



CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

航天科技國際集團有限公司

ANNUAL REPORT 2003

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Rui Xiaowu (*Chairman*)
Mr. Zhou Qingquan
Mr. Zhao Yuanchang
Mr. Wu Hongju
Mr. Guo Xianpeng

Non-Executive Directors

Mr. Lee Hung Sang
(*Independent Director*)
Ms. Chan Ching Har, Eliza
(*Independent Director*)
Mr. Chow Chan Lum, Charles
(*Independent Director*)
Mr. Li Jinsheng
Mr. Xu Shilong
Mr. Chen Dingyi

AUDIT COMMITTEE

Mr. Chow Chan Lum, Charles (*Chairman*)
Mr. Xu Shilong
Ms. Chan Ching Har, Eliza

COMPANY SECRETARY

Mr. Chan Ka Kin, Ken

AUDITORS

Deloitte Touche Tohmatsu

SHARE REGISTRARS

Standard Registrars Limited

LEGAL COUNSELS

Sit, Fung, Kwong & Shum
Richards Butler

PRINCIPAL BANKERS

Bank of China (Hong Kong)
CITIC Ka Wah Bank
CITIC Capital Markets Limited
Bank of Communications
DBS Bank (Hong Kong) Limited
Wing Hang Bank
Dah Sing Bank
Hua Xia Bank

REGISTERED OFFICE

21/F, China Aerospace Tower
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CHAIRMAN'S STATEMENT

The Board of Directors of China Aerospace International Holdings Limited (the "Company") hereby announces the audited results of the Company and its subsidiaries (together hereinafter referred to as the "Group") for the financial year ended 31 December 2003.

SUMMARY OF RESULTS

In 2003, the Group recorded a turnover of HK\$1,239,633,000 (2002: HK\$1,299,825,000), representing a decrease of 4.6% as compared to the previous year. The gross profit rose 6.8% to HK\$282,434,000 (2002: HK\$264,327,000). The finance costs dropped by 18.7% as compared to last year. The result reported a swing to a profit of HK\$30,196,000, rebounding from losses for five consecutive years.

BUSINESS REVIEW

In 2003, the business environment was full of challenges and chances. We had implemented effective measures to strengthen market development. As a result of persistent efforts to seek improvement, progress had been made in the areas of cost control, lowering of finance costs, consolidation and restructure of research and development business and resources, as well as the establishment of strategic partnership alliances.

Hi-tech Manufacturing Industries. In recent years, by means of technical innovations and equipment renewals, the strengths of our manufacturing industries are elevated that enabling our products to remain competitive and make room for development. The annual turnover of the manufacturing industries in 2003 was HK\$1,072,317,000 and the operating profit was HK\$71,738,000.

Satellite Application Business. In terms of digital TV business, our new-generation model, DCR 3800 set-top box, with significant enhancement in capabilities, was awarded a Network Access License by the State Administration of Radio, Film and TV. The product was launched and received acclamation in Changzhou City, Jiangsu Province. Year 2003 witnessed a steady growth in the number of subscribers of our DVB-C project in Changzhou City. The Company's R&D subsidiary, CASIL Science and Technology Development (Shenzhen) Company Limited, was declared one of the two winners in a tender to supply set-top boxes in cities such as Wenzhou and Zhaoxing, Zhejiang Province where China Cable Broadcasting & Information Network Company is penetrating the DVB market.

Restructuring of R&D Business & Relevant Assets. The Company had undergone a re-organization of structure, management system and related assets of digital TV business. Upon the restructuring, China Aerospace New World Technology Limited becomes the entity which oversees the operations of CASIL Science and Technology Development (Shenzhen) Company Limited, as well as Jiangsu CASIL Broadcasting & Cable TV Network Company Limited and China Cable & CASIL Information Technology Company Limited, both of which are joint ventures of the Company. It would be a system integrator and equipment supplier that vested with the special responsibilities of development,

CHAIRMAN'S STATEMENT

manufacturing, marketing and sale of digital TV and satellite application products. Apart from this, the Group has formed an R&D Center in Shenzhen Hi-tech Industrial Park, which is principally engaged in the research and development of satellite application and digital broadcasting service. Through the above restructuring in business and resources, the target and market positioning of digital TV business becomes clearer. Overall administrative expenses had dropped while a strong competitive edge is maintained.

Forming of Strategic Alliance. The Company entered into a strategic alliance agreement in October 2003 and a shareholders' agreement in February 2004 with New World TMT Limited in a move to jointly develop the digital TV markets in China through a joint venture company, China Aerospace New World Technology Limited.

Disposal of Properties. Disposal of non-core assets is in line with one of the Group's established policies of business restructuring. In 2003, the Group successfully sold out certain non-core assets locating in Hong Kong and China. Meanwhile, the vacancy rate of remaining properties is reduced and the rental income is kept to be stable.

BUSINESS OUTLOOK

Looking forward to 2004, the Board is confident to the development of the Group's various businesses. The Group will continue to strengthen business development and internal management, and to remain profitability. First of all, the Group will enhance technical reform, make good use of our advantages, strengthen product quality and innovation, develop those products with higher value-added value so as to sustain a steady growth of our manufacturing industries and to create our global competitiveness. Furthermore, the Group will actively develop new economic growth points in the business of satellite application, such as set top box, in order to intensify product development and the ability of batch production gradually. Meanwhile, the Group will further cooperate with strategic partners so as to accelerate the promotion of digital TV business.

With the strong support of our major shareholder, China Aerospace Science & Technology Corporation, in 2004, the Group will continue to put more efforts on corporate reform, innovation and management. We will also persist in asset restructuring and business development, nurturing and developing the research & development, manufacturing, sale and service of chain business in relation to satellite application.

By order of the Board

Rui Xiaowu
Chairman

Hong Kong, 22 April 2004

CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED



MANAGEMENT DISCUSSION AND ANALYSIS

In 2003, the Group continued to promote markets, conduct structural changes in business, asset restructurings and strengthening management so as to reach the target of turning loss into profits.

As at 31 December 2003, the total assets of the Group were HK\$2,731,200,000. The total liabilities were HK\$1,827,709,000, of which the current and the non-current portion of bank loans were HK\$609,774,000 and HK\$215,516,000, respectively. In terms of contingent liabilities, there was HK\$4,450,000 which was more or less the same to that of the end of 2002. As at 31 December 2003, the assets/liabilities ratio was 67% and the current ratio was 1.03, both were similar to that of the end of 2002.

The source of funding of the Group mainly comes from its internal financial resources and banking facilities. The Group's cash on hand and cash at bank as at 31 December 2003 was HK\$301,440,000, most of which was in HK dollars and the rest in RMB and US dollars.

CASIL Telecommunications Holdings Limited had issued a total of 40 million new shares in September 2003 and the net proceed was about HK\$11.4 million, and a total of 100 million new shares in March 2004 and the net proceed was about HK\$40 million. The shareholding of the Company in CASIL Telecommunications Holdings Limited reduced from 51.22% to 44.16%.

A couple of the Group's real estates and investments have been mortgaged to banks for financing with interest calculated at prime rate, and their remaining terms by installment varies from 3 to 10 years.

The Group now has more than 5,000 staff in the Mainland China and in Hong Kong. The Group will further improve human resources management, enhance assessment quality and reinforce internal supervision.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

Mr. Rui Xiaowu, aged 45, a Research Fellow, is the Chairman and President of the Company. He is a graduate of master's degree in computer application at The Science & Technology University for National Defense of China. He joined the 710 Research Institute of the former Ministry of Aerospace Industry of China in 1982, serving successively as Engineer, Division Director of the Business Marketing Division, and General Manager of Beijing Aerospace Hi-Tech Development Center. In the former China Aerospace Corporation, he held the posts of Vice President, then President of the 710 Research Institute, Council Member of China Aerospace Society, Vice Chairman of SinoSat Telecommunication Company, as well as Chairman of China Aerospace Satellite Holding Company Corporation. During the time, he was dispatched to Japan for advanced professional studies in the CRC Institute for two years. In his career in China Aerospace Science & Technology Corporation, he was appointed as Business Assistant to President and Director General of the Business Planning & Marketing Department in April 2000, Business Assistant to President and Director General of the Marketing Department in July 2000, and Assistant to President in January 2002. Throughout the years, he has attained extensive professional experience in researching, marketing, capital operation and corporate management. He was appointed as Non-Executive Director of the Company in April 2000, and Executive Director, Chairman and President of the Company in September 2002.

Mr. Zhou Qingquan, aged 52, is an Executive Director and Vice President of the Company. He graduated from Northwest Industrial University. From 1976, he held such posts as Deputy Director, Director, Senior Engineer, President, Deputy General Factory Manager and General Factory Manager in the 801 Research Institute of Shanghai Aerospace Bureau and the Research Office of Shanghai Xinxin Machinery Factory respectively. From 1995, he held such posts as Vice President, then President of Shanghai Aerospace Corporation, as well as Deputy Director-General of Shanghai Aerospace Bureau. He has been awarded the title of Outstanding Entrepreneur in Shanghai. He has attained extensive experience in hi-tech industry management. He was appointed as an Executive Director and Vice President of the Company in September 1999.

Mr. Zhao Yuanchang, aged 55, a Senior Engineer, is an Executive Director and Vice President of the Company. He graduated from Nanjing Aerospace College of Managers in 1986. Through his career in Shanghai Aerospace Bureau, he held such posts as Deputy General Manager of its subsidiary, Xiyue Meter Factory, Deputy Director of the 8th Institute of Design, and then its Deputy Director-General in June 1993, and concurrently President of Shanghai Aerospace Corporation and Chairman of Shanghai Aerospace Automotive Mechanical & Electronic Holdings Limited since February 1998. He has attained extensive experience in marketing, business operations, corporate restructuring and management. He was appointed as an Executive Director and Vice President of the Company in September 2002.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

Mr. Wu Hongju, aged 42, a Senior Engineer, is an Executive Director and Vice President of the Company. After graduation with the major in radio technology from Beijing Polytechnic University in 1984, he started his career in R&D in the 502 Research Institute of the then Ministry of Aerospace Industry of China. From 1991, he held such posts as Office Assistant of the Aerospace Foreign Trade Coordination Team of the former Ministry of Aviation & Aerospace of China, Assistant of General Planning & Development Department of the former China Aerospace Corporation, Vice President of China APMT Company, Vice President of Singapore APMT Company, Division Director of Investment Management Division of Business Investment Department of China Aerospace Science & Technology Corporation, and Vice President of Beijing Aerospace Satellite Application Company. He has attained extensive experience in trading, capital operation and radio technology through his career. He was appointed as an Executive Director and Vice President of the Company in September 2002.

Mr. Guo Xianpeng, aged 37, a Senior Engineer, is an Executive director and Vice president of the Company. He graduated from the Department of Automotive Engineering of Tsinghua University with a bachelor's degree in engineering in 1988 and a master's degree in engineering in 1991. Since 1991, he served as Project Manager and Engineer in China Aerospace Ground Equipment Corporation and was responsible for the planning and project management of the automotive business of aerospace industry. Since 1993, he served as Deputy Director of the Business Development Bureau, Deputy Director of Project Division and Senior Engineer, and was responsible for the overall management, project management, development and planning of civil products of China Aerospace Corporation. Since 1999, he served as Director of the Project Management Division of the Planning and Business Department, Director of the Project Management Division of the Business Department and Director of the Civil Products Management Division of the Marketing & Investment Department, and was engaged in the development strategy, plan management and project management of civil products of China Aerospace Science & Technology Corporation. Since November 2002, he served as Deputy Director General of the Marketing & Investment Department of China Aerospace Science & Technology Corporation, and was responsible for the development and planning of the civil products of the group, market development, project management and cooperation with municipal governments and so on. He is familiar with the state's industrial policies and investment policies and has over 10 years' experience in development planning, planning and project management of civil product in aerospace industries as well as in project planning and organization in the industries of automobile and satellite application. He was appointed as an Executive Director and Vice President of the Company in January 2004.

Mr. Lee Hung Sang, aged 66, is an Independent Non-Executive Director of the Company and is currently a business consultant. He worked for Bank of China Group, Hong Kong for over 40 years, of which 22 years was related to banking and the rest was devoted to administrative management and held posts as director in various sectors invested by the Group, such companies as Bank of China Group Investment Limited, BOC China Fund Limited and other listed companies such as Conic Investment Company Limited, Green Island Cement (Holdings) Limited and Tian An China Investments Company Limited and so on. He has attained extensive experience in banking and investment management.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

Ms. Chan Ching Har, Eliza, aged 47, is an Independent Non-Executive Director of the Company and a Senior Partner of Jewkes Chan & Partners. She is a member of the First Selection Committee for HKSAR, member of the Public Service Commission, board member of the Hong Kong Hospital Authority, the Chairperson of the Kowloon Hospital and the Hong Kong Eye Hospital, and an adjudicator of the Hong Kong Immigration Tribunal. She is also the Legal Advisor to The Hong Kong Chinese Enterprises Association, the Foreign Economic Affairs Legal Advisor to the Tianjin Municipal People's Government, and an arbitrator of China International Economic and Trade Commission. Ms. Chan was appointed as an Independent Non-Executive Director of the Company in January 1997.

