,111,580	83,653,761
Convertible loan	13	—	—
		<u>\$ 141,814,682</u>	<u>\$ 110,662,029</u>
Current assets			
Current portion of convertible loan	13	\$ —	\$ 47,500,000
Prepayments and other receivables		197,119	93,997
Cash and cash equivalents	14	31,629,055	20,381,864
		<u>\$ 31,826,174</u>	<u>\$ 67,975,861</u>
Current liabilities			
Accounts payable and accruals		\$ 2,015,321	\$ 2,298,788
Taxation	5(b)	5,000,000	5,000,000
		<u>\$ 7,015,321</u>	<u>\$ 7,298,788</u>
Net current assets		<u>\$ 24,810,853</u>	<u>\$ 60,677,073</u>
Net assets		<u>\$ 166,625,535</u>	<u>\$ 171,339,102</u>

Consolidated Balance Sheet

at 31 December 2002

(Expressed in Hong Kong dollars)

	Note	2002	2001
Capital and reserves			
Share capital	15	\$ 53,951,200	\$ 53,951,200
Reserves	16(a)	<u>112,674,335</u>	<u>117,387,902</u>
		\$ <u>166,625,535</u>	\$ <u>171,339,102</u>
Net asset value per share	17	\$ <u>0.309</u>	\$ <u>0.318</u>

Approved and authorised for issue by the board of directors on 9 April 2003.

Lawrence H. Wood)
)
) *Directors*
)
Yu Sek Kee)

The notes on pages 41 to 65 form part of these financial statements.

Balance Sheet

at 31 December 2002
(Expressed in Hong Kong dollars)

	Note	2002	2001
Non-current assets			
Interest in subsidiaries	9	\$ 66,176,773	\$ 177,580,216
Interest in associates	10	<u>77,968,123</u>	<u>–</u>
		\$ <u>144,144,896</u>	\$ <u>177,580,216</u>
Current assets			
Prepayments and other receivables		\$ 138,849	\$ 93,997
Cash and cash equivalents	14	<u>31,613,245</u>	<u>20,368,572</u>
		\$ <u>31,752,094</u>	\$ <u>20,462,569</u>
Current liabilities			
Accounts payable and accruals		\$ <u>1,890,828</u>	\$ <u>1,874,169</u>
Net current assets		\$ <u>29,861,266</u>	\$ <u>18,588,400</u>
Net assets		\$ <u>174,006,162</u>	\$ <u>196,168,616</u>
Capital and reserves			
Share capital	15	\$ 53,951,200	\$ 53,951,200
Reserves	16(b)	<u>120,054,962</u>	<u>142,217,416</u>
		\$ <u>174,006,162</u>	\$ <u>196,168,616</u>

Approved and authorised for issue by the board of directors on 9 April 2003.

Lawrence H. Wood)
)
) Directors
)
 Yu Sek Kee)

The notes on pages 41 to 65 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2002

(Expressed in Hong Kong dollars)

	Note	2002	2001
Shareholders' equity as at 1 January		\$ 171,339,102	\$ 317,619,334
Surplus on revaluation of non-trading investments	16	\$ 15,414,840	\$ –
Exchange differences on translation of financial statements of jointly controlled entities in the People's Republic of China ("PRC")	16	(136,096)	186,775
Share of exchange reserve of associates	16	(1,895)	–
Net gains not recognised in the consolidated income statement		\$ 15,276,849	\$ 186,775
Net loss for the year	16	\$ (19,990,416)	\$ (207,157,136)
Revaluation deficit charged against investment revaluation reserve in the previous year included in consolidated income statement for the year	16	\$ –	\$ 60,539,332
Movements in share capital:			
– Shares issued upon exercise of warrants		\$ –	\$ 67,200
– Net share premium received		–	83,597
		\$ –	\$ 150,797
Shareholders' equity as at 31 December		\$ 166,625,535	\$ 171,339,102

The notes on pages 41 to 65 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2002
(Expressed in Hong Kong dollars)

