

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. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following recently-issued and revised SSAPs and related interpretations (“Interpretations”) are effective for the first time for the current year’s financial statements:

- SSAP 9 (Revised): “Events after the balance sheet date”
- SSAP 14 (Revised): “Leases”
- SSAP 18 (Revised): “Revenue”
- SSAP 26: “Segment reporting”
- SSAP 28: “Provisions, contingent liabilities and contingent assets”
- SSAP 29: “Intangible assets”
- SSAP 30: “Business combinations”
- SSAP 31: “Impairment of assets”
- SSAP 32: “Consolidated financial statements and accounting for investments in subsidiaries”
- Interpretation 12: “Business combinations - subsequent adjustment of fair values and goodwill initially reported”
- Interpretation 13: “Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretations, are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Under the revised SSAP 9, proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. This revision has had no major impact on these financial statements.



2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

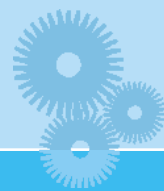
SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 28 and 35 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company’s own financial statements for the year. The adoption of this revised SSAP has had no major impact on these financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. This has had no major impact on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. This has had no major impact on these financial statements.



2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has resulted in a prior year adjustment, further details of which are included in note 31 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

In addition to the above new and revised SSAPs and related Interpretations, certain minor revisions to the following SSAPs are effective for the first time for the current year’s financial statements:

- SSAP 10: “Accounting for investments in associates”
- SSAP 17: “Property, plant and equipment”
- SSAP 21: “Accounting for interests in joint ventures”

These have had no major impact on these financial statements.

3. 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 periodic remeasurement of investment properties, certain fixed assets and equity investments, as further explained below.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. The results of 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.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

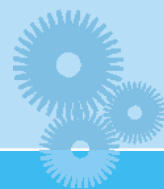
Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)***Jointly-controlled entities***

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, 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 impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated against reserves, is included as part of the Group's interests in associates.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

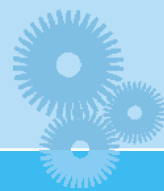
Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)***Impairment of assets***

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. 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 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 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 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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)***Fixed assets and depreciation*** (continued)

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.

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, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. 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. Any subsequent revaluation 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 less any impairment losses.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)***Properties held for sale***

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

Mining rights

Mining rights acquired under contractual arrangements are stated at cost less accumulated amortisation and any impairment losses. Mining rights are amortised on the straight-line basis over the terms of the rights.

Leased assets

Leases 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. 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. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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 impairment losses, on an individual investment 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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)***Short term investments***

Short term investments are investments in equity securities held for trading purposes 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, direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less any further estimated costs to be incurred to completion and disposal.

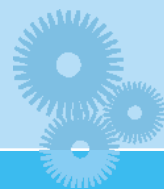
Deferred tax

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.

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) from the 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) from the 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 has been established.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)***Provisions***

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

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 into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange reserve.

Retirement benefits schemes

The Group operates defined contribution and defined benefits schemes under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the schemes. 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 benefits 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 the Hong Kong 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.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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

For the purpose of the consolidated cash flow statement, 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. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

**4. SEGMENT INFORMATION**

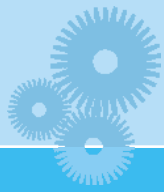
SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the paint products segment engages in manufacturing and sale of paint products;
- (b) the property investment segment comprises:
 - (i) the investment in residential and commercial premises for their rental income potential;
 - (ii) the development and sale of properties; and
- (c) the others segment mainly comprises the trading of steel products and sale of marketable securities.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted at mutually agreed terms.



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

4. SEGMENT INFORMATION (continued)

(a) Business segments

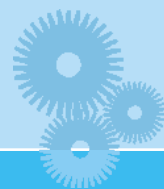
The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Paint products		Property investment		Others		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	355,027	359,884	1,864	64,991	12,617	19,676	—	—	369,508	444,551
Intersegment sales	—	—	9,033	6,537	—	—	(9,033)	(6,537)	—	—
Other revenue	15,789	4,587	1,263	10,352	1,321	3,716	—	—	18,373	18,655
Total	<u>370,816</u>	<u>364,471</u>	<u>12,160</u>	<u>81,880</u>	<u>13,938</u>	<u>23,392</u>	<u>(9,033)</u>	<u>(6,537)</u>	<u>387,881</u>	<u>463,206</u>
Segment results	<u>66,629</u>	<u>70,234</u>	<u>(3,461)</u>	<u>(6,764)</u>	<u>(7,147)</u>	<u>(996)</u>	<u>4,866</u>	<u>5,343</u>	<u>60,887</u>	<u>67,817</u>
Interest income									1,913	5,563
Unallocated expenses									(42,860)	(40,483)
Profit from operating activities									19,940	32,897
Finance costs									(10,226)	(14,744)
Share of profits less losses of:										
A jointly-controlled entity									(286)	—
Associates	2,596	4,940	—	—	—	—	—	—	2,596	4,940
Unallocated associates									2,443	9,219
Profit before tax									14,467	32,312
Tax									(7,655)	(9,600)
Profit before minority interests									6,812	22,712
Minority interests									(49)	1,167
Net profit from ordinary activities attributable to shareholders									<u>6,763</u>	<u>23,879</u>

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

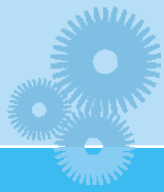


4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Paint products		Property investment		Others		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	221,476	227,382	590,883	600,285	11,769	26,140	(457)	(445)	823,671	853,362
Interests in associates	—	22,555	41,396	38,899	—	—	—	—	41,396	61,454
Unallocated assets:										
Interest in a jointly-controlled entity									308	—
Interests in associates									115,547	83,784
Long term investments									170,734	176,334
Deposits for investments									22,870	—
Others									123,866	138,470
Import loans included in segment assets	1,875	—	—	—	—	—	—	—	1,875	—
Total assets									1,300,267	1,313,404
Segment liabilities	65,448	61,344	15,315	31,577	10,791	12,207	(474)	(462)	91,080	104,666
Unallocated liabilities									125,231	134,298
Import loans included in segment assets	1,875	—	—	—	—	—	—	—	1,875	—
Total liabilities									218,186	238,964
Other segment information:										
Depreciation	13,593	13,479	3,742	3,742	7	9	—	—	17,342	17,230
Unallocated amounts									312	786
									17,654	18,016
Capital expenditure	6,878	2,030	8	172	—	2	—	—	6,886	2,204
Unallocated amounts									463	421
									7,349	2,625
Deficit on revaluation of investment properties	—	—	1,047	3,242	—	—	—	—	1,047	3,242
Impairment of properties under development	—	—	3,000	3,104	—	—	—	—	3,000	3,104
Impairment of short term investments	—	—	—	—	1,419	373	—	—	1,419	373