Mr. Chow Chan Lum, Charles, aged 53, is an Independent Non-Executive Director of the Company and a Partner of Wong Brothers & Company, Certified Public Accountants. He is a member of Foreign Experts Consultative Committee on China Independent Auditing Standards, Finance Ministry, PRC and serves on a number of committees of the Hong Kong Society of Accountants including the Deputy Chairman of Auditing & Assurance Standards Committee, the member of PRC Accounting and Auditing Sub-Committee, Practice Review Committee, Investigation Panel, Examination Panel, Complaints Panel, Taxation Committee and Professional Standards Monitoring Committee. He also carries duties in a variety of functional and social organizations, and is currently a member of the People's Political Consultative Committee, Guangdong Province, PRC. He was appointed as an Independent Non-Executive Director of the Company in April 2000.

Mr. Li Jinsheng, aged 49, a Senior Engineer, is a Non-Executive Director of the Company. After graduating from Harbin University of Industries in 1978, he joined the former Ministry of Aerospace Industry of China, working in the fields of general affairs and human resources in the 706 Research Institute. In 1986, he was transferred to Ministry of Aerospace of China serving as Office Assistant in the Appointments and Removals Division of the Human Resources Bureau, then Managing Officer and Deputy Division Director of the Senior Staff Division of Ministry of Aviation & Aerospace of China. In the former China Aerospace Corporation, he held such posts as Division Director of Professional Technician Division and Deputy Director General of the Human Resources and Training Bureau respectively. In China Aerospace Science & Technology Corporation, he held such posts as Deputy Director General and Director General of Human Resources and Training Department, then Director General of the Human Resources Department in March 2002. He is also a Council Member of China Aerospace Society, and an Executive Council Member of China Space Law Society and China Employment Service Association respectively. Throughout the years, he has attained extensive experience in human resources management and machinery manufacturing. He was appointed as a Non-Executive Director of the Company in April 2000.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

Mr. Xu Shilong, aged 39, a Senior Accountant, is a Non-Executive Director of the Company. A graduate in Accounting at Zhongnan University of Finance and Accounting, he joined the former Ministry of Aerospace Industry of China in 1986, serving as Office Assistant in the Finance Department. In the former China Aerospace Corporation, he successively held the posts of Deputy Division Director, then Division Director of the Enterprise Financial Division of the Financial Bureau. He was also a Council Member of China Aerospace Society and the Vice President of China Aerospace Industrial Accounting Society. In July 1999, he was appointed as Deputy Director General of the Finance Department of China Aerospace Science & Technology Corporation. Throughout the years, he has attained extensive experience in industrial financial management. He was appointed as Non-Executive Director of the Company in April 2000.

Mr. Chen Dingyi, aged 60, is a Non-Executive Director of the Company. He graduated from Nanjing Military Technicians College in 1962. From 1975 to 1991, he held such posts as Workshop Chief, Research Director, and Assistant to Factory General Manager when working in Shanghai Broadcasting Equipment Factory, responsible for R&D, production and management. From July 1991, he held such posts as General Manager, then Director of Chee Yuen Plastic Products (Huizhou) Limited, and from June 1996, Deputy General Manager, General Manager, then Director of Chee Yuen Industrial Company Limited. He has attained extensive experience in manufacturing technology and corporate administration. He was appointed as Non-Executive Director of the Company in September 2002.

Mr. Chan Ka Kin, Ken, aged 38, is the Company Secretary of the Company. Mr. Chan holds a Bachelor's degree in Business Administration from Seattle University, USA, a Postgraduate Diploma in Corporate Administration from The Hong Kong Polytechnic University, a Master of Accounting Degree from Curtin University of Technology, Australia and a Master of Laws Degree from Renmin University of China. Mr. Chan is an associate member of Institute of Chartered Secretaries and Administrators, UK, and The Hong Kong Institute of Company Secretaries with extensive experience in the areas of banking, corporate finance and corporate administration. He joined the Company in September 1997.

DIRECTORS' REPORT

The directors present the annual report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its principal subsidiaries and associates are set out in notes 38 and 39 to the financial statements, respectively.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 16.

No dividend was paid during the year (2002: nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group and the Company during the year are set out in note 11 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in investment properties of the Group during the year are set out in note 12 to the financial statements.

SHARE OPTION SCHEME

Details of the Group's share option scheme are set out in note 28 to the financial statements.

No option under the scheme was granted or exercised during the year nor outstanding at 31 December 2003.

PURCHASE, SALE AND REDEMPTION OF SHARES

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



DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

For the year, the aggregate turnover attributable to the five largest customers of the Group contributed less than 30% of the Group's consolidated turnover, and the aggregate purchases attributable to the five largest suppliers contributed less than 30% of the Group's total purchases.

DIRECTORS

The directors during the year and up to the date of this report were:

Executive

Rui Xiaowu (*Chairman*)

Zhou Qingquan

Zhao Yuanchang

Wu Hongju

Guo Xianpeng

(appointed on 15 January 2004)

Zhang Tao

(resigned on 15 January 2004)

Non-executive

Lee Hung Sang (*Independent Director*)

Chan Ching Har, Eliza (*Independent Director*)

Chow Chan Lum, Charles (*Independent Director*)

Li Jinsheng

Xu Shilong

Chen Dingyi

Non-executive directors are appointed for a period up to their retirement by rotation at the annual general meeting of the Company in accordance with the Company's Articles of Association.

Rui Xiaowu, Zhou Qingquan, Chan Ching Har, Eliza and Li Jinsheng retire by rotation in accordance with Article 103(A) of the Company's Articles of Association and, being eligible, offer themselves for re-election.

Guo Xianpeng retires in accordance with Article 94 of the Company's Articles of Association and, being eligible offer himself for re-election.



DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2003, none of the directors, chief executives or their associates have any beneficial, non-beneficial interests or short position in the share capital, warrants and options of the Company or its subsidiaries or any of its associated corporations which is required to be recorded in the Register of Directors' Interests pursuant to Part XV of the Securities & Futures Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' SERVICE CONTRACTS

None of the directors has any service contract with the Company or any of its subsidiaries not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors or their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONNECTED TRANSACTIONS

During the year, the Group had the following connected transactions (as defined in the Listing Rules):

| Nature of transaction | Amount <i>HK\$'000</i> |
|--|----------------------------------|
| Rental and office expenses received from non wholly-owned subsidiaries of the Company (<i>note</i>): | |
| CASIL Telecommunications Holdings Limited and its subsidiaries ("CASTEL Group") | 18 |

Note: The Group let certain properties and office equipment to CASTEL Group. The rental income was comparable to rental charge on similar properties occupying by other tenants.



DIRECTORS' REPORT

CONNECTED TRANSACTIONS *(Continued)*

Independent non-executive directors of the Company have reviewed the connected transactions and confirmed that the above connected transactions have been entered into by the Group in its ordinary and usual course of business and in accordance with its pricing policy.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that the following shareholders had notified the Company of relevant interests of 5% or more in the issued share capital of the Company:

| Name of shareholder | Capacity | Number of ordinary shares held for long positions | Percentage of issued share capital of the Company |
|--|----------------------------------|---|---|
| China Aerospace Science & Technology Corporation | Held by a controlled corporation | 896,818,664 <i>(note a)</i> | 41.86% |
| Jetcote Investments Limited | Beneficial owner | 109,864,176 | 5.13% |
| | Held by a controlled corporation | <u>786,954,488 <i>(note b)</i></u> | <u>36.73%</u> |
| | | 896,818,664 | 41.86% |
| Sin King Enterprises Company Limited | Beneficial owner | 393,272,908 <i>(note b)</i> | 18.36% |
| Burhill Company Limited | Beneficial owner | 393,681,580 <i>(note b)</i> | 18.38% |

Notes:

- (a) These 896,818,664 shares are duplicated in the interests held by Jetcote Investments Limited, a wholly-owned subsidiary of China Aerospace Science & Technology Corporation.
- (b) These 393,272,908 shares held by Sin King Enterprises Company Limited and 393,681,580 shares held by Burhill Company Limited are duplicated in the interests held by Jetcote Investments Limited. Both companies are wholly-owned subsidiaries of Jetcote Investments Limited.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2003.

DIRECTORS' REPORT

PRACTICE NOTE 19 OF THE LISTING RULES

A wholly-owned subsidiary of the Company had made an advance to an independent third party (the "Company A") in the past, in which the outstanding balance of the loan, of HK\$234,229,000, represented approximately 26% of the Group's audited net assets as at 31 December 2003. The loan was secured by a piece of land and guaranteed personally by the substantial shareholder and chairman of Company A. A court hearing is scheduled in June 2004.

CORPORATE GOVERNANCE

The Company had complied throughout the year with those paragraphs of the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, with which it is required to report compliance, except that none of the non-executive directors of the Company has been appointed for a specific term but are subject to retirement by rotation.

During 2003, the independent non-executive directors held certain meetings with the management of the Company regularly and participated a meeting of working group to review matters relating to financial statements, operations, general compliance and substantial issues of the Group.

The Audit Committee of the Company currently has a membership comprising two independent non-executive directors, Ms. Chan Ching Har, Eliza and Mr. Chow Chan Lum, Charles, and a non-executive director, Mr. Xu Shilong. Mr. Chow Chan Lum, Charles had been appointed as the Chairman of Audit Committee of the Company so as to comply with the relevant rules of the amended Listing Rules. The Audit Committee had reviewed, discussed and approved the annual financial report of the Company for the year ended 31 December 2003.

POST BALANCE SHEET EVENT

Details of a significant post balance sheet event are set out in note 37 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

By order of the Board

Rui Xiaowu
Chairman

Hong Kong, 22 April 2004



AUDITORS' REPORT

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

執業會計師
香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE MEMBERS OF CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

航天科技國際集團有限公司

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 16 to 72 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The 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.

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

BASIS OF OPINION

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

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants

22 April 2004



CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2003

| | NOTES | 2003 HK\$'000 | 2002 HK\$'000 (As restated) |
|--|-------|------------------|-----------------------------------|
| Turnover | 4(a) | 1,239,633 | 1,299,825 |
| Cost of sales and services | 4(b) | (957,199) | (1,035,498) |
| | | 282,434 | 264,327 |
| Other operating income | | 46,128 | 26,546 |
| Distribution costs | | (45,115) | (46,012) |
| Administrative expenses | | (195,994) | (255,014) |
| Waiver of interest expense on other loans | | 36,273 | - |
| Surplus (deficit) on revaluation of investment properties | | 5,910 | (68,431) |
| Allowance for amount due from an associate | | - | (30,162) |
| Reversal of allowance (allowance) for doubtful debts | | 4,262 | (27,599) |
| Impairment loss recognised in respect of property, plant and equipment | | (12,639) | (35,365) |
| Impairment loss recognised in respect of investments in securities | | - | (23,708) |
| Impairment loss recognised in respect of development costs | | - | (3,000) |
| Profit (loss) from operations | 6 | 121,259 | (198,418) |
| Finance costs | 8 | (64,645) | (79,578) |
| Share of results of associates | | 3,701 | (6,236) |
| (Loss) gain on deemed disposal/disposal of subsidiaries | | (28,331) | 7,840 |
| Gain on partial disposal of subsidiaries | | 238 | - |
| Loss on disposal of an associate | | (78) | (14,880) |
| Profit (loss) before taxation | | 32,144 | (291,272) |
| Taxation | 9 | (5,432) | (12,571) |
| Profit (loss) before minority interests | | 26,712 | (303,843) |
| Minority interests | | 3,484 | 2,024 |
| Net profit (loss) for the year | | 30,196 | (301,819) |
| Earnings (loss) per share | 10 | | |
| Basic | | HK1.4¢ | HK(14.1)¢ |