	Note	2002	2001
Operating activities			
Loss from ordinary activities before taxation		\$ (19,869,266)	\$ (207,881,125)
Adjustments for:			
– Interest income		(898,474)	(1,073,971)
– Dividend income from listed investments		(6,425,520)	–
– Gain on deemed disposal of subsidiaries		(5,506,894)	–
– Consideration for cancellation of investment agreements		(16,301,103)	–
– Provision for amount due from jointly controlled entity		–	19,197,572
– Impairment losses on non-trading investments		35,857,021	125,800,516
– Provision for convertible loan		–	49,382,247
– Loss on disposal of convertible loan and non-trading unlisted investments		328,645	–
– Gain on disposal of non-trading listed investments		(2,714,000)	–
– Share of losses of associates		963,800	–
– Share of profits of jointly-controlled entities		(1,029,042)	(1,000,476)
Operating loss before changes in working capital		\$ (15,594,833)	\$ (15,575,237)
(Increase)/decrease in prepayments and other receivables		(103,122)	186,320
(Decrease)/increase in accounts payable and accruals		(283,467)	488,265
Increase in amount due to associate		31,885	–
Cash used in operations		\$ (15,949,537)	\$ (14,900,652)
Interest received		898,474	1,129,391
Hong Kong profits tax refunded		–	570,395
Net cash used in operating activities		\$ (15,051,063)	\$ (13,200,866)

Consolidated Cash Flow Statement

for the year ended 31 December 2002

(Expressed in Hong Kong dollars)

	Note	2002	2001
Investing activities			
Dividends received from listed investments		\$ 6,425,520	\$ —
Payment for purchase of associates		(74,413,724)	—
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		30,314,000	—
Amount repaid by jointly controlled entity		16,301,103	—
Acquisition of non-trading unlisted investments		—	(25,997)
Net cash generated from/(used in) investing activities		\$ 26,298,254	\$ (25,997)
Financing activities			
Exercise of warrants	16	\$ —	\$ 150,797
Net cash from financing activities		\$ —	\$ 150,797
Net increase/(decrease) in cash and cash equivalents		\$ 11,247,191	\$ (13,076,066)
Cash and cash equivalents at 1 January		20,381,864	33,457,930
Cash and cash equivalents at 31 December	14	\$ 31,629,055	\$ 20,381,864

The notes on pages 41 to 65 form part of these financial statements.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

I SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with 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. 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.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(h)), 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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

I SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Associates and jointly controlled entities (Continued)

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 I (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 income statement.

In the Company's balance sheet, its investment in associates and jointly controlled entities are stated at cost less impairment losses (see note I (h)), 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 I (h)).

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 I (h)) 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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

I SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.
- (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) Convertible loan

Convertible loan represents loan principal outstanding together with accrued interest less any provisions considered necessary by the directors.

(h) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that investments in subsidiaries, associates and jointly controlled entities 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)

I SIGNIFICANT ACCOUNTING POLICIES (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.

(i) 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.

(j) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(k) Revenue recognition

Interest income

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

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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

I SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(m) 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.

(n) 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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

2 TURNOVER

The principal activity of the Company and of its subsidiaries is the holding of equity and a convertible debt 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.

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:

	2002	2001
Interest income from deposits with banks and other financial institutions	\$ 898,474	\$ 1,073,971
Dividend income from listed investments	<u>6,425,520</u>	<u>—</u>
	<u>\$ 7,323,994</u>	<u>\$ 1,073,971</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 Group and share of jointly controlled entities' turnover		Segment results Contribution to loss from ordinary activities before taxation	
	2002	2001	2002	2001
Manufacture of industrial products	\$ 86,586,919	\$ 94,447,980	\$ 16,037,926	\$ (20,622,647)
Manufacture of consumer products	6,425,520	–	8,281,297	(97,474,074)
Communications	–	–	(37,035,235)	(83,214,030)
Real estate	–	–	(705,687)	–
Unallocated	898,474	1,073,971	(6,447,567)	(6,570,374)
	<u>\$ 93,910,913</u>	<u>\$ 95,521,951</u>	<u>\$ (19,869,266)</u>	<u>\$ (207,881,125)</u>
	Segment assets		Segment liabilities	
	2002	2001	2002	2001
Manufacture of industrial products	\$ 27,780,064	\$ 27,008,268	\$ –	\$ –
Manufacture of consumer products	35,111,580	94,796,740	–	–
Communications	–	36,357,021	–	–
Real estate	78,923,038	–	–	–
Unallocated	31,826,174	20,475,861	(7,015,321)	(7,298,788)
	<u>\$ 173,640,856</u>	<u>\$ 178,637,890</u>	<u>\$ (7,015,321)</u>	<u>\$ (7,298,788)</u>
	Impairment loss/provision		Capital expenditure incurred	
	2002	2001	2002	2001
Manufacture of industrial products	\$ –	\$ 19,197,572	\$ –	\$ –
Manufacture of consumer products	–	94,550,139	–	–
Communications	35,857,021	80,632,624	–	–
Real estate	–	–	74,413,724	–
	<u>\$ 35,857,021</u>	<u>\$ 194,380,335</u>	<u>\$ 74,413,724</u>	<u>\$ –</u>