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenue, profit/(loss) and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Elsewhere in the PRC		Others		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	167,596	248,546	201,895	195,995	17	10	—	—	369,508	444,551
Segment results	(2,400)	(12,622)	62,308	81,405	(419)	(414)	1,398	(552)	60,887	67,817

	Hong Kong		Elsewhere in the PRC		Others		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:										
Segment assets	512,202	527,775	766,598	765,748	19,592	19,881	—	—	1,298,392	1,313,404
Import loans included in segment assets	1,875	—	—	—	—	—	—	—	1,875	—
									1,300,267	1,313,404
Capital expenditure	2,493	1,304	4,856	1,321	—	—	—	—	7,349	2,625

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

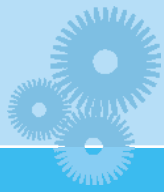


5. TURNOVER, REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; proceeds from the sale of properties held for sale; gross 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, other revenue and gains is as follows:

	2001	2000
	HK\$'000	HK\$'000
Turnover		
Sale of paint products	355,027	359,884
Sale of other goods	9,470	13,036
Sale of properties held for sale	—	61,781
Gross rental income from investment properties	1,864	3,210
Sale of short term investments	3,147	6,640
	<u>369,508</u>	<u>444,551</u>
Other revenue		
Interest income	1,913	5,563
Dividend income from a listed investment	23	—
Others	7,739	8,723
	<u>9,675</u>	<u>14,286</u>
Gains		
Gain on disposal of fixed assets	100	9,932
Gain on disposal of an associate	10,511	—
	<u>10,611</u>	<u>9,932</u>
	<u>20,286</u>	<u>24,218</u>



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

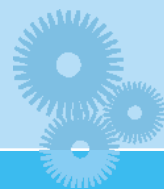
6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	2001 HK\$'000	2000 HK\$'000
Cost of inventories sold	219,685	217,401
Cost of properties held for sale sold	—	61,821
Depreciation	17,654	18,016
Minimum lease payments under operating leases in respect of land and buildings	7,192	7,334
Auditors' remuneration	2,155	2,349
Staff costs (excluding directors' remuneration - note 8):		
Wages and salaries	51,359	53,198
Pension contributions	1,269	1,301
Less: Forfeited contributions	(71)	(308)
Net pension contributions*	<u>1,198</u>	<u>993</u>
	<u>52,557</u>	<u>54,191</u>
Other operating expenses, including:		
Amortisation of an intangible asset	1,920	—
Loss on disposal of fixed assets	29	1,201
Loss on disposal of interest in a subsidiary	—	382
Loss on disposal of investment properties	32	4,377
Deficit on revaluation of investment properties	1,047	3,242
Impairment of properties under development	3,000	3,104
Impairment of long term investments	6,400	—
Impairment of short term investments	1,419	373
Impairment of interest in an associate	23	—
Provision for deposit for an investment	1,950	—

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

**6. PROFIT FROM OPERATING ACTIVITIES** (continued)

	2001	2000
	HK\$'000	HK\$'000
and after crediting:		
Gross rental income from investment properties	1,864	3,210
Less: outgoings	(10)	(7)
Net rental income from investment properties	<u>1,854</u>	<u>3,203</u>
Write back of provision for inventories	2,542	3,154
Write back of provision for trade receivables	1,630	—
Interest income	1,913	5,563
Dividend income from a listed investment	23	—
Gain on disposal of an associate	10,511	—
Gain on disposal of fixed assets	100	9,932
Gain on disposal of short term investments	707	368
Foreign exchange gains, net	<u>117</u>	<u>302</u>

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

7. FINANCE COSTS

	2001	2000
	HK\$'000	HK\$'000
Interest on:		
Bank loans	8,575	11,062
Other loans wholly repayable within five years	1,541	3,563
Interest on finance leases	<u>110</u>	<u>119</u>
	<u>10,226</u>	<u>14,744</u>



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

8. DIRECTORS' REMUNERATION

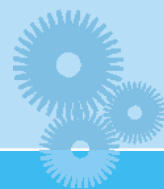
Directors' remuneration disclosed pursuant to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Fees:		
Executive	2,750	2,750
Non-executive	250	250
	<u>3,000</u>	<u>3,000</u>
Other emoluments:		
Salaries, allowances and benefits in kind	13,511	13,172
Pension scheme contributions	407	364
	<u>13,918</u>	<u>13,536</u>
	<u><u>16,918</u></u>	<u><u>16,536</u></u>

The independent non-executive directors of the Company were entitled to a total sum of HK\$250,000 (2000: HK\$250,000) as directors' fees for the year ended 31 December 2001. There were no other emoluments payable to the independent non-executive directors during the year (2000: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2001	2000
Nil - HK\$1,000,000	5	5
HK\$1,500,001 - HK\$2,000,000	—	1
HK\$2,000,001 - HK\$2,500,000	1	—
HK\$2,500,001 - HK\$3,000,000	2	1
HK\$3,000,001 - HK\$3,500,000	—	1
HK\$7,500,001 - HK\$8,000,000	—	1
HK\$8,000,001 - HK\$8,500,000	1	—
	<u>9</u>	<u>9</u>



8. DIRECTORS' REMUNERATION (continued)

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, 144,000,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on page 17. The theoretical value of such options at the date of grant, which has not been charged to the profit and loss account, was HK\$23,852,000 determined based on the Black-Scholes option pricing model.

9. FIVE HIGHEST PAID EMPLOYEES

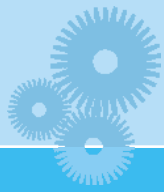
The five highest paid employees during the year included four (2000: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2000: one) non-director, highest paid employee are as follows:

	2001	2000
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	1,069	1,126
Pension scheme contributions	56	52
	<u>1,125</u>	<u>1,178</u>

The remuneration of the other one individual fell within the following band:

	Number of individuals	
	2001	2000
HK\$1,000,001 - HK\$1,500,000	<u>1</u>	<u>1</u>

During the year, 250,000 share options were granted to the non-director, highest paid employee in respect of his services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on page 17. The theoretical value of such options at the date of grant, which has not been charged to the profit and loss account, was HK\$41,000 determined based on the Black-Scholes option pricing model.



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

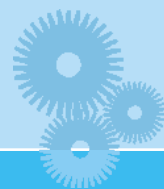
10. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2001 HK\$'000	2000 HK\$'000
Group:		
Provision for tax in respect of profit for the year:		
Hong Kong	400	700
Elsewhere	6,967	9,118
Deferred tax credit (note 29)	(56)	—
	<u>7,311</u>	<u>9,818</u>
Prior year overprovision:		
Hong Kong	(348)	(636)
	<u>6,963</u>	<u>9,182</u>
Share of tax attributable to associates:		
Hong Kong	176	190
Elsewhere	516	228
	<u>692</u>	<u>418</u>
Tax charge for the year	<u><u>7,655</u></u>	<u><u>9,600</u></u>

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2001 dealt with in the financial statements of the Company is a net loss of HK\$64,242,000 (2000: HK\$11,928,000).