BALANCE SHEETS

At 31 December 2003

| | NOTES | THE GROUP | | THE COMPANY | |
|--|-------|------------------|-----------------------------------|------------------|------------------|
| | | 2003 HK\$'000 | 2002 HK\$'000 (As restated) | 2003 HK\$'000 | 2002 HK\$'000 |
| Non-current assets | | | | | |
| Property, plant and equipment | 11 | 719,664 | 811,241 | 92,729 | 110,695 |
| Investment properties | 12 | 199,545 | 208,405 | - | - |
| Development costs | 13 | - | 7,551 | - | - |
| Technology licence right | 14 | - | 33,930 | - | - |
| Interests in subsidiaries | 15 | - | - | 536,609 | 536,571 |
| Interests in associates | 16 | 121,814 | 91,519 | 22,221 | 23,002 |
| Investments in securities | 17 | 227,029 | 227,029 | - | - |
| | | <u>1,268,052</u> | <u>1,379,675</u> | <u>651,559</u> | <u>670,268</u> |
| Current assets | | | | | |
| Inventories | 18 | 116,414 | 211,484 | - | - |
| Trade and other receivables | 19 | 333,525 | 241,458 | 34,579 | 11,582 |
| Loans receivable | 20 | 635,588 | 653,737 | - | - |
| Amounts due from subsidiaries | | - | - | 1,031,284 | 1,209,123 |
| Amounts due from associates | 36 | 8,597 | 24,798 | 4,032 | 5,905 |
| Taxation recoverable | | 177 | 521 | - | - |
| Pledged bank deposits | 21 | 67,407 | 78,573 | - | - |
| Bank balances and cash | | 301,440 | 290,504 | 107,366 | 80,789 |
| | | <u>1,463,148</u> | <u>1,501,075</u> | <u>1,177,261</u> | <u>1,307,399</u> |
| Current liabilities | | | | | |
| Trade and other payables | 22 | 640,325 | 603,783 | 117,960 | 157,165 |
| Amounts due to subsidiaries | | - | - | 168,846 | 123,162 |
| Amounts due to associates | 36 | 38,014 | 22,723 | 20,569 | 14,327 |
| Taxation payable | | 12,965 | 14,168 | 80 | 80 |
| Obligations under finance leases | | | | | |
| - amount due within one year | 23 | 5,114 | 3,137 | - | - |
| Bank loans and overdrafts | 24 | 604,660 | 693,269 | 302,122 | 340,295 |
| Other loans | 25 | 116,449 | - | - | - |
| | | <u>1,417,527</u> | <u>1,337,080</u> | <u>609,577</u> | <u>635,029</u> |
| Net current assets | | <u>45,621</u> | <u>163,995</u> | <u>567,684</u> | <u>672,370</u> |
| Total assets less current liabilities | | <u>1,313,673</u> | <u>1,543,670</u> | <u>1,219,243</u> | <u>1,342,638</u> |

BALANCE SHEETS

At 31 December 2003

| | NOTES | THE GROUP | | THE COMPANY | |
|-----------------------------------|-------|------------------|-----------------------------------|------------------|------------------|
| | | 2003 HK\$'000 | 2002 HK\$'000 (As restated) | 2003 HK\$'000 | 2002 HK\$'000 |
| Non-current liabilities | | | | | |
| Amount due to a major shareholder | 36 | 176,647 | 176,647 | 259,261 | 259,261 |
| Obligations under finance leases | | | | | |
| - amount due after one year | 23 | 3,196 | 1,684 | - | - |
| Secured bank loans | 26 | 212,320 | 252,064 | 194,471 | 214,151 |
| Other loans | 25 | - | 202,435 | - | 39,746 |
| Deferred taxation | 27 | 18,019 | 17,624 | - | - |
| | | <u>410,182</u> | <u>650,454</u> | <u>453,732</u> | <u>513,158</u> |
| Minority interests | | <u>19,157</u> | <u>64,328</u> | <u>-</u> | <u>-</u> |
| | | <u>884,334</u> | <u>828,888</u> | <u>765,511</u> | <u>829,480</u> |
| Capital and reserves | | | | | |
| Share capital | 28 | 2,142,420 | 2,142,420 | 2,142,420 | 2,142,420 |
| Reserves | 29 | (1,258,086) | (1,313,532) | (1,376,909) | (1,312,940) |
| | | <u>884,334</u> | <u>828,888</u> | <u>765,511</u> | <u>829,480</u> |

The financial statements on pages 16 to 72 were approved and authorised for issue by the Board of Directors on 22 April 2004 and are signed on its behalf by:

Zhao Yuanchang
Director

Zhou Qingquan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003

| | Share capital | Share premium | Investment property revaluation reserve | Special capital reserve | General reserve | Negative goodwill reserve | Goodwill reserve | Translation reserve | Capital redemption reserve | Accumulated losses | Total |
|---|------------------|------------------|--|-------------------------------|--------------------|---------------------------------|---------------------|------------------------|----------------------------------|-----------------------|-----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2002 | | | | | | | | | | | |
| - as previously reported | 2,142,420 | 939,048 | 9,243 | 14,044 | 23,916 | 347 | (17,878) | (33,222) | 1,080 | (1,918,508) | 1,160,490 |
| - Adjustment on adoption of Statement of Standard Accounting Practice 12 (Revised) (Note 2) | - | - | - | - | - | - | - | - | - | (16,854) | (16,854) |
| - as restated | 2,142,420 | 939,048 | 9,243 | 14,044 | 23,916 | 347 | (17,878) | (33,222) | 1,080 | (1,935,362) | 1,143,636 |
| Eliminated on disposal of investment properties | - | - | (9,243) | - | - | - | - | - | - | - | (9,243) |
| Realised on disposal of subsidiaries and an associate | - | - | - | - | - | - | - | (3,686) | - | - | (3,686) |
| Net loss for the year | - | - | - | - | - | - | - | - | - | (301,819) | (301,819) |
| At 31 December 2002 | 2,142,420 | 939,048 | - | 14,044 | 23,916 | 347 | (17,878) | (36,908) | 1,080 | (2,237,181) | 828,888 |
| Goodwill realised upon partial disposal of subsidiaries | - | - | - | - | - | - | 3,657 | - | - | - | 3,657 |
| Reserves realised upon deemed disposal of subsidiaries | - | - | - | - | - | - | 14,221 | 7,372 | - | - | 21,593 |
| Net profit for the year | - | - | - | - | - | - | - | - | - | 30,196 | 30,196 |
| At 31 December 2003 | 2,142,420 | 939,048 | - | 14,044 | 23,916 | 347 | - | (29,536) | 1,080 | (2,206,985) | 884,334 |

Also see note 29.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit (loss) before taxation | 32,144 | (291,272) |
| Adjustments for: | | |
| Depreciation | 51,507 | 64,008 |
| Amortisation of development costs | 1,396 | 4,935 |
| Amortisation of goodwill | 138 | - |
| Amortisation of technology licence right | 377 | - |
| Interest expenses | 64,363 | 79,295 |
| Finance lease charges | 282 | 283 |
| Waiver of interest expense on other loans | (36,273) | - |
| (Gain) loss on disposal of property, plant and equipment | (16,694) | 11,294 |
| Gain on disposal of investment properties | - | (6,093) |
| (Surplus) deficit on revaluation of investment properties | (5,910) | 68,431 |
| Allowance for amount due from an associate | - | 30,162 |
| (Reversal of allowance) allowance for doubtful debts | (4,262) | 27,599 |
| Impairment loss recognised in respect of property, plant and equipment | 12,639 | 35,365 |
| Impairment loss recognised in respect of investments in securities | - | 23,708 |
| (Reversal of allowance) allowance for obsolete inventories | (23,104) | 6,245 |
| Impairment loss recognised in respect of development costs | - | 3,000 |
| Gain on partial disposal of subsidiaries | (238) | - |
| Loss (gain) on deemed disposal/disposal of subsidiaries | 28,331 | (7,840) |
| Loss on disposal of an associate | 78 | 14,880 |
| Share of results of associates | (3,701) | 6,236 |
| Operating cash flows before movements in working capital | 101,073 | 70,236 |
| Decrease in inventories | 45,502 | 46,768 |
| Increase in trade and other receivables | (139,905) | (62,005) |
| Increase in amounts due from associates | (10,028) | (6,215) |
| (Decrease) increase in trade and other payables | (26,498) | 81,454 |
| Increase in amounts due to associates | 15,291 | 1,558 |
| Cash (used in) generated from operations | (14,565) | 131,796 |
| Income taxes paid | (4,425) | (5,272) |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES | (18,990) | 126,524 |

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

| | NOTE | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------|------------------|------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds on disposal of investment properties | | 14,770 | 42,258 |
| Proceeds on disposal of property, plant and equipment | | 57,449 | 7,360 |
| Purchase of property, plant and equipment | | (58,024) | (56,969) |
| Net cash flows in respect of deemed disposal/disposal of subsidiaries | 30 | (25,722) | 13,114 |
| Proceeds from disposal of an associate | | - | 34,243 |
| Repayment of loans receivable | | 18,149 | 11,421 |
| Decrease in pledged bank deposits | | 11,166 | 17,287 |
| Investment in an associate | | - | (9,432) |
| Development costs incurred | | (2,603) | (5,000) |
| NET CASH FROM INVESTING ACTIVITIES | | 15,185 | 54,282 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Interest paid | | (55,189) | (79,295) |
| Finance lease charges | | (282) | (283) |
| New loans raised | | 214,376 | 158,521 |
| Contribution from minority shareholders | | 981 | - |
| Repayment of loans | | (118,123) | (226,060) |
| Repayment of obligations under finance leases | | (4,812) | (3,876) |
| Repayment to a major shareholder | | - | (703) |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | | 36,951 | (151,696) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 33,146 | 29,110 |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | | 221,086 | 191,976 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | | 254,232 | 221,086 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Bank balances and cash | | 301,440 | 290,504 |
| Bank overdrafts | | (47,208) | (69,418) |
| | | 254,232 | 221,086 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

1. GENERAL

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

The principal activity of the Company is investment holding. The principal activities of its major subsidiaries and associates are set out in notes 38 and 39, respectively.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted, for the first time, Hong Kong Financial Reporting Standard ("HKFRS") – Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" issued by the Hong Kong Society of Accountants (the "HKSA"). The terms of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative figures have been restated in order to achieve a consistent presentation.

The adoption of SSAP 12 (Revised) has resulted in an increase in accumulated losses of HK\$16,854,000 at 1 January 2002, representing the cumulative effect of the change in policy on results for period prior to 1 January 2002. The change has resulted in a decrease in profit of HK\$854,000 for the year ended 31 December 2003 (2002: an increase in loss of HK\$546,000).



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or up to their effective date of acquisition or disposal, respectively.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be credited to income at the time of disposal of the relevant subsidiary or associate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Negative goodwill *(Continued)*

Negative goodwill arising on the acquisition of an associate after 1 January 2001 is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries after 1 January 2001 is presented separately in the balance sheet as a deduction from assets.

Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Investments in subsidiaries

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

Interests in associates

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

In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in securities *(Continued)*

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

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Sales of properties are recognised on the execution of legally binding, unconditional and irrevocable contracts.

Service income is recognised when services are rendered.

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

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

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight line basis over the term of the relevant lease.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceed and the carrying amount of the asset and is recognised in the income statement.

Properties in the course of development for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any identified impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is provided to write off the cost of assets, other than properties under development, over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates per annum:

| | |
|---------------------|--|
| Leasehold land | Over the unexpired lease term |
| Buildings | 4% or over the term of lease, whichever is shorter |
| Plant and equipment | 5% - 15% |
| Others | 6% - 25% |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant lease.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at each balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property disposed of is credited in the income statement.

No depreciation is provided on investment properties which are held on leases with an unexpired term of more than 20 years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the relevant lease terms.

Technology licence rights

Technology licence rights are stated at cost less accumulated amortisation and any identified impairment loss. Amortisation is provided to write off the cost of such rights on a straight line basis over their estimated useful lives.

Research and development expenses

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are calculated using the weighted average cost method.

The cost of properties for sale includes the land cost, development expenditure, interests and other direct costs attributable to such properties. Net realisable value is the estimated selling price less all estimated costs to completion and the estimated costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment

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

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

Retirement benefits scheme

Contributions to retirement benefits schemes are charged to the income statement as an expense.