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

4 LOSS FROM OPERATIONS

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

	2002	2001
(a) Other net loss		
Net exchange loss	\$ (115,536)	\$ (7,240)
Others	<u>100,000</u>	<u>–</u>
	<u>\$ (15,536)</u>	<u>\$ (7,240)</u>
(b) Operating expenses		
Administrative fee	\$ 690,000	\$ 690,000
Auditors' remuneration	600,000	550,000
Consultancy fee	226,368	371,132
Custodian fee	240,000	240,000
Legal and secretarial fees	4,119,988	1,631,015
Management fee	4,527,374	7,422,639
Project fee	544,129	672,010
Other operating expenses	<u>4,631,438</u>	<u>3,991,201</u>
	<u>\$ 15,579,297</u>	<u>\$ 15,567,997</u>
(c) Loss on disposal of unlisted non-trading investments		
<i>Skynet Limited</i>		
Sale proceeds, net of expenses	\$ (356,045)	\$ –
Carrying value of investment	<u>500,000</u>	<u>–</u>
	<u>\$ 143,955</u>	<u>\$ –</u>
(d) 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>47,500,000</u>	<u>–</u>
	<u>\$ 184,690</u>	<u>\$ –</u>

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

4 LOSS FROM OPERATIONS (Continued)

	2002	2001
(e) Gain on disposal of listed non-trading investments		
<i>Skyworth Digital Holdings Limited</i>		
Sales proceeds, net of expenses	\$ (30,314,000)	\$ —
Carrying value of investment	<u>27,600,000</u>	<u>—</u>
	<u>\$ (2,714,000)</u>	<u>\$ —</u>
(f) Impairment losses on non-trading investments		
Beijing Asia Pacific First Star Communications Technology Co. Ltd.	\$ 12,299,130	\$ 18,448,695
ChinaGo Limited	23,557,891	—
Skynet Limited	—	62,183,929
Skyworth Digital Holdings Limited	<u>—</u>	<u>45,167,892</u>
	<u>\$ 35,857,021</u>	<u>\$ 125,800,516</u>

5 TAXATION

(a) Taxation in the consolidated income statement represents:

	2002	2001
Provision for Hong Kong profits tax for the year	\$ —	\$ —
Over-provision in respect of prior years	<u>—</u>	<u>(786,532)</u>
	\$ —	\$ (786,532)
Share of jointly controlled entities' taxation	<u>121,150</u>	<u>62,543</u>
	<u>\$ 121,150</u>	<u>\$ (723,989)</u>

No provision for Hong Kong profits tax has been made for the year ended 31 December 2002 as the Group has no assessable profits for the year.

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

(c) No provision for deferred tax has been made as the net effect of all timing differences is immaterial.

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:

	2002	2001
Fees	\$ 173,260	\$ 160,000
Salaries and other emoluments	<u>660,000</u>	<u>660,000</u>
	<u>\$ 833,260</u>	<u>\$ 820,000</u>

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 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of \$22,162,454 (2001: \$234,585,828) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's loss for the year:

	2002	2001
Amount of consolidated loss attributable to shareholders dealt with in the Company's financial statements	\$ (22,162,454)	\$ (234,585,828)
Final dividends from subsidiaries attributable to the previous financial year, approved and paid during the year	<u>–</u>	<u>4,886,405</u>
Company's loss for the year (note 16(b))	<u>\$ (22,162,454)</u>	<u>\$ (229,699,423)</u>

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

8 LOSS PER SHARE

(a) Basic

The calculation of basic loss per share is based on loss attributable to shareholders of \$19,990,416 (2001: loss of \$207,157,136) on 539,512,000 (2001: weighted average number of 538,945,041) ordinary shares in issue during the year.

