

NOTES TO FINANCIAL STATEMENTS

31 December 2000

1. CORPORATE INFORMATION

During the year the Group was involved in the following principal activities:

- manufacture and sale of paint products
- trading of steel products
- property investment
- property development
- strategic investments

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties, certain fixed assets and equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) sale of goods and properties, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods and properties sold;
- (b) rental income, in the period in which the properties are let, on a straight-line basis over the lease terms;
- (c) sale of short term investments, on the transaction dates when the relevant contract notes are executed;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (e) dividends, when the shareholders' right to receive payment is established.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Upon the disposal of shares in subsidiaries, any gain or loss arising thereon, including the realisation of the attributable reserves, is charged to the profit and loss account.

Where the Group's equity interest in its subsidiaries is diluted by virtue of the additional issue of shares by such subsidiaries (the "deemed disposal"), any gain or loss arising from the deemed disposal, including the realisation of the attributable reserves, is dealt with in the profit and loss account.

Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values other than temporary in nature deemed necessary by the directors.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any provisions for permanent diminutions in values other than temporary in nature deemed necessary by the directors.

Goodwill/Capital reserve

Goodwill arising on the consolidation of subsidiaries and on the acquisition of associates represents the excess of the purchase consideration paid for subsidiaries/associates over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition.

Capital reserve on consolidation represents the excess of the fair values ascribed to the acquired subsidiaries or associates' net underlying assets at the date of acquisition over the purchase consideration for such subsidiaries or associates.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill/Capital reserve (continued)

In the case of gains arising from deemed disposals of the Group's interests in its subsidiaries or associates, an amount equal to the increase in the Group's share of the non-distributable reserves of the subsidiaries or associates is transferred to capital reserve.

Upon disposal of a subsidiary or an associate (deemed or actual), the attributable amount of purchased goodwill or capital reserve on consolidation which had previously been dealt with in reserves and not previously dealt with the profit and loss account, is realised to the profit and loss account to determine the gain or loss on disposal of the investments.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation, less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that fixed asset.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal or retirement of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Nil
Leasehold land	Over the remaining lease terms
Freehold and leasehold buildings	2% or over the remaining lease terms, whichever is shorter
Leasehold improvements	10% - 33% or over the lease terms, whichever is shorter
Plant and machinery	9% - 25%
Furniture, fixtures and equipment	10% - 33%
Motor vehicles	18% - 25%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. When a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Properties under development

Properties under development intended for sale are stated at the lower of cost and net realisable value. Net realisable value is based on the future estimated net sales proceeds less further cost expected to be incurred to completion and disposal. Cost includes all development expenditure, capitalised interest and other direct costs attributable to such properties.

Properties under development held for other purposes are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value which is determined by reference to the prevailing market price. Cost includes capitalised interest up to the date of issuance of an occupation permit and other direct costs attributable to such properties.

Leased assets

Leases and hire purchase contracts that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. Assets held under hire purchase contracts which have the characteristics of a finance lease are depreciated over the useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets which took a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 9% and 11% has been applied to the expenditure on the individual assets.

Long term investments

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any provision for impairments in values deemed necessary by the directors, other than those considered to be temporary in nature, on an individual basis.

When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged is credited to the profit and loss account to the extent of the amounts previously charged.

Short term investments

Short term investments are investments in equity securities and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value, after making due allowance for any obsolete or slow-moving items. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials and, where applicable, an appropriate portion of direct labour and manufacturing overheads. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated to Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Retirement benefits schemes

The Group operates defined contribution and defined benefit schemes, under the Mandatory Provident Fund Schemes Ordinance, for its employees. Contributions to defined contribution schemes are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. Contributions to defined benefit schemes are made based on the periodic recommendations of independent actuaries and are charged to the profit and loss account as incurred. The assets of the schemes are held separately from those of the Group in independently administered funds. When an employee leaves the retirement benefits schemes exempted under Mandatory Provident Fund Schemes Ordinance prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. In respect to the Mandatory Provident Fund retirement benefits scheme the Group's employer contributions vest fully with the employees when contributed into the scheme.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

NOTES TO FINANCIAL STATEMENTS (continued)

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3. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, proceeds from the sale of properties, rental income and proceeds from the sale of short term investments. Turnover is arrived at after the elimination of all significant intra-group transactions.