Foreign currencies

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

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

Taxation

The charge for taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

4. TURNOVER AND COST OF SALES AND SERVICES

- (a) Turnover represents the gross invoiced sales of goods less discounts and returns, proceeds on sales of properties, rental income, interest income and investment income as follows:

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---------------------------------|-------------------------|-------------------------|
| Sales of goods | 1,091,250 | 1,086,410 |
| Proceeds on sales of properties | 120,377 | 163,387 |
| Rental income | 25,776 | 43,194 |
| Interest income | 2,230 | 3,745 |
| Investment income | - | 3,089 |
| | <u>1,239,633</u> | <u>1,299,825</u> |

- (b) Cost of sales and services includes an amount of HK\$23,104,000 (2002: nil) being reversal of allowance for obsolete inventories.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's turnover and contribution to trading results, analysed by principal activity, were as follows:

(a) Business segments

Segment information in respect of turnover for the year ended 31 December 2003 is presented below:

INCOME STATEMENT

| | External sales <i>HK\$'000</i> | Inter- segment sales <i>HK\$'000</i> | Total turnover <i>HK\$'000</i> |
|---|--------------------------------------|---|--------------------------------------|
| TURNOVER | | | |
| Manufacturing | | | |
| Plastic products | 329,112 | 19,076 | 348,188 |
| Liquid crystal display | 63,226 | - | 63,226 |
| Audio-video products | 239,138 | - | 239,138 |
| Printed circuit boards | 83,363 | - | 83,363 |
| Telecommunication products | 79,340 | - | 79,340 |
| Intelligent chargers and security system | 258,406 | 654 | 259,060 |
| Other products | 9,748 | - | 9,748 |
| Property | 146,155 | 9,260 | 155,415 |
| Trading | 28,914 | - | 28,914 |
| Finance | 2,231 | 2,322 | 4,553 |
| | <u>1,239,633</u> | <u>31,312</u> | <u>1,270,945</u> |
| Elimination | <u>-</u> | <u>(31,312)</u> | <u>(31,312)</u> |
| Consolidated total | <u><u>1,239,633</u></u> | <u><u>-</u></u> | <u><u>1,239,633</u></u> |

Inter-segment sales are charged at prevailing market prices.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

Segment information in respect of the results for the year ended 31 December 2003 is presented below:

RESULTS

| | Amount <i>HK\$'000</i> |
|--|----------------------------------|
| Manufacturing | |
| Plastic products | 33,825 |
| Liquid crystal display | 3,541 |
| Audio-video products | (7,189) |
| Printed circuit boards | 10,328 |
| Telecommunication products | 4,103 |
| Intelligent chargers and security system | 27,130 |
| Other products | (10,955) |
| Property | 47,668 |
| Trading | (4,321) |
| Finance | 14,457 |
| | <u>118,587</u> |
| Elimination | <u>(14,636)</u> |
| Total segment results | 103,951 |
| Unallocated corporate income | 52,816 |
| Unallocated corporate expenses | <u>(35,508)</u> |
| Profit from operations | 121,259 |
| Finance costs | (64,645) |
| Share of results of associates <i>(note)</i> | 3,701 |
| Loss on deemed disposal/disposal of subsidiaries | (28,331) |
| Gain on partial disposal of subsidiaries | 238 |
| Loss on disposal of an associate | <u>(78)</u> |
| Profit before taxation | 32,144 |
| Taxation | <u>(5,432)</u> |
| Profit before minority interests | <u><u>26,712</u></u> |
| <i>Note:</i> | |
| Share of results of associates: | |
| Manufacturing | |
| Telecommunication products | 6,712 |
| Other products | (1,966) |
| Trading | 180 |
| Others | <u>(1,225)</u> |
| | <u><u>3,701</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

Segment information in respect of balance sheet at 31 December 2003 is presented below:

BALANCE SHEET

| | Segment assets <i>HK\$'000</i> | Interests in associates <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|--------------------------------------|---|--------------------------|
| ASSETS | | | |
| Manufacturing | | | |
| Plastic products | 260,392 | – | 260,392 |
| Liquid crystal display | 74,399 | – | 74,399 |
| Audio-video products | 144,361 | – | 144,361 |
| Printed circuit boards | 120,856 | – | 120,856 |
| Telecommunication products | – | 66,184 | 66,184 |
| Intelligent chargers and security system | 126,580 | – | 126,580 |
| Other products | 82,728 | 31,791 | 114,519 |
| Property | 601,380 | – | 601,380 |
| Trading | 75,233 | 7,863 | 83,096 |
| Finance | 849,090 | – | 849,090 |
| Others | 35,753 | 15,976 | 51,729 |
| | <u>2,370,772</u> | <u>121,814</u> | 2,492,586 |
| Unallocated corporate assets | | | <u>238,614</u> |
| Consolidated total | | | <u>2,731,200</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

BALANCE SHEET (Continued)

| | Segment liabilities HK\$'000 |
|--|---------------------------------|
| LIABILITIES | |
| Manufacturing | |
| Plastic products | 85,549 |
| Liquid crystal display | 12,472 |
| Audio-video products | 86,325 |
| Printed circuit boards | 35,347 |
| Intelligent chargers and security system | 60,677 |
| Other products | 78,458 |
| Property | 68,468 |
| Trading | 6,204 |
| Finance | 480,308 |
| Others | 912 |
| | <u>914,720</u> |
| Unallocated corporate liabilities | 912,989 |
| | <u>1,827,709</u> |

| | Capital additions HK\$'000 | Depreciation HK\$'000 | Amortisation of development costs, goodwill and licence right HK\$'000 | Impairment losses HK\$'000 | Surplus on revaluation of investment properties HK\$'000 | Reversal of allowance for obsolete inventories HK\$'000 | Reversal of allowance for doubtful debts HK\$'000 | Gain (loss) on disposal of property, plant and equipment HK\$'000 |
|--------------------------|-------------------------------|--------------------------|---|-------------------------------|---|--|--|--|
| OTHER INFORMATION | | | | | | | | |
| Manufacturing | 68,722 | 36,764 | 1,911 | 7,106 | 70 | 13,203 | 5,866 | 23,152 |
| Property | 188 | 8,702 | - | - | 5,840 | - | (4,304) | (204) |
| Trading | 15 | 699 | - | 5,533 | - | 9,901 | 2,700 | (125) |
| Finance | - | - | - | - | - | - | - | - |
| Others | 24 | 5,342 | - | - | - | - | - | (6,129) |
| | <u>68,949</u> | <u>51,507</u> | <u>1,911</u> | <u>12,639</u> | <u>5,910</u> | <u>23,104</u> | <u>4,262</u> | <u>16,694</u> |
| Consolidated total | <u>68,949</u> | <u>51,507</u> | <u>1,911</u> | <u>12,639</u> | <u>5,910</u> | <u>23,104</u> | <u>4,262</u> | <u>16,694</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

Segment information in respect of turnover for the year ended 31 December 2002 is presented below:

INCOME STATEMENT

| | External sales <i>HK\$'000</i> | Inter- segment sales <i>HK\$'000</i> | Total turnover <i>HK\$'000</i> |
|---|--------------------------------------|---|--------------------------------------|
| TURNOVER | | | |
| Manufacturing | | | |
| Plastic products | 261,373 | 17,136 | 278,509 |
| Liquid crystal display | 50,873 | – | 50,873 |
| Audio-video products | 247,279 | – | 247,279 |
| Printed circuit boards | 89,405 | – | 89,405 |
| Telecommunication products | 117,126 | 49 | 117,175 |
| Intelligent chargers and security system | 230,579 | 689 | 231,268 |
| Other products | 17,362 | – | 17,362 |
| Property | 194,343 | 6,965 | 201,308 |
| Trading | 84,651 | – | 84,651 |
| Finance | 3,745 | 6,672 | 10,417 |
| Others | 3,089 | – | 3,089 |
| | <u>1,299,825</u> | <u>31,511</u> | <u>1,331,336</u> |
| Elimination | – | (31,511) | (31,511) |
| | <u>1,299,825</u> | <u>–</u> | <u>1,299,825</u> |

Inter-segment sales are charged at prevailing market prices.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

Segment information in respect of the results for the year ended 31 December 2002 is presented below:

| RESULTS | Amount HK\$'000 |
|--|-------------------------|
| Manufacturing | |
| Plastic products | 37,797 |
| Liquid crystal display | 1,457 |
| Audio-video products | (19,401) |
| Printed circuit boards | 19,299 |
| Telecommunication products | 5,733 |
| Intelligent chargers and security system | 25,225 |
| Other products | (21,797) |
| Property | (86,315) |
| Trading | (19,226) |
| Finance | (14,755) |
| Others | (62,596) |
| | <u>(134,579)</u> |
| Elimination | <u>(16,737)</u> |
| Total segment results | (151,316) |
| Unallocated corporate expenses | <u>(47,102)</u> |
| Loss from operations | (198,418) |
| Finance costs | (79,578) |
| Share of results of associates <i>(note)</i> | (6,236) |
| Gain on disposal of subsidiaries | 7,840 |
| Loss on disposal of an associate | <u>(14,880)</u> |
| Loss before taxation | (291,272) |
| Taxation | <u>(12,571)</u> |
| Loss before minority interests | <u><u>(303,843)</u></u> |
| <i>Note:</i> | |
| Share of results of associates: | |
| Manufacturing | |
| Telecommunication products | (3,401) |
| Other products | (1,699) |
| Others | <u>(1,136)</u> |
| | <u><u>(6,236)</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

Segment information in respect of balance sheet at 31 December 2002 is presented below:

BALANCE SHEET

| | Segment assets <i>HK\$'000</i> | Interests in associates <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|--------------------------------------|---|--------------------------|
| ASSETS | | | |
| Manufacturing | | | |
| Plastic products | 193,884 | – | 193,884 |
| Liquid crystal display | 62,048 | – | 62,048 |
| Audio-video products | 157,309 | – | 157,309 |
| Printed circuit boards | 112,094 | – | 112,094 |
| Telecommunication products | 239,677 | 40,146 | 279,823 |
| Intelligent chargers and security system | 99,483 | – | 99,483 |
| Other products | 25,268 | 9,855 | 35,123 |
| Property | 602,646 | – | 602,646 |
| Trading | 102,511 | – | 102,511 |
| Finance | 927,197 | – | 927,197 |
| Others | 7,260 | 41,518 | 48,778 |
| | <u>2,529,377</u> | <u>91,519</u> | 2,620,896 |
| Unallocated corporate assets | | | <u>259,854</u> |
| Consolidated total | | | <u>2,880,750</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

BALANCE SHEET (Continued)

| | Segment liabilities HK\$'000 |
|--|---------------------------------|
| LIABILITIES | |
| Manufacturing | |
| Plastic products | 51,558 |
| Liquid crystal display | 7,325 |
| Audio-video products | 92,381 |
| Printed circuit boards | 19,880 |
| Telecommunication products | 155,953 |
| Intelligent chargers and security system | 42,826 |
| Other products | 9,077 |
| Property | 60,379 |
| Trading | 28,894 |
| Finance | 447,290 |
| Others | 14,928 |
| | <u>930,491</u> |
| Unallocated corporate liabilities | <u>1,057,043</u> |
| Consolidated total | <u><u>1,987,534</u></u> |

| | Capital additions | Depreciation | Amortisation of development cost | Impairment losses | Deficit on revaluation of investment properties | Allowance for amount due from an associate | Allowance for obsolete inventories | Allowance for doubtful debts | Loss on disposal of property, plant and equipment |
|--------------------------|-------------------|---------------|----------------------------------|-------------------|---|--|------------------------------------|------------------------------|---|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| OTHER INFORMATION | | | | | | | | | |
| Manufacturing | 58,939 | 49,034 | 4,935 | 6,254 | - | 30,162 | 3,642 | 8,900 | 7,917 |
| Property | 5,057 | 8,268 | - | 20,904 | 68,431 | - | 2,603 | 138 | 2,952 |
| Trading | 45 | 634 | - | - | - | - | - | 17,649 | - |
| Finance | - | 2 | - | - | - | - | - | - | - |
| Others | 107 | 6,070 | - | 34,915 | - | - | - | 912 | 425 |
| | <u>64,148</u> | <u>64,008</u> | <u>4,935</u> | <u>62,073</u> | <u>68,431</u> | <u>30,162</u> | <u>6,245</u> | <u>27,599</u> | <u>11,294</u> |
| Consolidated total | <u>64,148</u> | <u>64,008</u> | <u>4,935</u> | <u>62,073</u> | <u>68,431</u> | <u>30,162</u> | <u>6,245</u> | <u>27,599</u> | <u>11,294</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(b) Geographical segments

- (i) The following table provides an analysis of the Group's sales by geographical market:

| | Sales revenue by geographical market | | Profit (loss) from operations | |
|--|---|------------------|----------------------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Hong Kong | 942,311 | 1,014,590 | 95,950 | (116,677) |
| The People's Republic of China, other than Hong Kong (the "PRC") | 297,322 | 285,235 | 8,001 | (34,639) |
| | <u>1,239,633</u> | <u>1,299,825</u> | <u>103,951</u> | <u>(151,316)</u> |
| Unallocated corporate income | | | 52,816 | - |
| Unallocated corporate expenses | | | (35,508) | (47,102) |
| Profit (loss) from operations | | | <u>121,259</u> | <u>(198,418)</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(b) Geographical segments *(Continued)*