(b) Diluted

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

9 INTEREST IN SUBSIDIARIES

	The Company	
	2002	2001
Unlisted shares, at cost	\$ 50	\$ 68
Amounts due from subsidiaries, net of provisions	66,176,723	177,580,160
Amounts due to subsidiaries	<u>—</u>	<u>(12)</u>
	\$ 66,176,773	\$ 177,580,216

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

The amounts due from/(to) 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.

Name of subsidiary	Percentage of issued capital held by the Company	Issued and paid up capital held by the Company
Ever Talent Investments Ltd.	100%	1 ordinary share of US\$1
Kencheers Investments Ltd.	100%	1 ordinary share of US\$1
Joint Cheer Investments Ltd.	100%	1 ordinary share of US\$1
Pacific Investment Project Inc.	100%	1 ordinary share of HK\$1
Pacific Equity Venture Inc.	100%	1 ordinary share of HK\$1
Simonson International Development Ltd.	100%	1 ordinary share of US\$1
Motion Technology Ltd.	100%	1 ordinary share of US\$1
Mobile Office Investments Ltd.	100%	1 ordinary share of US\$1

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

10 INTEREST IN ASSOCIATES

	The Group		The Company	
	2002	2001	2002	2001
Unlisted shares, at cost	\$ –	\$ –	\$ 78,000,008	\$ –
Share of net assets	78,954,923	–	–	–
Amount due to associate	(31,885)	–	(31,885)	–
	<u>\$ 78,923,038</u>	<u>\$ –</u>	<u>\$ 77,968,123</u>	<u>\$ –</u>

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

	2002	2001
	\$'000	\$'000
Current assets	160,899	–
Long-term assets	13,092	–
Current liabilities	(23,259)	–
Long-term liabilities	–	–
Total turnover	–	–
Total losses before taxation	5,264	–
Group's share of losses before taxation	964	–
Group's share of associates' contingent liabilities	–	–
Group's share of associates' capital commitments (note 18(a))	<u>62,591</u>	<u>–</u>

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.

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 (i))	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

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	
World Lexus Pacific Limited	Hong Kong	1,000,000 ordinary shares of HK\$1	–	24%	Investment holding
Beijing Pacific Palace Real Estate Development Co Ltd	PRC	Registered capital of US\$12,000,000 (note (ii))	–	24%	Property development

Notes:

(i) As at 31 December 2002, 1,100 shares were fully paid up and the remaining 2,567 shares were partly paid up.

(ii) As at 31 December 2002, the paid up capital was US\$9,666,665.

In February 2002, the Company formed a wholly owned subsidiary, China Property Development (Holdings) Limited ("CPDH"), incorporated in Cayman Islands. In August 2002, CPDH, through a newly incorporated BVI company, Sound Advantage Limited, acquired 30% equity interest in World Lexus Pacific Limited ("World Lexus") from certain independent third parties for a cash consideration of RMB7.5 million (equivalent to \$7.1 million).

On 23 October 2002, 2,567 new ordinary shares of US\$0.01 each of CPDH were allotted and issued to China Property Development Fund Limited ("CPD Fund") at US\$10,000 each. Upon the shares allotment, the Company's attributable interest in CPDH was diluted from 100% to 30%, resulting in a gain on deemed disposal of \$5,506,894 which has been recognised in the consolidated income statement for the year.

On 4 November 2002, CPDH acquired 100% equity interest in Choice Capital Limited, which holds 50% equity interest in World Lexus, for a cash consideration of RMB25 million (equivalent to \$23.6 million). Upon completion of the acquisition, CPDH and the Company increased their respective interests in World Lexus to 80% and 24%.

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 on 18 July 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").

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

10 INTEREST IN ASSOCIATES (Continued)

The total investment and registered capital of Beijing Pacific Palace are US\$30 million and US\$12 million respectively. World Lexus is required to contribute the total amount of the registered capital of Beijing Pacific Palace and is entitled to all the profits of Beijing Pacific Palace. Pursuant to the joint venture agreement dated 28 November 2000, 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 2002, RMB10 million (equivalent to \$9.4 million) has been paid. The directors consider that no penalty will be payable as a result of the delay in the payment of the land compensation fee.

The Pacific Town project is a medium density residential area with a mixed development of high rise apartments and low-density town houses. The land site and gross floor area for phase I of the development are approximately 80,000 and 240,000 square metres respectively.