12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$6,763,000 (2000: HK\$23,879,000) and the weighted average of 1,528,188,000 (2000: 1,392,328,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2001 is based on the net profit attributable to shareholders of HK\$6,763,000 (2000: HK\$23,879,000) and 1,547,056,000 (2000: 1,393,668,000) shares, which represents the weighted average number of shares in issue during the year plus the weighted average of 18,868,000 (2000: 1,340,000) shares deemed to be issued at no consideration if all dilutive outstanding share options had been exercised.

13. FIXED ASSETS

Group

	Freehold land and buildings	Leasehold land and buildings	Leasehold improve- ments	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:							
At beginning of year	19,273	252,957	5,691	100,347	18,544	22,778	419,590
Additions	—	—	890	3,223	1,148	2,080	7,341
Disposals	—	—	(758)	—	(480)	(2,664)	(3,902)
Exchange realignment	—	117	—	43	10	13	183
At 31 December 2001	19,273	253,074	5,823	103,613	19,222	22,207	423,212
Accumulated depreciation:							
At beginning of year	309	37,475	3,970	71,277	14,525	19,247	146,803
Provided during the year	117	6,725	606	7,886	1,074	1,246	17,654
Disposals	—	—	(528)	—	(357)	(2,187)	(3,072)
Exchange realignment	—	33	—	25	7	12	77
At 31 December 2001	426	44,233	4,048	79,188	15,249	18,318	161,462
Net book value:							
At 31 December 2001	18,847	208,841	1,775	24,425	3,973	3,889	261,750
At 31 December 2000	18,964	215,482	1,721	29,070	4,019	3,531	272,787



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

13. FIXED ASSETS (continued)

The cost or valuation of the Group's land and buildings is made up as follows:

	HK\$'000
Professional valuation in 1994	216,733
Professional valuation in 1998 (transferred from investment properties)	22,700
Cost	32,914
	<u>272,347</u>

Company

	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:				
At beginning of year	1,861	2,968	3,420	8,249
Additions	—	91	300	391
Disposals	—	(49)	(915)	(964)
	<u>1,861</u>	<u>3,010</u>	<u>2,805</u>	<u>7,676</u>
Accumulated depreciation:				
At beginning of year	1,861	2,593	3,149	7,603
Provided during the year	—	136	148	284
Disposals	—	(45)	(732)	(777)
	<u>1,861</u>	<u>2,684</u>	<u>2,565</u>	<u>7,110</u>
Net book value:				
At 31 December 2001	<u>—</u>	<u>326</u>	<u>240</u>	<u>566</u>
At 31 December 2000	<u>—</u>	<u>375</u>	<u>271</u>	<u>646</u>

The net book value of the Group's fixed assets held under finance leases included in the total amount of furniture, fixtures and equipment and motor vehicles at 31 December 2001 amounted to HK\$1,527,000 (2000: HK\$1,083,000).



13. FIXED ASSETS (continued)

Certain of the Group's leasehold land and buildings situated in Hong Kong and Mainland China were revalued at 31 December 1994, by Vigers Hong Kong Limited, independent professional valuers. The leasehold land and buildings situated in Hong Kong were revalued at open market value, based on their existing use. The leasehold land and buildings situated in Mainland China were revalued on a combination of the market and depreciated replacement cost bases. Since 31 December 1994, no further revaluations of the Group's leasehold land and buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions of SSAP 17, from the requirement to carry out future revaluations of its fixed assets which were stated at valuation at that time.

Certain of the Group's land and buildings situated in Hong Kong were reclassified from investment properties in 1999, at their then carrying amount of HK\$22,700,000, as valued on 31 December 1998 by Vigers Hong Kong Limited, independent professional valuers, on the basis of capitalisation of net rental income.

Had these leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying values at 31 December 2001 would have been HK\$170,809,000 (2000: HK\$176,622,000).

The Group's land and buildings included above are held under the following lease terms:

	Hong Kong	Elsewhere	Total
	HK\$'000	HK\$'000	HK\$'000
Freehold	—	19,273	19,273
Long term leases	79,700	—	79,700
Medium term leases	93,733	79,641	173,374
	<u>173,433</u>	<u>98,914</u>	<u>272,347</u>

At 31 December 2001, certain of the above fixed assets with a net book value of approximately HK\$218,079,000 (2000: HK\$212,265,000) were pledged to secure general banking facilities granted to the Group (note 27).



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

14. INVESTMENT PROPERTIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Valuation:		
At beginning of year	106,598	180,395
Transfer from properties under development (note 15)	54,217	—
Disposals	(1,938)	(70,555)
Deficit on revaluation	(1,047)	(3,242)
	<u>157,830</u>	<u>106,598</u>

Analysis by geographical location and lease terms:

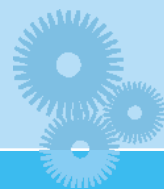
	Group	
	2001	2000
	HK\$'000	HK\$'000
Long term leasehold land and buildings situated in Hong Kong	17,000	17,450
Medium term leasehold land and buildings situated in:		
Hong Kong	79,200	85,308
Elsewhere	61,630	3,840
	<u>140,830</u>	<u>89,148</u>
	<u>157,830</u>	<u>106,598</u>

The Group's investment properties were revalued at 31 December 2001 by Vigers Hong Kong Limited, and Shenzhen Zhongshenxin Asset Valuation Co., Ltd, independent professional valuers. The properties were either revalued at open market value, based on their existing use, or on the basis of capitalisation of net rental income. Certain investment properties are leased to third parties under operating leases, further summary details of which are included in note 35 to the financial statements.

At 31 December 2001, certain of the Group's investment properties with a value of HK\$100,040,000 (2000: HK\$106,598,000), were pledged to secure general banking facilities granted to the Group (note 27).