- (ii) The following table provides an analysis of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical areas in which the assets are located:

| | Carrying amount of segment assets | | Additions to property, plant and equipment and intangible assets | |
|-----------|--------------------------------------|------------------|---|---------------|
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 1,735,938 | 1,967,054 | 12,335 | 22,527 |
| The PRC | 995,262 | 913,696 | 56,614 | 41,621 |
| | <u>2,731,200</u> | <u>2,880,750</u> | <u>68,949</u> | <u>64,148</u> |



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

6. PROFIT (LOSS) FROM OPERATIONS

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Profit (loss) from operations has been arrived at after charging: | | |
| Allowance for obsolete inventories | - | 6,245 |
| Amortisation of development costs (<i>note a</i>) | 1,396 | 4,935 |
| Amortisation of goodwill (<i>note b</i>) | 138 | - |
| Amortisation of technology licence right (<i>note a</i>) | 377 | - |
| Auditors' remuneration | 3,064 | 4,818 |
| Cost of inventories consumed | 773,998 | 878,878 |
| Depreciation on | | |
| - owned assets | 50,158 | 63,010 |
| - assets held under finance leases | 1,349 | 998 |
| Loss on disposal of property, plant and equipment | - | 11,294 |
| Minimum lease payments paid under operating leases on land and buildings | 6,296 | 7,321 |
| Research expenses | 4,800 | 8,652 |
| Total staff costs, including directors' remuneration | 145,520 | 160,161 |
| and after crediting: | | |
| Gross rental income from | | |
| - land and buildings | 6,335 | 6,219 |
| - investment properties | 19,441 | 35,277 |
| - properties for sale | - | 1,698 |
| | <u>25,776</u> | <u>43,194</u> |
| Less: Outgoings | <u>(5,317)</u> | <u>(6,001)</u> |
| | <u>20,459</u> | <u>37,193</u> |
| Dividend income from listed investment securities | - | 3,089 |
| Gain on disposal of property, plant and equipment | 16,694 | - |
| Interest income | 2,230 | 3,745 |
| Reversal of allowance for obsolete inventories (<i>note a</i>) | 23,104 | - |
| Waiver of interest expense on other loans (<i>note c</i>) | <u>36,273</u> | <u>-</u> |

Notes:

- a. The amounts are included in cost of sales and services.
- b. The amount is included in administrative expenses.
- c. The amount represents interest expense waived by a lender of other loans for early repayment of the loan by the Group during the period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

7. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Directors' fees | | |
| Executives | - | 306 |
| Non-executives (excluding independent non-executives) | - | 276 |
| Independent non-executives | <u>340</u> | <u>390</u> |
| | <u>340</u> | <u>972</u> |
| Other emoluments | | |
| Salaries and other benefits | 4,995 | 3,860 |
| Bonuses | 1,706 | 1,497 |
| Contributions to retirement benefit schemes | <u>12</u> | <u>49</u> |
| | <u>6,713</u> | <u>5,406</u> |
| Total emoluments | <u>7,053</u> | <u>6,378</u> |

The emoluments of the directors were within the following bands:

| Emoluments band | Number of directors | |
|-------------------------------|---------------------|-----------|
| | 2003 | 2002 |
| Nil – HK\$1,000,000 | 9 | 9 |
| HK\$1,000,001 – HK\$1,500,000 | 1 | 3 |
| HK\$1,500,001 – HK\$2,000,000 | <u>1</u> | <u>1</u> |
| | <u>11</u> | <u>13</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

7. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS *(Continued)*

(b) Highest paid individuals' emoluments

During the year, the five highest paid individuals included three directors (2002: three directors), details of whose emoluments are set out above. The emoluments of the remaining two (2002: two) highest paid individuals were as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| Salaries and other benefits | 2,434 | 2,517 |
| Contributions to retirement benefits scheme | 20 | 24 |
| | <u>2,454</u> | <u>2,541</u> |

The emoluments of these individuals were within the following bands:

| Emoluments band | Number of individuals | |
|--------------------------------|-----------------------|----------|
| | 2003 | 2002 |
| HK\$1,000,001 to HK\$1,500,000 | <u>2</u> | <u>2</u> |

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the year, no director waived any emoluments.

8. FINANCE COSTS

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Interest expenses on: | | |
| - bank loans and overdrafts wholly repayable within five years | 52,242 | 58,692 |
| - bank loans not wholly repayable within five years | 9,167 | 10,623 |
| - finance lease charges | 282 | 283 |
| - other loans wholly repayable within five years | 2,954 | 9,980 |
| | <u>64,645</u> | <u>79,578</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

9. TAXATION

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Current tax: | | |
| Hong Kong Profits Tax | 2,793 | 14,203 |
| Overseas income tax | 4,073 | 1,565 |
| | <u>6,866</u> | <u>15,768</u> |
| Overprovision in previous years: | | |
| Hong Kong Profits Tax | <u>(2,288)</u> | <u>(3,932)</u> |
| Deferred tax (<i>note 27</i>): | | |
| Current year | (740) | 735 |
| Attributable to a change in tax rate | 1,594 | - |
| | <u>854</u> | <u>735</u> |
| Taxation attributable to the Company and its subsidiaries | <u>5,432</u> | <u>12,571</u> |



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

9. TAXATION (Continued)

The tax charge for the year can be reconciled to the profit (loss) before taxation per income statement as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Profit (loss) before taxation | <u>32,144</u> | <u>(291,272)</u> |
| Tax at Hong Kong Profits Tax of 17.5% (2002: 16%) | 5,625 | (46,604) |
| Tax effect of expenses not deductible for tax purposes | 14,655 | 56,053 |
| Tax effect of income not taxable for tax purpose | (7,860) | (11,081) |
| Tax effect of deferred tax assets not recognised | 7,567 | 19,930 |
| Utilisation of tax losses previously not recognised | (12,033) | (1,167) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (814) | (162) |
| Tax effect of share of results of associates | (648) | 997 |
| Increase in opening deferred tax liability resulting from an increase in tax rate | 1,594 | - |
| Overprovision in prior years | (2,288) | (3,932) |
| Others | <u>(366)</u> | <u>(1,463)</u> |
| Taxation for the year | <u>5,432</u> | <u>12,571</u> |

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profits for the year.

Overseas income tax represents the income tax of the PRC. Pursuant to relevant laws and regulations in the PRC, the Company's subsidiaries and the Group's associates are entitled to exemption from income tax under certain tax holidays and concessions.

10. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share for the year is based on the net profit for the year of HK\$30,196,000 (2002: net loss for the year of HK\$301,819,000) and on 2,142,420,000 shares (2002: 2,142,420,000 shares) outstanding during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

11. PROPERTY, PLANT AND EQUIPMENT

| | Long term leasehold land and buildings in Hong Kong HK\$'000 | Medium term leasehold land and buildings in Hong Kong HK\$'000 | Long term leasehold land and buildings in the PRC HK\$'000 | Medium term leasehold land and buildings in the PRC HK\$'000 | Properties under development HK\$'000 | Plant and equipment HK\$'000 | Motor vehicles, furniture and other equipment HK\$'000 | Total HK\$'000 |
|--|---|--|---|--|--|------------------------------------|---|-------------------|
| THE GROUP | | | | | | | | |
| COST | | | | | | | | |
| At 1 January 2003 | 28,649 | 346,607 | 11,238 | 416,709 | 135,376 | 394,306 | 208,429 | 1,541,314 |
| Additions | - | 424 | 146 | 5,567 | 9,523 | 30,217 | 20,469 | 66,346 |
| Reclassifications | (28,649) | 28,649 | - | 90,433 | (90,433) | - | - | - |
| Deemed disposal of subsidiaries | - | (22,753) | - | (25,933) | - | (13,995) | (22,603) | (85,284) |
| Disposals | - | (2,169) | (421) | (56,830) | (8,936) | (33,991) | (16,275) | (118,622) |
| At 31 December 2003 | - | 350,758 | 10,963 | 429,946 | 45,530 | 376,537 | 190,020 | 1,403,754 |
| DEPRECIATION AND IMPAIRMENT | | | | | | | | |
| At 1 January 2003 | 6,281 | 231,866 | 4,470 | 92,359 | - | 238,286 | 156,811 | 730,073 |
| Charged for the year | 382 | 3,972 | 428 | 11,071 | - | 22,428 | 13,226 | 51,507 |
| Reclassifications | (6,663) | 6,663 | - | - | - | - | - | - |
| Impairment loss recognised (note c) | - | 2,897 | - | 6,561 | - | 1,660 | 1,521 | 12,639 |
| Eliminated on deemed disposal of subsidiaries | - | (8,503) | - | (5,544) | - | (4,648) | (13,567) | (32,262) |
| Eliminated on disposals | - | (524) | (87) | (32,931) | - | (30,311) | (14,014) | (77,867) |
| At 31 December 2003 | - | 236,371 | 4,811 | 71,516 | - | 227,415 | 143,977 | 684,090 |
| NET BOOK VALUES | | | | | | | | |
| At 31 December 2003 | - | 114,387 | 6,152 | 358,430 | 45,530 | 149,122 | 46,043 | 719,664 |
| At 31 December 2002 | 22,368 | 114,741 | 6,768 | 324,350 | 135,376 | 156,020 | 51,618 | 811,241 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Medium term leasehold land and buildings in Hong Kong HK\$'000 | Medium term leasehold land and buildings in the PRC HK\$'000 | Motor vehicles, furniture and other equipment HK\$'000 | Total HK\$'000 |
|------------------------------------|--|--|---|-------------------|
| THE COMPANY | | | | |
| COST | | | | |
| At 1 January 2003 | 303,254 | 42,647 | 37,623 | 383,524 |
| Additions | - | - | 24 | 24 |
| Disposals | - | (42,647) | (2,169) | (44,816) |
| At 31 December 2003 | 303,254 | - | 35,478 | 338,732 |
| DEPRECIATION AND IMPAIRMENT | | | | |
| At 1 January 2003 | 216,008 | 30,000 | 26,821 | 272,829 |
| Charged for the year | 2,770 | - | 2,573 | 5,343 |
| Eliminated on disposals | - | (30,000) | (2,169) | (32,169) |
| At 31 December 2003 | 218,778 | - | 27,225 | 246,003 |
| NET BOOK VALUES | | | | |
| At 31 December 2003 | 84,476 | - | 8,253 | 92,729 |
| At 31 December 2002 | 87,246 | 12,647 | 10,802 | 110,695 |

Notes:

- The aggregate net book values of the Group's assets held under finance leases at 31 December 2003 amounted to HK\$15,835,000 (2002: HK\$9,420,000).
- The properties under development are held under a medium term lease in the PRC.
- During the year, the Group reviewed the carrying amounts of property, plant and equipment and identified that certain of the assets have no economic value to the Group. Accordingly, the carrying amounts of those assets are reduced to their respective recoverable amounts, which represent their net selling prices. The net selling prices were determined by reference to the market prices.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

12. INVESTMENT PROPERTIES

| | Long term leasehold investment properties in Hong Kong <i>HK\$'000</i> | Medium term leasehold investment properties in Hong Kong <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-------------------------|---|---|--------------------------|
| THE GROUP | | | |
| VALUATION | | | |
| At 1 January 2003 | 20,230 | 188,175 | 208,405 |
| Eliminated on disposals | (4,450) | (10,320) | (14,770) |
| Surplus on revaluation | 1,300 | 4,610 | 5,910 |
| | <u>17,080</u> | <u>182,465</u> | <u>199,545</u> |
| At 31 December 2003 | <u>17,080</u> | <u>182,465</u> | <u>199,545</u> |

The Group's investment properties have been revalued at 31 December 2003 by Dudley Surveyors Limited, a firm of independent professional valuers, on an open market basis.