As at 31 December 2002, the Pacific Town project is still in its initial planning stage and no major development work has been carried out. Beijing Pacific Palace is in the process of negotiation with the relevant government authorities to obtain the necessary land use rights and the approvals for the design and construction of the buildings and related facilities.

11 INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2002	2001
Share of net assets	\$ 26,050,351	\$ 26,072,341
Amounts due from jointly controlled entities, net of provision	<u>1,729,713</u>	<u>935,927</u>
	\$ <u>27,780,064</u>	\$ <u>27,008,268</u>

Amounts due from jointly controlled entities ("JCE") are unsecured, interest free and have no fixed terms of repayment. A full provision of \$19,197,572 was made against the amount due from a jointly controlled entity during the year ended 31 December 2001.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

II INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

Additional information in respect of the Group's JCE, excluding that relating to Beijing North Star Hyundai Pipe Company Limited, the carrying value of which has been fully provided in the 1998 financial statements, is given as follows:

	2002 \$'000	2001 \$'000
Current assets	\$ 303,955	\$ 298,633
Long-term assets	295,527	313,838
Current liabilities	(582,479)	(544,311)
Long-term liabilities	-	(54,237)
Total turnover	330,293	366,609
Total losses before taxation	(18,915)	(47,952)
Total profits before taxation	2,940	2,859
Group's share of profits less losses before taxation	1,029	1,000
Group's share of JCE's contingent liabilities	-	-
Group's share of JCE's capital commitments	-	-

Details of the indirectly held JCE, 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 ("Beijing Far East")	35%	RMB151,926,184	Electronic and electrical instrument manufacturing
Beijing North Star Hyundai Pipe Company Limited	28%	US\$11,300,000	Pipe manufacturing
Everbright Timber Industry (Shenzhen) Company Limited ("SETI")	22.87%	US\$45,525,860	Production and sale of plywood products and other timber boards

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

11 INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

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). The consideration is payable over a period of 5 years. In the event that the consideration is not fully settled at the end of the five year period, the equity interest in relation to the unpaid portion of the consideration will be transferred back to the Group. The disposal has not been accounted for in the current year because of the contingent nature of the payment terms and no consideration was received at 31 December 2002. A director of the Company is also a member of the senior management of Beijing Capital Group Limited.

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 an investment agreement dated 20 May 1996 and supplementary deeds in respect of the Company's investment in SETI. Pursuant to the deed of cancellation, CE Holdings agreed to pay an amount of \$16,301,103 to the Company as consideration for the cancellation of the investment agreement and supplementary deeds ("Consideration"). As at 31 December 2002, the Company has received full payment of the Consideration. The Consideration received was recorded as income in the consolidated income statement for the year as the carrying value of SETI had been fully written off in the previous year. On 29 November 2002, the Company also entered into an agreement with China Everbright International Limited ("CEIL"), immediate holding company of SETI, pursuant to which the Company authorised CEIL to procure a purchaser to purchase the Group's entire 22.87% equity interest in SETI. A purchaser was identified in respect of the sale of the 22.87% equity interest in SETI subsequent to 31 December 2002. Further details are set out in note 19.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

12 NON-TRADING INVESTMENTS

	Note	The Group	
		2002	2001
Investment in unlisted joint venture	(a)	\$ 61,495,650	\$ 61,495,650
Less: Impairment loss		<u>(61,495,650)</u>	<u>(49,196,520)</u>
		\$ -----	\$ -----
		\$ -----	\$ 12,299,130
Investments in unlisted companies	(b)	\$ 23,557,891	\$ 86,241,820
Less: Impairment losses		<u>(23,557,891)</u>	<u>(62,183,929)</u>
		\$ -----	\$ -----
		\$ -----	\$ 24,057,891
Listed investments	(c)	\$ 38,506,921	\$ 92,464,632
Less: Impairment losses		<u>(18,810,181)</u>	<u>(45,167,892)</u>
		\$ -----	\$ -----
		\$ -----	\$ 47,296,470
Revaluation surplus		19,696,740	47,296,470
		<u>15,414,840</u>	<u>-----</u>
		\$ -----	\$ -----
		\$ -----	\$ 47,296,740
		\$ -----	\$ -----
		\$ <u>35,111,580</u>	\$ <u>83,653,761</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	2,089,564,000 ordinary shares of \$0.20 each	2.049%	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 2002, 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 \$49.2 million was made at 31 December 2001. In view of the continued decline of the telecommunication sector, the directors consider that this investment should be fully written off. An amount of \$12,299,130 has been recognised as an impairment loss in the consolidated income statement for the year.
- (b) The balance at 31 December 2001 comprised the Group's investments of approximately \$23 million (being equivalent of US\$2.9 million) and \$62 million (being equivalent of US\$8 million) in ChinaGo Limited and Skynet Limited, in which the Group held an equity interest of 10.44% and 5.33% respectively, together with the capitalised acquisition costs.