NOTES TO FINANCIAL STATEMENTS (continued)

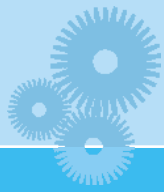
31 December 2001

**15. PROPERTIES UNDER DEVELOPMENT**

	Group	
	2001	2000
	HK\$'000	HK\$'000
At beginning of year	219,212	302,144
Additions	8	172
Disposals	—	(80,000)
Transfer to investment properties (note 14)	(54,217)	—
Impairment provided during the year	(3,000)	(3,104)
At end of year	<u>162,003</u>	<u>219,212</u>

The Group's properties under development are situated in Hong Kong and Mainland China and held under the following lease terms:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Long term leasehold land and buildings situated in Hong Kong	22,003	24,995
Medium term leasehold land and buildings situated in Mainland China	140,000	194,217
	<u>162,003</u>	<u>219,212</u>



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

16. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	224,095	224,095
Due from subsidiaries	1,596,393	1,625,442
Due to subsidiaries	(2,661)	(2,779)
	<u>1,817,827</u>	<u>1,846,758</u>
Provision for impairment	(709,300)	(680,000)
	<u><u>1,108,527</u></u>	<u><u>1,166,758</u></u>

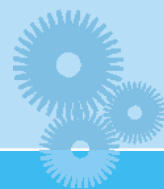
The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for amounts due from subsidiaries of HK\$318,790,000 (2000: HK\$262,011,000) which bear interest at Hong Kong dollar prime rate plus 1% (2000: Hong Kong dollar prime rate plus 1%) per annum.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beforward Investments Limited	British Virgin Islands	US\$1	—	100	Investment holding
C & F Container Limited	Hong Kong	HK\$2	—	100	Property development
The China Paint Manufacturing Company (1946) Limited	Hong Kong	Ordinary HK\$200,000 Non-voting deferred HK\$1,761,300	—	100	Manufacture and sale of paint products and investment holding

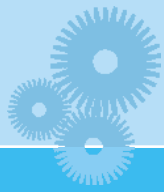
NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001



16. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
The China Paint Manufacturing (Shenzhen) Co., Ltd. #	The People's Republic of China	HK\$50,000,000	—	100	Manufacture and sale of paint products
China Paint Property Limited	Hong Kong	HK\$100,000	—	100	Property investment
China Utilities Limited	British Virgin Islands	US\$1	—	100	Investment holding
CNT Dalian Company Limited	Hong Kong	HK\$2	—	100	Investment holding
CNT Finance Company Limited	Hong Kong	HK\$2	100	—	Fund management
CNT Industries (BVI) Limited	British Virgin Islands	US\$1,635,512	100	—	Investment holding
CNT Investments (BVI) Limited	British Virgin Islands	US\$159,705	100	—	Investment holding
CNT Iron And Steel Limited	British Virgin Islands	US\$1,566,804	—	100	Investment holding
CNT Iron And Steel Trading Company Limited	Hong Kong	HK\$2	—	100	Trading of steel products
CNT-Jialing Investments Limited	Hong Kong	HK\$10,000,000	100	—	Property investment



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

16. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
CNT Management And Secretaries Limited	Hong Kong	HK\$2	100	—	Management and secretarial services
CNT Properties (BVI) Limited	British Virgin Islands	US\$1	100	—	Investment holding
Conley Investment Limited	Hong Kong	HK\$2	—	100	Property investment
Coral Reef Enterprises Limited	British Virgin Islands	US\$1	—	100	Investment holding
Dalian Qinggang Hotel ## **	The People's Republic of China	HK\$35,000,000	—	60	Property investment
Dalian Qinggang Realstate Development Co., Ltd. ## **	The People's Republic of China	US\$2,100,000	—	60	Property development
Dongola Holdings Limited	British Virgin Islands	US\$1	100	—	Investment holding
Fan Ball Development Limited	Hong Kong	HK\$10,000	—	100	Property investment
Full Pool Limited	Hong Kong	HK\$2	—	100	Property investment
Gold Tower Assets Limited	British Virgin Islands	US\$1	—	100	Investment holding

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001



16. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Golden Premium Limited	Hong Kong	HK\$2	—	100	Property development
Honour Rich Development Limited	Hong Kong	HK\$2	—	100	Investment holding
Hua Xia International Development Co. Ltd.**	Taiwan	NTD25,000,000	100	—	Property holding
Hubei Zhongde Paint Mfg Co., Ltd ##	The People's Republic of China	RMB40,000,000	—	90.50	Manufacture and sale of paint products
Joint Rich (Asia) Limited	Hong Kong	HK\$2	—	100	Property investment
Majority Faith Corporation	British Virgin Islands	US\$1	—	100	Investment holding
Multibest Resources Limited	British Virgin Islands	US\$1	—	100	Investment holding
Ocean Wide Assets Limited	British Virgin Islands	US\$1	—	100	Investment holding
Opulent Profits Limited	British Virgin Islands	US\$1	—	100	Investment holding
Poly Victory (Hong Kong) Limited	Hong Kong	HK\$2	—	100	Property investment
Profit Source Limited	Hong Kong	HK\$2	—	100	Securities investment



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

16. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Rainbow Path Enterprises Limited	Hong Kong	HK\$1,000	—	100	Investment holding
R, J & Thomas Secretaries Limited*	Hong Kong	HK\$30,000	—	100	Investment holding
Shinfull Development Limited	Hong Kong	HK\$10	—	60	Property development
Tatpo Corporation Limited	Liberia	US\$20,872	100	—	Investment holding
Vivien Resources Limited	Hong Kong	HK\$2	—	100	Investment holding

* acquired during the year

** not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms

wholly foreign-owned enterprise registered in The People's Republic of China

sino-foreign equity joint venture registered in The People's Republic of China

The above table lists the subsidiaries of the Company 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 subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001



17. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2001	2000
	HK\$'000	HK\$'000
Share of net liabilities	(286)	—
Due from the jointly-controlled entity	594	—
	308	—
	308	—

The amount due from the jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the jointly-controlled entity are as follows:

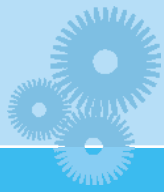
Name	Business structure	Place of incorporation and operations	Percentage of			Principal activity
			Ownership interest	Voting power	Profit sharing	
Right Talent Limited	Corporate	Hong Kong	40	33.33	40	Provision of on-line English teaching

The above investment in the jointly-controlled entity is indirectly held by the Company.

18. INTERESTS IN ASSOCIATES

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	—	—	20,820	20,820
Share of net assets	17,503	1,514	—	—
Due from associates	154,527	158,788	6,780	6,780
	172,030	160,302	27,600	27,600
Provision for impairment	(15,087)	(15,064)	(27,600)	(27,600)
	156,943	145,238	—	—
	156,943	145,238	—	—

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



NOTES TO FINANCIAL STATEMENTS (continued)

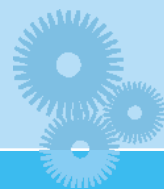
31 December 2001

18. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates are as follows:

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group#		Principal activities
		2001	2000	
Arran Investment Company, Limited	Hong Kong	50	50	Property investment
Becker Industrial - China Paint Limited	Hong Kong	—	49	Trading of paint products and investment holding
Becker Industrial - China Paint (Shenzhen) Co., Ltd.	The People's Republic of China	—	49	Manufacture and sale of paint products
Elegant Stone International Ltd.	British Virgin Islands	44.44	44.44	Investment holding
Hugewell Holdings Ltd.	British Virgin Islands	35	—	Investment holding
Liaoyang Beiyang Realestate Development Company Limited	The People's Republic of China	50	50	Property development
Shenzhen Norinco-CP Company Limited	The People's Republic of China	35	35	Manufacture and sale of containers
Treasure Auctioneer International Limited	British Virgin Islands	20	20	Investment holding
Worldwide Education Limited	British Virgin Islands	20	20	Investment holding

all of the above associates of the Group are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms for the year ended 31 December 2001.