13. DEVELOPMENT COSTS

| | |
|---|-----------------|
| | <i>HK\$'000</i> |
| THE GROUP | |
| COST | |
| At 1 January 2003 | 25,935 |
| Additions | 2,603 |
| Deemed disposal of subsidiaries | (14,951) |
| Write off | (13,587) |
| At 31 December 2003 | <u>-</u> |
| AMORTISATION AND IMPAIRMENT | |
| At 1 January 2003 | 18,384 |
| Amortised for the year | 1,396 |
| Eliminated on deemed disposal of subsidiaries | (6,193) |
| Eliminated on written off | (13,587) |
| At 31 December 2003 | <u>-</u> |
| NET BOOK VALUES | |
| At 31 December 2003 | <u>-</u> |
| At 31 December 2002 | <u>7,551</u> |

Development costs are amortised on a straight line basis over three to five years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

14. TECHNOLOGY LICENCE RIGHT

HK\$'000

THE GROUP

COST

| | |
|---------------------------------|----------|
| At 1 January 2003 | 35,100 |
| Deemed disposal of subsidiaries | (35,100) |

At 31 December 2003

–

AMORTISATION

| | |
|---|---------|
| At 1 January 2003 | 1,170 |
| Amortisation for the year | 377 |
| Eliminated on deemed disposal of subsidiaries | (1,547) |

At 31 December 2003

–

NET BOOK VALUES

At 31 December 2003

–

| | |
|---------------------|--------|
| At 31 December 2002 | 33,930 |
|---------------------|--------|

Technology licence right is amortised on a straight line basis over three to five years.

15. INTERESTS IN SUBSIDIARIES

THE COMPANY

| | 2003 HK\$'000 | 2002 HK\$'000 |
|-------------------------------|------------------|------------------|
| Unlisted shares, at cost | 528,626 | 529,026 |
| Amounts due from subsidiaries | 1,296,085 | 1,296,047 |
| | 1,824,711 | 1,825,073 |
| Impairment loss recognised | (1,288,102) | (1,288,502) |
| | 536,609 | 536,571 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

15. INTERESTS IN SUBSIDIARIES *(Continued)*

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the Company will not demand for repayment of the amounts within the twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current assets in the balance sheet.

Particulars of the principal subsidiaries of the Company at 31 December 2003 are set out in note 38.

None of the subsidiaries had any debt securities outstanding at 31 December 2003 or at any time during the year.

16. INTERESTS IN ASSOCIATES

| | THE GROUP | | THE COMPANY | |
|-------------------------------|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Unlisted shares, at cost | - | - | 28,769 | 29,550 |
| Share of net assets | 121,814 | 8,682 | - | - |
| Amounts due from associates | - | 82,837 | - | - |
| | 121,814 | 91,519 | 28,769 | 29,550 |
| Impairment loss recognised | - | - | (6,548) | (6,548) |
| | 121,814 | 91,519 | 22,221 | 23,002 |
| Market value of listed shares | 148,251 | - | - | - |

The amounts due from associate were unsecured, non-interest bearing and had no fixed repayment terms.

Particulars of the principal associates of the Group at 31 December 2003 are set out in note 39.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

16. INTERESTS IN ASSOCIATES (Continued)

The following details have been extracted from the audited financial statements of CASIL Telecommunications Holdings Limited and its subsidiaries (being significant associates of the Group):

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| Results for the year | | |
| Turnover | <u>143,872</u> | - |
| Net profit for the year | <u>2,217</u> | - |
| Net profit for the year attributable to the Group | <u>6,712</u> | - |
| Financial position | | |
| Non-current assets | 135,587 | - |
| Current assets | 181,445 | - |
| Current liabilities | (114,226) | - |
| Non-current liabilities | (59,712) | - |
| Minority interests | <u>(7,969)</u> | - |
| Net assets | <u>135,125</u> | - |
| Net assets attributable to the Group | <u>66,184</u> | - |

17. INVESTMENTS IN SECURITIES

| | THE GROUP | | THE COMPANY | |
|---|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Investment securities: | | | | |
| - listed in Hong Kong | 241,300 | 241,300 | - | - |
| - unlisted | <u>568,944</u> | <u>568,944</u> | - | - |
| | <u>810,244</u> | 810,244 | - | - |
| Impairment loss recognised for investment securities | | | | |
| - listed in Hong Kong | 161,890 | 161,890 | - | - |
| - unlisted | <u>421,325</u> | <u>421,325</u> | - | - |
| | <u>583,215</u> | 583,215 | - | - |
| | <u>227,029</u> | <u>227,029</u> | - | - |
| Market value of listed investments | <u>74,100</u> | <u>44,928</u> | - | - |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

18. INVENTORIES

| | THE GROUP | |
|---------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Raw materials | 48,442 | 48,155 |
| Work-in-progress | 29,423 | 31,018 |
| Finished goods | 31,345 | 79,365 |
| Properties for sale | 7,204 | 52,946 |
| | <u>116,414</u> | <u>211,484</u> |

Included above are raw materials of HK\$8,335,000 (2002: HK\$16,908,000), work-in-progress of HK\$12,020,000 (2002: HK\$18,551,000), finished goods of HK\$1,920,000 (2002: HK\$4,386,000) and properties for sale of HK\$7,204,000 (2002: HK\$6,486,000) carried at net realisable values.

19. TRADE AND OTHER RECEIVABLES

| | THE GROUP | | THE COMPANY | |
|--|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Trade receivables | 176,487 | 163,147 | - | - |
| Other receivables, deposits and prepayments | 157,038 | 78,311 | 34,579 | 11,582 |
| | <u>333,525</u> | <u>241,458</u> | <u>34,579</u> | <u>11,582</u> |

The Group allows an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables at 31 December:

| | THE GROUP | |
|------------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Within 90 days | 157,694 | 143,243 |
| Between 91 - 180 days | 10,470 | 10,614 |
| Between 181 - 365 days | 5,182 | 6,025 |
| Between 1 to 2 years | 3,141 | 3,265 |
| | <u>176,487</u> | <u>163,147</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

20. LOANS RECEIVABLE

The major shareholder, China Aerospace Science & Technology Corporation, has undertaken to recover all loans receivable of the Group.

21. PLEDGED BANK DEPOSITS

The amount of the Group represents bank deposits pledged for the Group's bank loans.

22. TRADE AND OTHER PAYABLES

| | THE GROUP | | THE COMPANY | |
|-----------------------------|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Trade payables | 182,978 | 182,375 | - | - |
| Other payables and accruals | 457,347 | 421,408 | 117,960 | 157,165 |
| | 640,325 | 603,783 | 117,960 | 157,165 |

The following is an aged analysis of trade payables at 31 December:

| | THE GROUP | |
|------------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Within 90 days | 146,715 | 129,711 |
| Between 91 – 180 days | 5,601 | 6,200 |
| Between 181 – 365 days | 1,845 | 3,413 |
| Between 1 to 2 years | 6,847 | 36,045 |
| Over 2 years | 21,970 | 7,006 |
| | 182,978 | 182,375 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

23. OBLIGATIONS UNDER FINANCE LEASES

| | Minimum lease payments | | Present value of minimum lease payments | |
|--|---------------------------|------------------|---|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| THE GROUP | | | | |
| Amounts payable under finance leases: | | | | |
| Within one year | 5,416 | 3,354 | 5,114 | 3,137 |
| In the second to the fifth year inclusive | 3,280 | 1,735 | 3,196 | 1,684 |
| | 8,696 | 5,089 | 8,310 | 4,821 |
| Less: Future finance charges | (386) | (268) | N/A | N/A |
| Present value of lease obligations | 8,310 | 4,821 | 8,310 | 4,821 |
| Less: Amount due within one year | | | (5,114) | (3,137) |
| Amount due after one year | | | 3,196 | 1,684 |

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 2 years. For the year ended 31 December 2003, the average effective borrowing rate was 4.09%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

24. BANK LOANS AND OVERDRAFTS

| | THE GROUP | | THE COMPANY | |
|---|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Bank overdrafts and short term bank loans | | | | |
| - secured | 38,208 | 100,602 | - | 49,830 |
| - unsecured | 103,908 | 142,916 | - | 659 |
| | <u>142,116</u> | <u>243,518</u> | <u>-</u> | <u>50,489</u> |
| Current portion of long term bank loans (note 26) | 462,544 | 449,751 | 302,122 | 289,806 |
| | <u>604,660</u> | <u>693,269</u> | <u>302,122</u> | <u>340,295</u> |

25. OTHER LOANS

| | THE GROUP | | THE COMPANY | |
|--|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Other loans are repayable: | | | | |
| - within one year | 116,449 | - | - | - |
| - in the second to the fifth year inclusive | - | 202,435 | - | 39,746 |
| | <u>116,449</u> | <u>202,435</u> | <u>-</u> | <u>39,746</u> |
| Less: Amount due within one year shown under current liabilities | (116,449) | - | - | - |
| Amount due after one year | <u>-</u> | <u>202,435</u> | <u>-</u> | <u>39,746</u> |
| Other loans comprise: | | | | |
| Loans from third parties (note a) | 7,321 | 93,307 | - | 39,746 |
| Guaranteed exchangeable fixed/floating rate notes (note b) | 62,400 | 62,400 | - | - |
| Guaranteed floating rate notes (note c) | 46,728 | 46,728 | - | - |
| | <u>116,449</u> | <u>202,435</u> | <u>-</u> | <u>39,746</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

25. OTHER LOANS (Continued)

Notes:

- (a) Loans from third parties represent advances from independent third parties. The amounts are unsecured, non-interest bearing (2002: bore interest at 4.25% or prime rate per annum) and are repayable on demand (2002: repayable from 2004 to 2005).
- (b) In 2001, a subsidiary of the Company issued US\$8,000,000 guaranteed exchangeable fixed/floating rate notes due 2004 which were in bearer form in the denomination of US\$1,000,000 each and was fully repaid in March 2004. The notes are interest bearing at 6.5% per annum for the period up to September 2002 and at 1.5% above London interbank offered rate (for six-month US dollar deposits) thereafter. At 31 December 2003, unlisted investment securities with a carrying value of HK\$76,662,000 (2002: HK\$76,662,000) are pledged for the notes.
- (c) In 2001, a subsidiary of the Company issued US\$6,000,000 guaranteed secured floating rate notes due 2004 which were in bearer form in the denomination of US\$250,000 each and will mature in September 2004. The notes are interest bearing at 1.5% above London interbank offered rate. At 31 December 2003, listed investment securities with a carrying value of HK\$50,742,000 (2002: HK\$50,742,000) are pledged for the notes.

26. SECURED BANK LOANS

| | THE GROUP | | THE COMPANY | |
|--|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Bank loans are repayable: | | | | |
| - within one year or on demand | 462,544 | 449,751 | 302,122 | 289,806 |
| - in the second year | 105,076 | 35,066 | 96,954 | 21,738 |
| - in the third to fifth year inclusive | 71,554 | 162,050 | 61,828 | 143,498 |
| - after five years | 35,690 | 54,948 | 35,689 | 48,915 |
| | <u>674,864</u> | <u>701,815</u> | <u>496,593</u> | <u>503,957</u> |
| Less: Amount due within one year shown under current liabilities (note 24) | <u>(462,544)</u> | <u>(449,751)</u> | <u>(302,122)</u> | <u>(289,806)</u> |
| Amount due after one year | <u>212,320</u> | <u>252,064</u> | <u>194,471</u> | <u>214,151</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

26. SECURED BANK LOANS (Continued)

The Group's investment properties, property, plant and equipment, bank deposits and listed investment securities with aggregate net book value of HK\$199,545,000 (2002: HK\$182,006,000), HK\$84,476,000 (2002: HK\$115,774,000), HK\$67,407,000 (2002: HK\$78,573,000) and HK\$28,589,000 (2002: HK\$28,589,000), respectively, were pledged to banks. In addition, the Company's interest in a listed associate with a market value of HK\$148,251,000 (2002: HK\$95,689,000) and equity interest in a non-wholly owned subsidiary, China Aerospace (Huizhou) Industrial Garden Limited, were also pledged to banks.

27. DEFERRED TAXATION

The followings are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior periods:

| | Accelerated tax depreciation <i>HK\$'000</i> | Development costs <i>HK\$'000</i> | Technology licence right <i>HK\$'000</i> | Tax losses <i>HK\$'000</i> | Others <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|---|---|---|----------------------------------|---------------------------|--------------------------|
| THE GROUP | | | | | | |
| At 1 January 2002, as previously reported | - | - | - | - | - | - |
| Adjustment on adoption of SSAP 12 (Revised) | 20,908 | 185 | 5,428 | (7,035) | (2,597) | 16,889 |
| At 1 January 2002, as restated | 20,908 | 185 | 5,428 | (7,035) | (2,597) | 16,889 |
| (Credit) charge for the year | (113) | 72 | - | 801 | (25) | 735 |
| At 31 December 2002 | 20,795 | 257 | 5,428 | (6,234) | (2,622) | 17,624 |
| Change in tax rate (note 9) | 1,815 | - | - | - | (221) | 1,594 |
| Credited to income for the year | (740) | - | - | - | - | (740) |
| Deemed disposal of subsidiaries | (1,008) | (257) | (5,428) | 6,234 | - | (459) |
| At 31 December 2003 | 20,862 | - | - | - | (2,843) | 18,019 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

27. DEFERRED TAXATION (Continued)

| | Accelerated depreciation allowance <i>HK\$'000</i> | Tax losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|--|--|---------------------------------|
| THE COMPANY | | | |
| At 1 January 2002, as previously reported | - | - | - |
| Adjustment on adoption of SSAP 12 (Revised) | 6,421 | (6,421) | - |
| At 1 January 2002, as restated | 6,421 | (6,421) | - |
| Charge for the year | 475 | (475) | - |
| At 31 December 2002 | 6,896 | (6,896) | - |
| Change in tax rate | 646 | (646) | - |
| Charge for the year | 718 | (718) | - |
| At 31 December 2003 | 8,260 | (8,260) | - |

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with SSAP 12 (Revised) requirements.