In view of the continued decline of the information technology sector, the directors consider that the investment in ChinaGo Limited should be fully written off. An amount of \$23,557,891 has been recognised as impairment loss in the consolidated income statement for the year.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

12 NON-TRADING INVESTMENTS (Continued)

During the year, the Group disposed of its entire interest in Skynet Limited for a consideration of \$500,000. As the fair value of this investment had been written down to \$500,000 as at 31 December 2001, the loss on disposal of \$143,955 recorded in the consolidated income statement represents legal costs incurred.

- (c) In May 1999, the Group invested approximately \$92 million (being the equivalent of US\$11 million) in 2,577,502 convertible redeemable shares of an unlisted company, Skyworth (Group) Company Limited ("Skyworth Group"), including capitalised acquisition costs. For the purpose of seeking a listing on the HKSE, Skyworth Group underwent a reorganisation on 27 March 2000 and Skyworth Digital Holdings Limited ("Skyworth Digital") became the holding company of Skyworth Group. The convertible redeemable shares held by the Group were converted to 102,819,000 ordinary shares of Skyworth Digital, representing approximately 5.016% of its issued share capital following the listing of its shares on the HKSE on 7 April 2000. During the year, the Group disposed of 60,000,000 ordinary shares of Skyworth Digital for a total consideration of \$30,500,000, resulting in a profit on disposal of \$2,714,000. As at 31 December 2002, the remaining 42,819,000 shares were stated at their market value of \$0.82 per share as quoted on the HKSE. A revaluation surplus of \$15,414,840 has been transferred to investment revaluation reserve during the year.

13 CONVERTIBLE LOAN

	The Group	
	2002	2001
Convertible loan	\$ -	\$ 92,399,277
Interest receivable	-	4,482,970
	<u> </u>	<u> </u>
Less: Provision	\$ -	\$ 96,882,247
	-	(49,382,247)
	<u> </u>	<u> </u>
	<u>\$ -</u>	<u>\$ 47,500,000</u>

The convertible loan was repayable as follows:

	2002	2001
Within one year	\$ <u> </u>	\$ <u>47,500,000</u>

The convertible loan was advanced to Companion-China Limited ("CC"), a subsidiary of Companion Building Material International Holdings Limited, the shares of which are listed on the HKSE.

In February 2002, the Group disposed of its entire interest in the convertible loan to an independent third party for a consideration of \$47.5 million. As the carrying value of the loan had been written down to \$47.5 million at 31 December 2001, the loss on disposal of \$184,690 recorded in the consolidated income statement for the year represents legal costs incurred.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

14 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2002	2001	2002	2001
Deposits with banks and other financial institutions	\$ 30,778,303	\$ 19,479,626	\$ 30,778,303	\$ 19,479,626
Cash at bank and in hand	850,752	902,238	834,942	888,946
	<u>\$ 31,629,055</u>	<u>\$ 20,381,864</u>	<u>\$ 31,613,245</u>	<u>\$ 20,368,572</u>

15 SHARE CAPITAL

	2002		2001	
	No. of shares	Amount	No. of shares	Amount
Authorised:				
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>
Issued and fully paid:				
At 1 January	539,512,000	\$ 53,951,200	538,840,000	\$ 53,884,000
Exercise of warrants	–	–	672,000	67,200
At 31 December	<u>539,512,000</u>	<u>\$ 53,951,200</u>	<u>539,512,000</u>	<u>\$ 53,951,200</u>

- (i) 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. At 31 December 2001, 672,000 ordinary shares were issued at the subscription price of \$0.2244 per share on the exercise of warrants. No warrants were exercised during the year.
- (ii) The Company has set up 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 in the Company. Each option gives the holder the right to subscribe for one share. The subscription price will be the higher of:
- 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
 - 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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

15 SHARE CAPITAL (Continued)

At 31 December 2002, 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
27 November 2001	28 May 2002 to 27 November 2004	0.298	21,555,600
11 December 2001	28 May 2002 to 27 November 2004	0.3	2,694,450
12 December 2001	28 May 2002 to 27 November 2004	0.3	2,694,450
			26,944,500

There were no options granted or exercised during the year. All outstanding options were granted during the year ended 31 December 2001.