18. INTERESTS IN ASSOCIATES (continued)

All the above associates are corporate associates indirectly held by the Company. The financial statements of the above associates are coterminous with those of the Group, except for Treasure Auctioneer International Limited and Arran Investment Company, Limited which have financial years ending 30 September and 31 October, respectively. The consolidated financial statements are adjusted for material transactions between these associates and Group companies between the financial year end dates of these associates and the Group.

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.

19. INVESTMENTS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long term investments:				
Unlisted equity investments, at cost	249,376	248,576	52,501	52,501
Less: Provisions for impairment	(78,642)	(72,242)	(52,501)	(52,501)
	<u>170,734</u>	<u>176,334</u>	<u>—</u>	<u>—</u>
Short term investments:				
Equity investments listed in				
Hong Kong, at market value	6,703	245	—	—
	<u>6,703</u>	<u>245</u>	<u>—</u>	<u>—</u>

20. DEPOSIT FOR PURCHASE OF A PROPERTY

The amount represents a deposit paid to an independent third party (the "Vendor") in May 1999 for the acquisition of certain lots of land in Hong Kong, subject to the surrender to and regrant (the "Regrant") by the Hong Kong Government SAR (the "Government") of such lots of land. The land premium payable by the Group for the Regrant is under negotiation with the Government. Should the Regrant of the land not be completed before 12 May 2002, the Group has the right to demand repayment of the entire deposit. As at 31 December 2001, the Regrant had not yet completed. The Group is currently under negotiation with the Vendor for an extension of the Regrant and, accordingly, the deposit paid continues to be classified as a non-current asset.



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

21. INTANGIBLE ASSET

Group

	Mining rights
	HK\$'000
Cost:	
Addition during the year and balance at 31 December 2001	6,400
Accumulated amortiation:	
Amortisation provided during the year and balance at 31 December 2001	1,920
Net book value:	
At 31 December 2001	4,480
At 31 December 2000	—

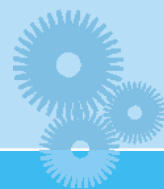
22. MORTGAGE LOANS RECEIVABLE

	Group	
	2001	2000
	HK\$'000	HK\$'000
Mortgage loans receivable, secured	2,183	2,249
Portion classified as current assets	(89)	(58)
Long term portion	<u>2,094</u>	<u>2,191</u>
Mortgage loans receivable repayable:		
Within one year	89	58
In the second year	96	65
In the third to fifth years, inclusive	331	243
After five years	<u>1,667</u>	<u>1,883</u>
	<u>2,183</u>	<u>2,249</u>

A second legal charge on certain properties situated in Hong Kong has been obtained by a subsidiary of the Company as security for the above mortgage loans receivable.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001



23. INVENTORIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Raw materials and spare parts	37,342	37,917
Work in progress	3,742	4,576
Finished goods	17,101	17,749
	<u>58,185</u>	<u>60,242</u>

The carrying amount of inventories is arrived at after charging a general provision of HK\$5,308,000 (2000: HK\$7,850,000).

24. TRADE RECEIVABLES

The Group maintains a defined credit policy and credit periods are usually granted ranging from one to three months to normal customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management.

An aged analysis of the trade receivables as at the balance sheet date based on invoice date is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within three months	54,629	58,688
Four to six months	7,532	7,787
Over six months	8,933	4,909
	<u>71,094</u>	<u>71,384</u>
Less: Provision for doubtful debts	<u>(3,362)</u>	<u>(4,992)</u>
	<u>67,732</u>	<u>66,392</u>



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

25. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSIT

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	56,585	85,764	838	851
Time deposits	56,314	45,649	—	7,926
	<u>112,899</u>	<u>131,413</u>	<u>838</u>	<u>8,777</u>
Less: Pledged time deposit*	(1,200)	—	—	—
Cash and cash equivalents	<u>111,699</u>	<u>131,413</u>	<u>838</u>	<u>8,777</u>

* The time deposit is pledged to secure the general banking facilities granted to an associate.

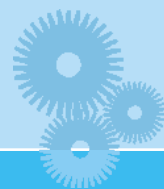
26. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on invoice date is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within three months	34,859	22,564
Four to six months	1,223	5,138
Over six months	416	—
	<u>36,498</u>	<u>27,702</u>

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

**27. BANK AND OTHER BORROWINGS**

	Group	
	2001 HK\$'000	2000 HK\$'000
Bank loans, secured*	116,899	121,200
Other loan, unsecured	5,647	5,587
	122,546	126,787
Bank loans repayable:		
Within one year or on demand	35,624	32,366
In the second year	5,410	4,251
In the third to fifth years, inclusive	18,401	14,906
Beyond five years	57,464	69,677
	116,899	121,200
Other loan repayable:		
Within one year or on demand	5,647	—
In the second year	—	5,587
	5,647	5,587
	122,546	126,787
Portion classified as current liabilities	(41,271)	(32,366)
Long term portion	81,275	94,421

* Includes import loans of HK\$1,875,000 at 31 December 2001 (2000: Nil).

(a) The Group's bank loans are secured by:

- (i) Mortgages over certain of the Group's investment properties which had an aggregate carrying value at the balance sheet date of approximately HK\$100,040,000 (2000: HK\$106,598,000).
- (ii) Mortgages over certain of the Group's land and buildings which had an aggregate net book value at the balance sheet date of approximately HK\$218,079,000 (2000: HK\$212,265,000).

(b) The other loan represents a loan from the Chinese joint venture partner of a subsidiary of the Group. The amount is unsecured and interest-free.