At 31 December 2003, the Group has unused tax losses of approximately HK\$187 million (2002: HK\$227 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to unpredictability of future profit streams, and such tax losses may be carried forward indefinitely.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

28. SHARE CAPITAL

(a) Share capital

| | 2003 & 2002 | |
|--------------------------------|-----------------------------|------------------------------|
| | Number of shares '000 | Nominal value HK\$'000 |
| Ordinary shares of HK\$1 each: | | |
| Authorised: | | |
| At 1 January and 31 December | <u>10,000,000</u> | <u>10,000,000</u> |
| Issued and fully paid: | | |
| At 1 January and 31 December | <u>2,142,420</u> | <u>2,142,420</u> |

(b) Share option scheme

Under the terms of the share option scheme which became effective on 8 July 1997, the board of directors of the Company may offer to any full time employee of the Company, or any of its subsidiaries, including executive directors of the Company and/or any of its subsidiaries, options to subscribe for shares in the Company. The purpose of the scheme is to recognise the contribution of employees of the Group. Consideration of HK\$1 is payable on each grant. The exercise price of the option will not be less than the higher of the nominal value of the shares and 80% of the average of the closing price of the shares on The Stock Exchange of Hong Kong Limited on the five trading days immediate preceding the date of the grant of the options. The total number of shares in respect of which options may be granted under the scheme is not permitted to exceed 10% of the issued share capital of the Company from time to time.

No option under the scheme was granted, exercised or outstanding during the two years ended 31 December 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

29. RESERVES

| | Share premium HK\$'000 | Special capital reserve (note a) HK\$'000 | Capital redemption reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|----------------------------|------------------------------|---|--|-----------------------------------|--------------------|
| THE COMPANY | | | | | |
| At 1 January 2002 | 939,048 | 84,656 | 1,080 | (2,000,479) | (975,695) |
| Net loss for the year | - | - | - | (337,245) | (337,245) |
| At 31 December 2002 | 939,048 | 84,656 | 1,080 | (2,337,724) | (1,312,940) |
| Net loss for the year | - | - | - | (63,969) | (63,969) |
| At 31 December 2003 | 939,048 | 84,656 | 1,080 | (2,401,693) | (1,376,909) |

Notes:

- (a) Under the terms of the court order in the reduction of the share premium on 11 July 1994 (the "effective date"), the Company had given an undertaking to the court that a sum equal to the amount of the distributable profits of the Company as at 11 July 1994 and any write back of the total provisions which have been made against at the effective date on the investments will be transferred to a special capital reserve account. The Company is unable to distribute the special capital reserve until the actual and contingent liabilities outstanding at the effective date are paid off.
- (b) General reserve of the Group is part of the shareholders' funds and comprises reserve fund and enterprise expansion fund of the subsidiaries and associates in the PRC.
- (c) The Company had no reserve available for distribution as at 31 December 2003 (2002: nil).
- (d) The general reserve, translation reserve and accumulated losses of the Group include the Group's share of the reserves of its associates amounting to HK\$8,775,000 (2002: HK\$8,775,000), nil (2002: HK\$2,940,000) and HK\$61,650,000 (2002: HK\$75,362,000), respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

30. DEEMED DISPOSAL/DISPOSAL OF SUBSIDIARIES

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Net assets disposed of: | | |
| Property, plant and equipment | 53,022 | 8,992 |
| Goodwill | 4,009 | - |
| Development costs | 8,758 | 3 |
| Technology licence right | 33,553 | - |
| Interests in associates | 32,800 | - |
| Amounts due from associates | 26,229 | - |
| Inventories | 23,752 | 75,561 |
| Trade and other receivables | 52,100 | 4,229 |
| Bank balances and cash | 25,722 | 30,581 |
| Trade and other payables | (47,111) | (46,984) |
| Obligations under finance leases | (21) | - |
| Bank loans | (52,077) | (33,018) |
| Other loans | (50,135) | - |
| Taxation payable | (1,012) | - |
| Deferred taxation | (459) | - |
| Minority interests | (42,920) | (2,523) |
| | <u>66,210</u> | <u>36,841</u> |
| Realisation of reserves | 21,593 | (986) |
| (Loss) gain on deemed disposal/disposal | (28,331) | 7,840 |
| | <u>59,472</u> | <u>43,695</u> |
| Represented/satisfied by: | | |
| Interests in associates | 59,472 | - |
| Bank balances and cash | - | 43,695 |
| | <u>59,472</u> | <u>43,695</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

30. DEEMED DISPOSAL/DISPOSAL OF SUBSIDIARIES *(Continued)*

Analysis of the net (outflow) inflow of cash and cash equivalents in respect of the deemed disposal/disposal of subsidiaries:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|------------------------------------|------------------|------------------|
| Cash consideration | - | 43,695 |
| Bank balances and cash disposed of | <u>(25,722)</u> | <u>(30,581)</u> |
| | <u>(25,722)</u> | <u>13,114</u> |

The subsidiaries disposed of during the year did not contribute significantly to the Group's cash flows or operating results.

31. MAJOR NON-CASH TRANSACTIONS

Except as disclosed in note 30, the Group has the following major non-cash transactions:

- (a) During the year, the Group entered into finance lease arrangements in respect of assets with total value at the inception of the leases of HK\$8,322,000 (2002: HK\$2,179,000).
- (b) During the year, properties for sale of HK\$46,460,000 (2002: HK\$116,151,000) were disposed of at a consideration of HK\$48,920,000 (2002: HK\$118,030,000) to a lender of other loans. The consideration was applied to set off against other loan and interest payables of HK\$39,746,000 and HK\$9,174,000, respectively, due to the lender.
- (c) During the year ended 31 December 2002, the Company's major shareholder received settlement of loans receivable of HK\$134,000,000 on behalf of the Group and the amount was applied to set off against the amount due to the major shareholder.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

32. CONTINGENT LIABILITIES

| | THE GROUP | | THE COMPANY | |
|---|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Guarantees given for banking and finance facilities granted to: | | | | |
| - subsidiaries | - | - | 707,160 | 707,160 |
| - third parties | 4,450 | 4,450 | 4,450 | 4,450 |
| Guarantees given for fixed floating rate notes issued by subsidiaries | - | - | 109,032 | 109,032 |
| | <u>4,450</u> | <u>4,450</u> | <u>820,642</u> | <u>820,642</u> |

33. CAPITAL COMMITMENTS

| | THE GROUP | | THE COMPANY | |
|--|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Capital expenditure contracted for but not provided in the financial statements in respect of: | | | | |
| - capital contribution to investee companies | 2,829 | 2,939 | - | 110 |
| - purchase of property, plant and equipment | 6,908 | 5,139 | - | - |
| - properties under development | - | 5,672 | - | 3,730 |
| | <u>9,737</u> | <u>13,750</u> | <u>-</u> | <u>3,840</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

34. OPERATING LEASE COMMITMENTS

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---------------------------------------|--------------------------------|-------------------------|
| Within one year | 3,744 | 4,198 |
| In the second to fifth year inclusive | 660 | 1,647 |
| | <u>4,404</u> | <u>5,845</u> |

Operating lease payments represent rentals payable by the Group for certain of its manufacturing plants, office properties and quarters. Leases are generally negotiated and rentals are fixed for an average term of one to two years.

At 31 December 2003, the Company had no commitments under non-cancellable operating leases (2002: nil).

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---------------------------------------|--------------------------------|-------------------------|
| Within one year | 13,259 | 13,850 |
| In the second to fifth year inclusive | 8,359 | 8,810 |
| | <u>21,618</u> | <u>22,660</u> |

The properties held have committed tenants for the next one to two years. The properties are expected to generate rental yields of 10% on an ongoing basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

35. RETIREMENT BENEFIT SCHEMES

The Group operates a MPF scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustee. The Group basically contributes 5% of relevant payroll costs to the scheme.

The employees in the Company's PRC subsidiaries are members of the state-managed pension scheme operated by the PRC government. The Company's subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

The total cost charged to the income statement HK\$1,848,000 (2002: HK\$2,871,000) represents contribution to the schemes by the Group at the rates specified in the rules of the schemes.

36. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| A substantial shareholder of a non wholly-owned subsidiary: | | |
| - Sales thereto (<i>note a</i>) | - | 65 |
| - Purchase therefrom (<i>note a</i>) | - | 49 |
| - Subcontracting income received (<i>note a</i>) | - | 8,338 |
| Associates of the Group: | | |
| - Sales thereto (<i>note a</i>) | 14,720 | 2,463 |
| - Purchase therefrom (<i>note a</i>) | 82,043 | 22,177 |
| - Product development fee received (<i>note b</i>) | - | 7,623 |
| - Sales of property, plant and equipment (<i>note b</i>) | 4,500 | 8,271 |

Notes:

- (a) The transaction amounts were determined on a cost plus basis.
- (b) The transactions were carried in accordance with the relevant agreement.
- (c) Amounts due from or to associates are unsecured, non-interest bearing and with no fixed repayment terms.
- (d) Amount due to a major shareholder is unsecured and non-interest bearing. The amount is repayable in December 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

36. RELATED PARTY TRANSACTIONS *(Continued)*

At 31 December 2002, the Group had an outstanding loan amounting to US\$5,500,000 (approximately HK\$42,900,000) from certain financial institutions. Those loan agreements contained a covenant that the controlling shareholder of the Company, China Aerospace Science & Technology Corporation, would maintain a minimum percentage of shareholding of 40% of the Company, the breach of which would constitute an event of default on the related loan facilities. The loan was fully repaid during the year.

37. POST BALANCE SHEET EVENT

Pursuant to a placing and underwriting agreement dated 3 March 2004, CASIL Telecommunications Holdings Limited, an associate of the Company, issued 100,000,000 shares of HK\$0.10 each at a placing price of HK\$0.41 per share. The Company's interest in this associate decreased from approximately 49% to 44% after this placement.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