16 RESERVES

(a) The Group

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

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 2001	\$ 498,013,818	\$ 3,049,510	\$ (60,539,332)	\$ (176,788,662)	\$ 263,735,334
Loss for the year	–	–	–	(207,157,136)	(207,157,136)
Exchange differences on translation of financial statements of PRC jointly controlled entities	–	186,775	–	–	186,775
Shares issued from exercise of warrants, net of expenses	83,597	–	–	–	83,597
Net deficit on revaluation of non-trading investments	–	–	(65,261,184)	–	(65,261,184)
Transfer to income statement	–	–	125,800,516	–	125,800,516
	<u>–</u>	<u>–</u>	<u>125,800,516</u>	<u>–</u>	<u>125,800,516</u>
At 31 December 2001	<u>\$ 498,097,415</u>	<u>\$ 3,236,285</u>	<u>\$ –</u>	<u>\$ (383,945,798)</u>	<u>\$ 117,387,902</u>

The Group's accumulated losses include an amount of \$963,800 (2001: \$Nil), being the Group's share of the losses of associates for the year; and losses in the aggregate amount of \$163,248,179 (2001: \$164,156,071), being the accumulated losses attributable to jointly controlled entities of which \$907,892 (2001: \$937,933) represent the profits retained for the year.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

16 RESERVES (Continued)

(b) The Company

	Share premium	Accumulated losses	Total
At 1 January 2002	\$ 498,097,415	\$ (355,879,999)	\$ 142,217,416
Loss for the year	<u>–</u>	<u>(22,162,454)</u>	<u>(22,162,454)</u>
At 31 December 2002	\$ <u>498,097,415</u>	\$ <u>(378,042,453)</u>	\$ <u>120,054,962</u>
At 1 January 2001	\$ 498,013,818	\$ (126,180,576)	\$ 371,833,242
Loss for the year	–	(229,699,423)	(229,699,423)
Shares issued from exercise of warrants, net of expenses	<u>83,597</u>	<u>–</u>	<u>83,597</u>
At 31 December 2001	\$ <u>498,097,415</u>	\$ <u>(355,879,999)</u>	\$ <u>142,217,416</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 2002 was \$Nil (2001: \$Nil).

17 NET ASSET VALUE PER SHARE

The net asset value per share is computed based on the consolidated net assets of \$166,625,535 (2001: \$171,339,102) and 539,512,000 shares (2001: 539,512,000 shares) in issue as at 31 December 2002.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

18 COMMITMENTS

(a) Capital commitments

At 31 December 2002, the Group's share of an associate's capital commitments outstanding not provided for in the financial statements was as follows:

	2002		2001
Authorised and contracted for	\$ 39,412,000	\$	—
Authorised but not contracted for	<u>23,179,000</u>		<u>—</u>
	<u>\$ 62,591,000</u>	\$	<u>—</u>

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 2002, the Group's share of an associate's total future minimum lease payments under non-cancellable operating leases was as follows:

	2002		2001
Within 1 year	\$ 208,831	\$	—
After 1 year but within 5 years	<u>208,831</u>		<u>—</u>
	<u>\$ 417,662</u>	\$	<u>—</u>

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.

(c) In March 2002, CPDH, an associate of the Group entered into two separate joint venture agreements with certain parties in the PRC to establish two joint ventures which will be engaged in the development of residential properties and a golf community respectively in Beijing, the PRC. CPDH's total initial cost of investment in these two joint ventures is RMB82.7 million (equivalent to \$77.9 million) to be settled in three months after the issue of the business licences of the joint ventures. CPDH's attributable interest in each of the two joint ventures is 30%. CPDH has an option to further invest RMB97 million and RMB34.7 million (equivalent to \$91.3 million and \$32.7 million respectively) by way of shareholders' loans in the golf community and residential property projects respectively. Up to 31 December 2002, the joint ventures have not been established pending approval of the relevant local authorities.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

19 POST BALANCE SHEET EVENT

On 21 March 2003, a wholly owned subsidiary of the Company, Joint Cheer Investments Limited ("Joint Cheer"), entered into an agreement with Prime Win Profits Limited ("Prime Win"), an affiliate of CEIL. Pursuant to the agreement, Joint Cheer agreed to sell its 22.87% interest in SETI for a cash consideration of \$2,170,000. The sale was completed on 28 March 2003.