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

28. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles and office equipment for its operation. These leases are classified as finance leases and have remaining lease terms ranging from 2 to 5 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values, were as follows:

Group	Minimum lease	Minimum lease	Present value of	Present value of
	payments	payments	minimum lease	minimum lease
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	653	728	587	667
In the second year	469	252	450	231
In the third to fifth years, inclusive	16	118	15	112
Total minimum				
finance lease payments	1,138	1,098	1,052	1,010
Future finance charges	(86)	(88)		
Total net finance lease payables	1,052	1,010		
Portion classified as current				
liabilities	(587)	(667)		
Long term portion	465	343		

NOTES TO FINANCIAL STATEMENTS (continued)

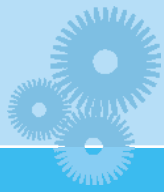
31 December 2001



28. FINANCE LEASE PAYABLES (continued)

Company	Minimum lease payments 2001 HK\$'000	Minimum lease payments 2000 HK\$'000	Present value of minimum lease payments 2001 HK\$'000	Present value of minimum lease payments 2000 HK\$'000
Amounts payable:				
Within one year	125	131	109	122
In the second year	116	15	110	11
In the third to fifth years, inclusive	17	32	15	28
Total minimum finance lease payments	258	178	234	161
Future finance charges	(24)	(17)		
Total net finance lease payables	234	161		
Portion classified as current				
liabilities	(109)	(122)		
Long term portion	125	39		

SSAP 14 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

29. DEFERRED TAX

	Group	
	2001 HK\$'000	2000 HK\$'000
Balance at beginning of year	756	756
Credit for the year (note 10)	(56)	—
At end of year	<u>700</u>	<u>756</u>

The provision for deferred tax, as shown in the balance sheet, relates principally to timing differences arising from accelerated depreciation allowances.

The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.

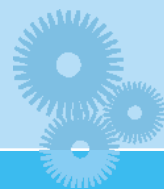
The revaluation of the Group's properties does not constitute a timing difference because the realisation of the revaluation surpluses for the respective properties would not be subject to tax. Therefore, the amount of potential deferred tax liabilities has not been quantified.

30. SHARE CAPITAL

Shares

	2001 HK\$'000	2000 HK\$'000
Authorised:		
2,880,000,000 ordinary shares of HK\$0.10 each	<u>288,000</u>	<u>288,000</u>
Issued and fully paid:		
1,528,188,193 ordinary shares of HK\$0.10 each	<u>152,819</u>	<u>152,819</u>

There were no changes to the carrying amount or number of ordinary shares in issue during the year.



30. SHARE CAPITAL (continued)

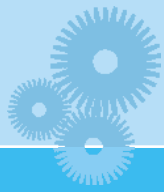
Share options

The Company operates a share option scheme (the “Scheme”), further details of which are set out under the heading “Share option scheme” in the Report of the Directors on page 17.

The movements in share options granted by the Company to directors and employees of the Company and its subsidiaries, were as follows:

	Exercise period				Total
	23 May	23 August	26 April	27 September	
	1995	2000	2001	2001	
	to 22 May	to 22 August	to 25 April	to 26 September	
	2001	2003	2006	2006	
Number of shares under options					
	'000	'000	'000	'000	'000
Balance at beginning of year	13,300	18,000	—	—	31,300
Granted during the year	—	—	8,000	152,284	160,284
Lapsed during the year	(13,300)	—	—	—	(13,300)
Balance at end of year	—	18,000	8,000	152,284	178,284
Exercise price per share (HK\$)	0.324	0.224	0.2152	0.1576	

The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 178,284,000 additional ordinary shares of HK\$0.1 each and cash proceeds to the Company of HK\$29,754,000 before the related share issue expenses.



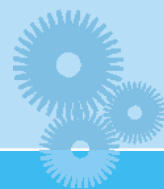
NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

31. RESERVES

Group

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Leasehold land and buildings Capital reserve HK\$'000	Investment property revaluation reserve HK\$'000	Leasehold land and buildings revaluation reserve * HK\$'000	General reserve HK\$'000	Exchange reserve HK\$'000	Retained profits/ (Accum- ulated losses) HK\$'000	Reserve fund** HK\$'000	Total HK\$'000
At 1 January 2000:										
As previously reported	680,508	5,405	248,168	26,264	13,557	1,748	(17,782)	26,704	38,267	1,022,839
Prior year adjustment***	—	—	—	41,006	—	8,396	—	—	(49,402)	—
As restated	680,508	5,405	248,168	67,270	13,557	10,144	(17,782)	26,704	(11,135)	1,022,839
Placement of shares	21,250	—	—	—	—	—	—	—	—	21,250
Share issue expenses	(1,330)	—	—	—	—	—	—	—	—	(1,330)
Goodwill on consolidation arising from the acquisition of associates	—	—	(191,703)	—	—	—	—	—	—	(191,703)
Release on disposal of leasehold properties	—	—	—	(15,279)	—	—	—	—	15,279	—
Goodwill eliminated against reserve released on disposal of a subsidiary	—	—	—	387	—	—	—	—	—	387
Exchange adjustment on translation of overseas subsidiaries and associates	—	—	—	—	—	—	(21)	—	—	(21)
Net profit for the year	—	—	—	—	—	—	—	—	23,879	23,879
At 31 December 2000	<u>700,428</u>	<u>5,405</u>	<u>56,465</u>	<u>52,378</u>	<u>13,557</u>	<u>10,144</u>	<u>(17,803)</u>	<u>26,704</u>	<u>28,023</u>	<u>875,301</u>
At 1 January 2001:										
As previously reported	700,428	5,405	56,465	11,372	13,557	1,748	(17,803)	26,704	77,425	875,301
Prior year adjustment***	—	—	—	41,006	—	8,396	—	—	(49,402)	—
As restated	700,428	5,405	56,465	52,378	13,557	10,144	(17,803)	26,704	28,023	875,301
Exchange adjustment on translation of overseas subsidiaries and associates	—	—	—	—	—	—	914	—	—	914
Net profit for the year	—	—	—	—	—	—	—	—	6,763	6,763
At 31 December 2001	<u>700,428</u>	<u>5,405</u>	<u>56,465</u>	<u>52,378</u>	<u>13,557</u>	<u>10,144</u>	<u>(16,889)</u>	<u>26,704</u>	<u>34,786</u>	<u>882,978</u>



31. RESERVES (continued)

	Share premium account	Capital redemption reserve	Leasehold land and buildings	Investment property	General reserve	Exchange reserve	Reserve fund**	Retained profits/ losses (Accumulated)	Total	
	HK\$'000	HK\$'000	Capital reserve	revaluation reserve	revaluation reserve*	reserve	reserve	reserve	HK\$'000	HK\$'000
Reserves retained by/ (accumulated in):										
Company and subsidiaries	700,428	5,405	56,465	52,378	13,557	10,144	(15,741)	26,704	124,281	973,621
A jointly-controlled entity	—	—	—	—	—	—	—	—	(286)	(286)
Associates	—	—	—	—	—	—	(1,148)	—	(89,209)	(90,357)
At 31 December 2001	700,428	5,405	56,465	52,378	13,557	10,144	(16,889)	26,704	34,786	882,978
Company and subsidiaries	700,428	5,405	56,465	52,378	13,557	10,144	(16,603)	26,704	112,247	960,725
Associates	—	—	—	—	—	—	(1,200)	—	(84,224)	(85,424)
At 31 December 2000	700,428	5,405	56,465	52,378	13,557	10,144	(17,803)	26,704	28,023	875,301

* The investment property revaluation reserve represents the attributable revaluation surplus in respect of the leasehold land and buildings, which were classified as investment properties in the prior years. Such portion of revaluation reserve is transferred to retained earnings only upon the disposal or retirement of the relevant assets and such transfer is not made through the profit and loss account.