An analysis of turnover and revenue is as follows:

	2000 HK\$'000	1999 HK\$'000
Sale of paint products	359,884	364,086
Sale of other goods	13,036	14,288
Sale of properties	61,781	69,131
Gross rental income from investment properties	3,210	10,296
Strategic investments	6,640	9,196
Turnover	<u>444,551</u>	<u>466,997</u>
Gain on disposal of fixed assets	9,932	-
Interest income	5,563	12,892
Write-back of provisions for bank guarantees given to associates	-	6,011
Others	8,723	5,653
Other revenue	<u>24,218</u>	<u>24,556</u>
Total revenue	<u><u>468,769</u></u>	<u><u>491,553</u></u>

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2000

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging:

	2000 HK\$'000	1999 HK\$'000
Cost of inventories sold	217,401	199,621
Cost of properties held for sale sold	61,821	76,171
Depreciation:		
Owned fixed assets	17,305	18,503
Leased fixed assets	711	734
	<u>18,016</u>	<u>19,237</u>
Operating lease rentals in respect of land and buildings	7,334	4,622
Write-off of deferred pre-operating expenses	–	543
Auditors' remuneration	2,349	2,615
Staff costs (excluding directors' remuneration - note 7):		
Wages and salaries	53,198	50,679
Contributions to defined contribution pension scheme	1,301	1,142
Less: Forfeited contributions refunded	(308)	(122)
Net pension contributions	<u>993</u>	<u>1,020</u>
	<u>54,191</u>	<u>51,699</u>
Foreign exchange losses - net	–	228

NOTES TO FINANCIAL STATEMENTS (continued)

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4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (continued)

	2000 HK\$'000	1999 HK\$'000
Other operating expenses, including:		
Loss on disposal of fixed assets	1,201	15,988
Loss on disposal of interest in a subsidiary	382	2,054
Loss on disposal of investment properties	4,377	7,120
Deficit on revaluation of investment properties	3,242	6,974
Loss on disposal of a property under development	–	1,939
Provisions for diminutions in values of properties under development	3,104	27,000
Provisions for diminutions in values of properties held for sale	–	38,611
Provisions for impairment in values of long term investments	–	4,270
Provisions for impairment in values of short term investments	373	340
and after crediting:		
Gross rental income from investment properties	3,210	10,296
Less: outgoings	(7)	(35)
Net rental income from investment properties	<u>3,203</u>	<u>10,261</u>
Write-back of provision for inventories	3,154	–
Gain on disposal of fixed assets	9,932	–
Gain on disposal of short term investments	368	1,423
Interest income	5,563	12,892
Foreign exchange gains - net	<u>302</u>	<u>–</u>

The amounts of forfeited contributions available at the current and prior year ends to reduce contributions in future years were not material.

NOTES TO FINANCIAL STATEMENTS (continued)

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5. FINANCE COSTS

	2000 HK\$'000	1999 HK\$'000
Interest on:		
Bank loans and overdrafts	11,062	11,129
Other loans wholly repayable within five years	3,563	6,157
Interest on finance leases	119	186
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Total finance costs	14,744	17,472
Less: Interest capitalised in respect of properties under development	–	(4,324)
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	<u>14,744</u>	<u>13,148</u>

6. DISCONTINUED OPERATIONS

In February 1999, the Group disposed of its interest in Citybus Group Limited ("Citybus") to an independent third party. The principal activity of Citybus was the provision of both franchised and non-franchised bus services in Hong Kong and bus services in Mainland China. The results of Citybus were consolidated up to 11 October 1998, when Citybus became an associate of the Group, and were equity accounted for thereafter until its eventual disposal. Following the disposal of Citybus, the Group discontinued its transportation activities.

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and Section 161 of the Companies Ordinance is as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Fees:		
Executive	2,750	9,650
Non-executive	250	1,150
	<hr/>	<hr/>
	3,000	10,800
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Other emoluments:		
Salaries, allowances and benefits in kind	13,172	15,215
Pension scheme contributions	364	384
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	13,536	15,599
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	<u>16,536</u>	<u>26,399</u>