20 ADOPTION OF REVISED SSAPs

The following revised SSAPs issued by the HKSA, which became effective during 2002, were adopted for preparation of the Group's financial statements for the year ended 31 December 2001 and 2002:

- SSAP 1 (revised) "Presentation of financial statements"
- SSAP 15 (revised) "Cash flow statements"

Adoption of SSAP 1 (revised) "Presentation of financial statements"

In order to comply with revised requirements of SSAP 1 (revised), the Group adopts the new statement "consolidated statement of changes in equity" which replaces the "consolidated statement of recognised gains and losses" included in previous financial statements. The new statement reconciles the movement of key components of the shareholders' fund, including share capital, reserves and accumulated losses, from the beginning to end of the year.

Adoption of SSAP 15 (revised) "Cash flow statements"

The format of the consolidated cash flow statement has been revised to follow the new requirements of SSAP 15 (revised) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.

Five Year Group Financial Summary

(Expressed in Hong Kong dollars)

Results

	2002	2001	2000	1999	1998
Group turnover	\$ <u>93,910,913</u>	\$ <u>1,073,971</u>	\$ <u>12,416,700</u>	\$ <u>15,805,402</u>	\$ <u>19,404,061</u>
Loss attributable to shareholders	\$ <u>(19,990,416)</u>	\$ <u>(207,157,136)</u>	\$ <u>(43,306,021)</u>	\$ <u>(116,257,137)</u>	\$ <u>(20,107,118)</u>

Assets and liabilities

Non-current assets

Interest in associates	\$ <u>78,923,038</u>	\$ -----	\$ -----	\$ -----	\$ -----
Interest in jointly controlled entities	\$ <u>27,780,064</u>	\$ 27,008,268	\$ 45,081,132	\$ 49,623,710	\$ 165,005,260
Non-trading investments	\$ <u>35,111,580</u>	\$ 83,653,761	\$ 148,888,948	\$ 153,960,282	\$ 61,495,650
Convertible loan	\$ -----	\$ -----	\$ 42,870,471	\$ 118,038,308	\$ 107,506,485

Current assets

Trading investments	\$ -----	\$ -----	\$ -----	\$ 20,385,178	\$ 28,739,162
Current portion of convertible loan	-----	47,500,000	54,011,776	-----	-----
Prepayments and other receivables	<u>197,119</u>	93,997	335,737	382,476	2,698,231
Cash and cash equivalents	<u>31,629,055</u>	20,381,864	33,701,145	49,685,613	146,719,633
	\$ <u>31,826,174</u>	\$ 67,975,861	\$ 88,048,658	\$ 70,453,267	\$ 178,157,026

Current liabilities

Bank overdrafts	\$ -----	\$ -----	\$ 243,215	\$ 53,887	\$ -----
Accounts payables and accruals	<u>2,015,321</u>	2,298,788	1,810,523	1,426,620	2,000,632
Taxation	<u>5,000,000</u>	5,000,000	5,216,137	216,137	3,942,024
	\$ <u>7,015,321</u>	\$ 7,298,788	\$ 7,269,875	\$ 1,696,644	\$ 5,942,656

Net current assets	\$ <u>24,810,853</u>	\$ 60,677,073	\$ 80,778,783	\$ 68,756,623	\$ 172,214,370
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Net assets	\$ <u>166,625,535</u>	\$ <u>171,339,102</u>	\$ <u>317,619,334</u>	\$ <u>390,378,923</u>	\$ <u>506,221,765</u>
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Share capital	\$ <u>53,951,200</u>	\$ 53,951,200	\$ 53,884,000	\$ 50,000,000	\$ 50,000,000
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Reserves	<u>112,674,335</u>	117,387,902	263,735,334	340,378,923	456,221,765
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	\$ <u>166,625,535</u>	\$ <u>171,339,102</u>	\$ <u>317,619,334</u>	\$ <u>390,378,923</u>	\$ <u>506,221,765</u>
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