** In accordance with the articles of association of a subsidiary of the Group, the subsidiary is required, as a foreign investment enterprise in the People's Republic of China, to transfer a percentage of its profit after tax, calculated in accordance with accounting principles of the People's Republic of China, to a reserve fund. The subsidiary shall not be required to effect any further transfer when the amount of reserve fund reaches 50% of the subsidiary's registered capital. The reserve fund can be used to make good future losses or to increase the capital of the subsidiary.



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

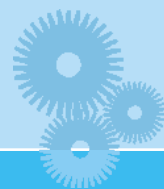
31. RESERVES (continued)

*** As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30, which permits goodwill in respect of acquisitions occurred prior to 1 January 2001 to remain eliminated against consolidated reserves.

Due to the adoption of SSAP 30, the Group has adopted a policy to assess goodwill eliminated against consolidated reserves and not restated for impairment. As a result, the Group has recognised an impairment of goodwill previously eliminated against the consolidated reserves of HK\$49,402,000 in the year ended 31 December 1998 as detailed in the table below. This change of accounting policy has been accounted for retrospectively as a prior year adjustment in accordance with the transitional provisions of SSAP 30. The effect of which is to increase the leasehold land and buildings revaluation reserve and general reserve by HK\$41,006,000 and HK\$8,396,000, respectively, and decrease the retained profits of the Group as at 1 January 2000 by HK\$49,402,000.

The amounts of the goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries and associates prior to 1 January 2001, are as follows:

	Leasehold land and buildings revaluation reserve HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000
Cost:			
At beginning of year and balance at 31 December 2001	41,006	237,413	8,736
Accumulated impairment:			
At beginning of year:			
As previously reported	—	—	—
Prior year adjustment	41,006	—	8,396
As restated and balance at 31 December 2001	41,006	—	8,396
Net amount:			
At 31 December 2001	—	237,413	340
At 31 December 2000	41,006	237,413	8,736



31. RESERVES (continued)

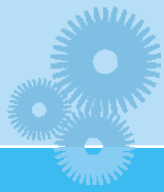
Company

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2000	680,508	5,405	288,473	39,945	1,014,331
Placement of shares	21,250	—	—	—	21,250
Share issue expenses	(1,330)	—	—	—	(1,330)
Loss for the year	—	—	—	(11,928)	(11,928)
<hr/>					
At 31 December 2000 and 1 January 2001	700,428	5,405	288,473	28,017	1,022,323
Loss for the year	—	—	—	(64,242)	(64,242)
<hr/>					
At 31 December 2001	700,428	5,405	288,473	(36,225)	958,081

A portion of the contributed surplus arose as a result of the transfer from the share premium account pursuant to a court approval obtained in 1992 for the purpose of writing off goodwill arising on acquisition of subsidiaries.

The remaining portion of the contributed surplus arose in 1991 as a result of a Group reorganisation and originally represented the difference between the nominal value of the Company's shares allotted under the reorganisation scheme and the consolidated net asset value of the acquired subsidiaries.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2001 HK\$'000	2000 HK\$'000
Profit from operating activities	19,940	32,897
Interest income	(1,913)	(5,563)
Dividend income from a listed investment	(23)	—
Depreciation	17,654	18,016
Amortisation of an intangible asset	1,920	—
Gain on disposal of fixed assets	(71)	(8,731)
Loss on disposal of investment properties	32	4,377
Loss on disposal of interest in a subsidiary	—	382
Deficit on revaluation of investment properties	1,047	3,242
Gain on disposal of an associate	(10,511)	—
Gain on disposal of short investments	(707)	(368)
Impairment of interest in an associate	23	—
Impairment of short term investments	1,419	373
Impairment of properties under development	3,000	3,104
Impairment of long term investments	6,400	—
Write back of provision for inventories	(2,542)	—
Write back of provision for trade receivables	(1,630)	—
Provision for deposit for an investment	1,950	—
Decrease/(Increase) in inventories	4,631	(7,522)
Decrease/(Increase) in trade receivables	333	(1,704)
Increase in prepayments, deposits and other receivables	(1,242)	(23,870)
Decrease in properties held for sale	—	61,782
Increase in trade and bills payables	8,791	409
Decrease in other payables and accruals	(25,027)	(14,327)
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>23,474</u>	<u>62,497</u>



32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital and premium HK\$'000	Bank and other borrowings HK\$'000	Finance lease obligations HK\$'000	Minority interests HK\$'000
Balance at 1 January 2000	812,077	136,240	1,335	47,593
Net cash inflow/(outflow)				
from financing activities	41,170	(9,453)	(953)	—
Arising from disposal of				
interest in a subsidiary	—	—	—	(106)
Share of loss for the year	—	—	—	(1,167)
Inception of finance				
lease contracts	—	—	628	—
Balance at 31 December 2000 and 1 January 2001	853,247	126,787	1,010	46,320
Net cash outflow from				
financing activities	—	(6,476)	(952)	—
Share of profit for the year	—	—	—	49
Inception of finance				
lease contracts	—	—	994	—
Effect of foreign exchange				
translation	—	360	—	(85)
Balance at 31 December 2001	853,247	120,671	1,052	46,284

(c) Major non-cash transactions

- (i) During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$994,000 (2000: HK\$628,000).
- (ii) During the year, certain deposits in the amount of HK\$6,400,000 was reclassified as an intangible asset upon the completion of the transfer of title.



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Acquisition of a subsidiary

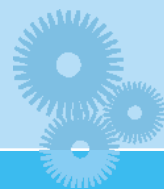
	2001	2000
	HK\$'000	HK\$'000
Net assets acquired:		
Long term investment	800	—
Bank balance	1	—
Accruals	(14)	—
	<u>787</u>	<u>—</u>
Satisfied by:		
Cash	<u>787</u>	<u>—</u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2001	2000
	HK\$'000	HK\$'000
Cash consideration	(787)	—
Bank balance acquired	<u>1</u>	<u>—</u>
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u>(786)</u>	<u>—</u>

On 20 December 2001, the Group acquired a 100% interest in R, J & Thomas Secretaries Limited from an independent third party. The principal activity of R, J & Thomas Secretaries Limited is investment holding. The purchase consideration for the acquisition was in the form of cash and was paid at the acquisition date.

The subsidiary acquired had no significant contribution to the Group in respect of the cash flows, turnover, contribution to the consolidated profit after tax and before minority interests for the year.