| Name of subsidiary | Nominal value of issued ordinary share capital/ registered capital* | Percentage of equity | | | Principal activities |
|---|---|--------------------------|---------------------------|--------------------------------|-------------------------------------|
| | | held by the Company % | held by subsidiaries % | attributable to the Group % | |
| <i>Incorporated and operating in Hong Kong:</i> | | | | | |
| CASIL Clearing Limited | HK\$10,000,000 | 100 | - | 100 | Provision of treasury services |
| CASIL Development Limited | HK\$1,000,000 | - | 100 | 100 | Property development and investment |
| CASIL Electronic Products Limited | HK\$15,000,000 | 100 | - | 100 | Distribution of electronic products |
| CASIL Global Development Limited | HK\$100 | 100 | - | 100 | General trading |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Nominal value of issued ordinary share capital/ registered capital* | Percentage of equity | | | Principal activities |
|--|--|--------------------------|---------------------------|--------------------------------|--|
| | | held by the Company % | held by subsidiaries % | attributable to the Group % | |
| <i>Incorporated and operating in Hong Kong: (Continued)</i> | | | | | |
| CASIL Lands Limited | HK\$10,000 | - | 100 | 100 | Property investment |
| China Aerospace New World Technology Limited (formerly known as "CASIL Network System Engineering Limited") | HK\$15,000,000 | 100 | - | 100 | Investment holding |
| CASIL (Nominees) Limited | HK\$2 | 100 | - | 100 | Provision of secretarial services |
| CASIL Optoelectronic Product Development Limited | HK\$3,000,000 | - | 100 | 100 | Distribution of optoelectronic products |
| CASIL Properties Limited | HK\$10,000 | 100 | - | 100 | Property investment |
| CASIL Realty Limited | HK\$200 | 100 | - | 100 | Property investment and management |
| CASIL Research and Development Company Limited | HK\$8,000,000 | 100 | - | 100 | Research, development and trading of electronic products |
| CASIL Satellite Holdings Limited | HK\$88,106,563 (2 ordinary shares of HK\$1 each and 11,295,713 ordinary shares of US\$1 each) | - | 100 | 100 | Investment holding |
| CASIL Semiconductor Limited | HK\$15,000,000 | 100 | - | 100 | Distribution of liquid crystal displays |
| Chee Yuen Industrial Company Limited | HK\$20,000,000 | 100 | - | 100 | Distribution of plastic products and moulds |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Nominal value of issued ordinary share capital/ registered capital* | Percentage of equity | | | Principal activities |
|---|--|-----------------------------|------------------------------|-----------------------------------|---|
| | | held by the Company % | held by subsidiaries % | attributable to the Group % | |
| <i>Incorporated and operating in Hong Kong; (Continued)</i> | | | | | |
| Fakin Trading Company Limited | HK\$500,000 | 100 | - | 100 | General trading |
| Far East United Electronics Limited | HK\$10,000,000 | 100 | - | 100 | Property investment |
| Hong Yuen Electronics Limited | HK\$5,000,000 | 100 | - | 100 | Manufacturing and selling of printed circuit boards |
| Jeckson Electric Company Limited | HK\$5,000,000 | 100 | - | 100 | Manufacturing and distribution of electronic components |
| Jeckwell International Trading Company Limited | HK\$800,000 | 100 | - | 100 | General trading |
| Merrycity Company Limited | HK\$380,000 | - | 100 | 100 | Property investment |
| Sure Full Investments Limited | HK\$2 | 100 | - | 100 | Property investment |
| Well Horn Company Limited | HK\$2 | - | 100 | 100 | Property investment |
| Worldwide Polyfoam & Engineering Limited | HK\$3,000,000 | 100 | - | 100 | General trading |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Nominal value of issued ordinary share capital/ registered capital* | Percentage of equity | | | Principal activities |
|---|---|-----------------------|------------------------|-----------------------------|---|
| | | held by the Company % | held by subsidiaries % | attributable to the Group % | |
| <i>Incorporated in the British Virgin Islands and operating in Hong Kong:</i> | | | | | |
| Astrotech Group Limited | US\$1 | 100 | - | 100 | Investment holding |
| Sinolike Investments Limited | US\$1 | 100 | - | 100 | Investment holding |
| <i>Registered and operating in the PRC:</i> | | | | | |
| Aerospace Technology (China) Company Limited | US\$5,000,000* | 100 | - | 100 | Manufacturing of telecommunication products |
| CASIL Science and Technology Development (Shenzhen) Company Limited | US\$1,500,000* | 100 | - | 100 | Design and distribution of integrated circuits and intelligent automation systems |
| Chee Yuen Plastic Products (Huizhou) Company Limited | RMB26,761,000* | - | 100 | 100 | Manufacturing of plastic products and moulds |
| China Aerospace (Huizhou) Industrial Garden Limited | US\$12,000,000* | 90 | - | 90 | Property development |
| Conhui (Huizhou) Electronics Company Limited | RMB131,831,747* | - | 100 | 100 | Manufacturing and distribution of electronic products |
| Conhui (Huizhou) Semiconductor Company Limited | RMB31,229,651* | - | 100 | 100 | Manufacturing of liquid crystal displays |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Nominal value of issued ordinary share capital/ registered capital* | Percentage of equity | | | Principal activities |
|---|---|--------------------------|---------------------------|--------------------------------|---|
| | | held by the Company % | held by subsidiaries % | attributable to the Group % | |
| <i>Incorporated in the British Virgin Islands and operating in Hong Kong: (Continued)</i> | | | | | |
| Conhui (Huizhou) Worldwide Polyfoam Limited | RMB3,728,813* | - | 100 | 100 | Manufacturing of polyfoam products |
| Huizhou Jeckson Electric Company Limited | US\$1,000,000* | - | 90 | 90 | Subcontractor for the manufacture of electronic products |
| Huizhou Zhi Fat Metal & Plastic Electroplating Company Limited | US\$400,000* | - | 90 | 90 | Manufacturing of electronics and plastic products |
| Junhan Electronics (Shenzhen) Company Limited | HK\$3,000,000* | - | 100 | 100 | Manufacturing and distribution of optoelectronic products |
| Shenzhen Chee Yuen Plastics Company Limited | RMB22,000,000* | - | 80 | 80 | Manufacturing of plastic products |
| 惠州市海燕賓館有限公司 | RMB7,700,000* | - | 51 | 46 | Hotel operation |
| Casil Research and Development Centre | US\$2,000,000* | 100 | - | 100 | The research and development of system technology in satellite application and digital broadcasting, transfer & service provision of technology |

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

39. PARTICULARS OF PRINCIPAL ASSOCIATES

| Name of associate | Nominal value of issued ordinary share capital/ registered capital* | Percentage of equity attributable to the Group % | Principal activities |
|---|--|--|--|
| <i>Incorporated and operating in Hong Kong:</i> | | | |
| CASTEL Broadband (Hong Kong) Limited | HK\$10,000 | 49 | Broadband business |
| CASTEL Broadband Limited | HK\$10,000 | 49 | Broadband business |
| CASTEL Intelligent Transportation System Limited | HK\$11,600,000 | 34 | Intelligent transportation system business |
| CASTEL Qihua Hi-Tech Investments Limited | HK\$8,000,000 | 34 | Investment holding |
| Hung Nien Electronics Limited | HK\$30,000,000 (300,000 deferred shares of HK\$100 each) HK\$1,000 (10 ordinary shares of HK\$100 each) | 49 | Manufacturing and distribution of telecommunication products |
| <i>Incorporated in the Cayman Islands and operating in Hong Kong:</i> | | | |
| CASIL Telecommunications Holdings Limited** | HK\$91,713,976 | 49 | Investment holding |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

39. PARTICULARS OF PRINCIPAL ASSOCIATES (Continued)

| Name of associate | Nominal value of issued ordinary share capital/ registered capital* | Percentage of equity attributable to the Group % | Principal activities |
|---|--|--|--|
| <i>Registered and operating in the PRC:</i> | | | |
| CASIL Telecommunications (Shenzhen) Company Limited | HK\$5,000,000* | 49 | Manufacturing and selling of telecommunications products |
| 北京奇華通訊有限公司 | RMB1,239,000* | 27 | Intelligent transportation system business |
| Jiangsu CASIL Broadcasting & Cable TV Network Company Limited | RMB64,000,000* | 49 | Broadcasting business |
| Southern Telecommunication Development Company Limited | US\$8,400,000* | 21 | Manufacturing and selling of telecommunication products |
| China Cable and CASIL Information Technology Company Limited | RMB17,000,000* | 36 | Research and development on digital audio systems and related research and development activities |

** Listed on The Stock Exchange of Hong Kong Limited

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

APPENDIX I FINANCIAL SUMMARY

RESULTS

| | Year ended 31 December | | | | |
|---|------------------------|------------------|------------------|--------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 1999 HK\$'000 |
| Turnover | <u>1,239,633</u> | <u>1,299,825</u> | <u>1,008,293</u> | <u>1,066,019</u> | <u>1,283,521</u> |
| Profit (loss) before taxation | <u>32,144</u> | <u>(291,272)</u> | <u>(865,480)</u> | <u>(1,062,984)</u> | <u>(452,829)</u> |
| Taxation | <u>(5,432)</u> | <u>(12,571)</u> | <u>(1,782)</u> | <u>(10,499)</u> | <u>(6,663)</u> |
| Profit (loss) before minority interests | <u>26,712</u> | <u>(303,843)</u> | <u>(867,262)</u> | <u>(1,073,483)</u> | <u>(459,492)</u> |
| Minority interests | <u>3,484</u> | <u>2,024</u> | <u>129,835</u> | <u>54,421</u> | <u>73,901</u> |
| Net profit (loss) for the year | <u>30,196</u> | <u>(301,819)</u> | <u>(737,427)</u> | <u>(1,019,062)</u> | <u>(385,591)</u> |

ASSETS AND LIABILITIES

| | At 31 December | | | | |
|-------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 1999 HK\$'000 |
| Non-current assets | <u>1,268,052</u> | <u>1,379,675</u> | <u>1,629,714</u> | <u>2,282,996</u> | <u>2,849,295</u> |
| Current assets | <u>1,463,148</u> | <u>1,501,075</u> | <u>1,892,890</u> | <u>2,175,215</u> | <u>2,900,445</u> |
| Current liabilities | <u>(1,417,527)</u> | <u>(1,337,080)</u> | <u>(1,694,277)</u> | <u>(1,833,440)</u> | <u>(2,589,452)</u> |
| Non-current liabilities | <u>(410,182)</u> | <u>(650,454)</u> | <u>(615,747)</u> | <u>(505,791)</u> | <u>(611,107)</u> |
| Minority interests | <u>(19,157)</u> | <u>(64,328)</u> | <u>(68,910)</u> | <u>(174,423)</u> | <u>(153,736)</u> |
| Shareholders' funds | <u>884,334</u> | <u>828,888</u> | <u>1,143,670</u> | <u>1,944,557</u> | <u>2,395,445</u> |

Note: Prior periods have been adjusted to reflect the change in accounting policy for the adoption of Statement of Standard Accounting Practice 12 (Revised) "Income taxes" as described in note 2 to the financial statements.

APPENDIX II INVESTMENT PROPERTIES

LONG TERM LEASES

| Location | Lot number | Existing use | Approximate gross floor area (sq. m) | Group's interest (%) |
|--|--|--------------|--------------------------------------|----------------------|
| Units 6 on 5th and 12th Floor and Unit 3 on 16th Floor, Block 38 Heng Fa Chuen 100 Shing Tai Road Chai Wan Hong Kong | Chai Wan Inland Lot No. 121 | Residential | 325 | 100 |
| Unit 6 on 6th Floor, Block 38 Heng Fa Chuen 100 Shing Tai Road Chai Wan Hong Kong | Chai Wan Inland Lot No. 121 | Residential | 46 | 100 |
| Flat A on 6th, 7th and 24th Floor (including the roof thereof) Mainway Building 21 Yuet Yuen Street North Point Hong Kong | Inland Lot Nos. 7504, 7505 and 7506 | Residential | 156 | 100 |
| Flat B on 6th, 7th and 11th Floor Mainway Building 21 Yuet Yuen Street North Point Hong Kong | Inland Lot Nos. 7504, 7505 and 7506 | Residential | 129 | 100 |
| Flat B on 9th Floor Mainway Building 21 Yuet Yuen Street North Point Hong Kong | Inland Lot Nos. 7504, 7505 and 7506 | Residential | 43 | 100 |

APPENDIX II INVESTMENT PROPERTIES

MEDIUM TERM LEASES

| Location | Lot number | Existing use | Approximate gross floor area (sq. m) | Group's interest (%) |
|---|---------------------------------------|--------------|--------------------------------------|----------------------|
| Conic Investment Building 13 Hok Yuen Street Hungghom Kowloon | Kowloon Marine Lot No. 40 | Industrial | 27,247 | 100 |
| 3rd, 4th and 11th Floor Cheung Hing Industrial Building 23 Tai Yip Street Kwun Tong Kowloon | Kwun Tong Inland Lot No. 656 | Industrial | 1,631 | 100 |
| Shops A and B, 1st Floor Concordia Plaza 1 Science Museum Road Kowloon | Kowloon Inland Lot No. 10999 | Commercial | 397 | 100 |
| Flat 810 on 8th Floor, Block C Telford Gardens 33 Wai Yip Street Ngau Tau Kok Kowloon | New Kowloon Inland Lot No. 5744 | Residential | 49 | 49 |
| The Whole of 4th and 17th to 19th Floors and Car Park Nos. P1, L3-L5, LD1, LD2 and LD5 on Ground Floor, Car Park Nos. P16-P24 and P32 on 1st Floor and Car Park Nos. P34-P37 on 2nd Floor China Aerospace Centre 143 Hoi Bun Road Kwun Tong Kowloon | Kwun Tong Inland Lot. No. 528 | Industrial | 5,347 | 100 |

APPENDIX III MAJOR PROPERTIES UNDER DEVELOPMENT AND PROPERTIES FOR SALE

| Location | Intended use | Stage of completion | Expected date of completion | Site area (sq. m) | Gross floor area (sq. m) | Group's interest % |
|---|------------------------------|---|-----------------------------|----------------------|-----------------------------|-----------------------|
| Properties under development | | | | | | |
| 中國惠州市惠環鎮斜下工業區3, 4, 5號小區 | Commercial and manufacturing | Foundation and superstructure in progress | 2004 | 240,000 | 390,000 | 90 |
| Properties for sale | | | | | | |
| Units 1 to 6 of 6/F China Aerospace Centre No. 143 Hoi Bun Road Kwun Tong Kowloon | Commercial | Completed | N/A | - | 972 | 100 |