32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(e) Disposal of a subsidiary

	2001	2000
	HK\$'000	HK\$'000
Net liabilities disposed of:		
Other receivable	—	390
Other payables and accruals	—	(289)
Minority interests	—	(106)
	—	(5)
Goodwill released upon disposal	—	387
Loss on disposal of interest in a subsidiary	—	(382)
	—	—
	—	—
Satisfied by:		
Cash	—	—
	—	—

The subsidiary disposed of in the prior year had no significant contribution to the Group in respect of the cash flows, turnover, contribution to the consolidated profit after tax and before minority interests for that year.

33. CONTINGENT LIABILITIES

At the balance sheet date, other contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks				
in connection with facilities				
granted to:				
Associates	50,825	91,129	—	—
Subsidiaries	—	—	85,036	89,661
	50,825	91,129	85,036	89,661
	50,825	91,129	85,036	89,661



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

34. PLEDGE OF ASSETS

Details of the Group's bank loans and other loans secured by the assets of the Group are included in notes 13, 14 and 27 to the financial statements.

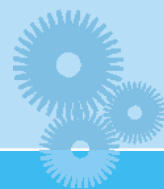
35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 6 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	1,726	1,011
In the second to fifth years, inclusive	4,305	—
After five years	167	—
	<u>6,198</u>	<u>1,011</u>



35. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 10 years.

At 31 December 2001, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)
Within one year	12,918	2,677	439	346
In the second to fifth years, inclusive	2,815	2,216	141	153
After five years	—	100	—	—
	<u>15,733</u>	<u>4,993</u>	<u>580</u>	<u>499</u>

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above, have been restated to conform with the current year's presentation.



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

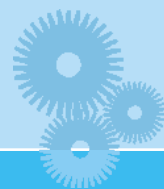
36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35(b) above, the Group and the Company had the following commitments at the balance sheet date:

(a) Capital commitments

	Notes	Group		Company	
		2001	2000	2001	2000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted but not provided for:					
Acquisition of a subsidiary		7,020	7,020	—	—
Acquisition of associates	(i)	30,400	8,460	—	—
Acquisition of a joint venture company	(ii)	21,450	23,400	—	—
		<u>58,870</u>	<u>38,880</u>	<u>—</u>	<u>—</u>

- (i) The Group entered into a sale and purchase agreement on 31 July 2001 to acquire an additional 25% equity interest in Treasure Auctioneer International Limited, an existing associate of the Group, at a consideration of HK\$38,000,000 from an independent third party. The acquisition should be completed on 31 October 2001 or such other time as mutually agreed. During the year, the Group paid deposits totalling HK\$7,600,000. The balance of the purchase consideration is HK\$30,400,000. On 15 April 2002, the parties entered into a supplementary agreement to extend the completion date to 25 July 2002 in return for the Group's payments of further deposits of HK\$5,000,000 on 18 April 2002 and HK\$5,000,000 on 25 April 2002. The Company acted as a guarantor for its wholly-owned subsidiary in this transaction.
- (ii) On 15 December 2000, the Group entered into an agreement (the "Agreement") with an independent third party (the "JV Partner"), for the subscription of a 25% equity interest in a joint venture company at a consideration of US\$3,000,000. Pursuant to the Agreement, the joint venture company would acquire from the JV Partner certain exclusive rights to manufacture, distribute and sell certain fuel and other products currently held or would be further developed or acquired by the JV Partner (the "Rights"). On 15 January 2001, in accordance with the Agreement, the Group paid a deposit of US\$250,000. The remaining balance of the consideration is US\$2,750,000, approximately HK\$21,450,000. Due to the uncertainties of the JV Partner's ownership of the Rights, the directors might consider to terminate the Agreement.



36. COMMITMENTS (continued)

(b) Pension scheme

The Group operates a defined benefits pension scheme. The assets of the scheme are held separately from those of the Group in an administered fund.

The contributions to the scheme are determined with the advice of independent qualified actuaries on the basis of annual valuations using the individual entry age normal cost method. Based on the most recent valuation carried out on 31 December 1999 by Mrs. Teresa Chan and Mr. Wilson Tang, Fellow and Associate of the Society of Actuaries respectively, the level of funding was 165%. On the basis of the actuaries' recommendations, the assets would be sufficient to cover the aggregate vested liabilities. Accordingly, the Group has not made any provision for further contributions to the scheme.

The principal assumptions of the actuarial valuation are as follows:

- (i) The assets of the defined benefits pension scheme will earn a return of 9% per annum; and
- (ii) Participant basic salary increments will be 8% per annum.

37. RELATED PARTY TRANSACTIONS

In addition to the transactions set out elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2001 HK\$'000	Group 2000 HK\$'000
Purchases of raw materials and work in progress			
from associates	(i)	18,440	16,160
Sales of finished goods and raw material			
to associates	(ii)	40,480	41,426

Notes:

- (i) The directors consider that the purchases of raw materials and work in progress were made according to the prices and conditions similar to those offered to other customers of the suppliers. The balance owing to the associates at 31 December 2001 was HK\$4,421,000 (2000: HK\$3,110,000).
- (ii) The directors consider that the sales of finished goods and raw materials were made according to the terms and conditions as set out in their agreements. The aggregate amount due from associates at 31 December 2001 was HK\$87,000 (2000: HK\$10,400,000).



NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2001

38. POST BALANCE SHEET EVENTS

- (a) On 17 January 2002, the Group entered into a sale and purchase agreement with an independent third party to acquire a 70% equity interest in Dragon Century Investment Limited. The purchase consideration for the acquisition, of HK\$7,000,000, was in the form of cash and was paid on the acquisition date. No significant goodwill was generated from such acquisition.
- (b) On 12 April 2002, the Group entered into a sale and purchase agreement with an independent third party to acquire an additional 5% equity interest in Elegant Stone International Ltd. ("Elegant Stone"), an existing associate of the Group for a cash consideration of HK\$6,540,700, subject to adjustment. The purchase consideration was paid on the acquisition date. No significant goodwill was generated from such acquisition.
- (c) On 15 April 2002, the Group entered into a supplementary agreement with respect to the extension of the completion date of the acquisition of an additional 25% equity interest in Treasure Auctioneer International Limited, further details of which are set out in note 36 to the financial statements.
- (d) On 19 April 2002, the Group served a notice to a major shareholder of Elegant Stone to demand the transfer of 26.7% equity interest in Elegant Stone to the Group within 7 days from the date of notice, by applying the shortfall of dividend of Elegant Stone to the Group in the sum of HK\$13,333,000 for the year ended 31 December 2001, pursuant to a deed of guarantee dated 31 January 2000 given by such major shareholder. Upon the transfer of such equity to the Group, Elegant Stone will become a 76.1% owned subsidiary of the Group.

39. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, a prior year adjustment has been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2002.