

# NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2001

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Accounting

The financial statements have been prepared on the basis of the historical cost convention and do not take into account changes in either the general purchasing power of the Renminbi (“RMB”), the Australian dollar (“A\$”), the Hong Kong dollar (“HK\$”), the Malaysian Ringgit (“RM”) or in the prices of specific assets, except to the extent set out in the accounting policies and notes below.

### (b) Basis of Preparation

The parent entity is listed on the Australian Stock Exchange and the Hong Kong Stock Exchange. The financial statements of the parent entity and the consolidated entity are prepared in A\$ and HK\$ for the purposes of the reporting requirements that apply in Australia and Hong Kong. The basis of preparation of the financial statements in each jurisdiction is as follows:–

#### *Financial Statements Denominated in A\$*

The financial statements denominated in A\$ are a general purpose financial report that has been prepared in accordance with all applicable Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

#### *Financial Statements Denominated in HK\$*

The financial statements denominated in HK\$ are prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies as set out in the following paragraphs apply to the financial statements prepared in A\$ and HK\$ currencies, unless otherwise stated.

### (c) Comparative Figures

As a result of applying the revised Australian Accounting Standard AASB 1018 – Statement of Financial Performance, revised AASB 1034 – Financial Report Presentation and Disclosures and AASB 1040 – Statement of Financial Position for the first time, a number of comparative amounts were represented or reclassified to ensure comparability with the current reporting period.

The financial statements denominated in HK\$ and comparative figures have also been represented and restated to ensure comparability with the financial statements denominated in A\$.

## NOTES TO THE FINANCIAL STATEMENTS

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### (d) Principles of Consolidation

The consolidated financial statements include the financial statements of the parent entity, Pearl River Tyre (Holdings) Limited and its controlled entities. The associate entity and Guangzhou Pearl River Rubber Tyre Limited (the “Joint Venture”) have been accounted for in the consolidated financial statements using the equity method.

The term consolidated entity used throughout these financial statements means the parent entity, the controlled entities, the associate entity and the Joint Venture.

Details of the investment in the controlled entities, associate entity and the Joint Venture are set out in Notes 3 and 4.

The bases of consolidation are as follows:–

#### *Controlled Entities*

Controlled entities are consolidated using the acquisition method. Under the acquisition method, the results of the controlled entities acquired or disposed of are incorporated into the consolidated statement of financial performance/income statement from the date of acquisition or up to the date of disposal. Transactions during the financial year and outstanding balances at the end of the financial year between the controlled entities and the parent entity are eliminated in full at the consolidated financial statements.

In the parent entity’s statement of financial position/balance sheet, investment in controlled entities is stated at cost less any impairment losses.

#### *Associate Entity*

An associate entity is an entity in which the consolidated entity has a long-term equity interest of between 20% to 50% and over whose financial and operating policy decisions the consolidated entity has the power to exercise significant influence but not control through board representation. Investment in the associate entity is accounted for in the consolidated financial statements using the equity method.

The equity method involves recognising in the consolidated statement of financial performance/income statement the consolidated entity’s share of the results of the associate entity. In the consolidated statement of financial position/balance sheet of the consolidated entity, the investment in associate entity is carried at an amount that reflects its cost of investment in the associate entity plus its share of the associate entity’s post-acquisition profits or losses and reserve increments or decrements retained by the associate entity.

Where necessary, in applying the equity method, adjustments have been made to the financial statements of the associate entity to ensure consistency of accounting policies with the consolidated entity and to eliminate the effects of unrealised profits and losses arising from transactions between the consolidated entity and the associate entity.

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

In the parent entity's statement of financial position/balance sheet, investment in associate entity is stated at cost less any impairment losses.

*Joint Venture (also known as "Jointly Controlled Entity")*

The Joint Venture is an entity where there exists contractually agreed sharing of control by the consolidated entity with the other joint venture partner.

The consolidated entity's interest in the Joint Venture is accounted for in the consolidated financial statements using the equity method.

In the parent entity's statement of financial position/balance sheet, investment in joint venture is stated at cost less any impairment losses.

### **(e) Goodwill and Negative Goodwill Arising on Consolidation**

*Associate Entity*

Under the equity method, positive goodwill or negative goodwill is assessed as the difference between the cost of investment in the associate entity and the parent entity's share of the fair value of the identifiable assets and liabilities of the associate entity.

In accordance with Australian Accounting Standards applicable to equity accounting, the carrying amounts of the identifiable assets and liabilities of the associate entity are examined as at the acquisition date and, where appropriate, notionally adjusted to fair values as at that date. Any difference between the cost of the investment in the associate entity and the investor's share of the net adjusted fair values is regarded as goodwill (or, as the case may be, discount on acquisition). Notional adjustments are made to the profit or loss of the associate entity in subsequent periods to reflect revisions in depreciation of depreciable assets and any amortisation of goodwill. The Standard does not require the goodwill (discount on acquisition) relating to the associate entity to be disclosed separately in the consolidated financial report. Whereas under Hong Kong accounting standards ("Hong Kong GAAP"):-

- (a) positive goodwill is amortised to the consolidated statement of financial performance/income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses is included in the carrying amount of the interest in associate entity; and
- (b) negative goodwill is accounted for in the same manner as controlled entities whilst in respect of any negative goodwill not yet recognised in the consolidated statement of financial performance/income statement, such negative goodwill is included in the carrying amount of the interest in associate entity.

*Joint Venture*

The acquisition of the Joint Venture resulted in a negative goodwill of A\$763,000, being the difference between the cost of investment in the Joint Venture and the consolidated entity's share of the fair value of the identifiable assets and liabilities of the Joint Venture.

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

The negative goodwill arising from the acquisition of the Joint Venture is treated differently between the financial statements prepared for Australian and Hong Kong purposes.

Under Australian GAAP, Interests in Joint Venture Entities are accounted for in the same manner as Associate Entities as set out above, with a notional adjustment to the carrying amounts of the identifiable assets and liabilities of the joint venture entity to reflect fair values and a resultant notional goodwill or discount on acquisition being calculated. The parent entity's share of the joint venture entity's profit is then notionally adjusted by amortisation of goodwill and revised depreciation charges in the same manner as is required for associate entities. Negative goodwill (discount) is accounted for as a notional reduction to the fair values of the joint venture entity's non-monetary assets with a consequent reduction in depreciation charges.

Under Hong Kong GAAP, the negative goodwill arising is credited to a reserve account. The reserve is then amortised to the statement of financial performance/income statement on a straight-line basis over a period of 8 years.

The effect of the difference in the treatment of the negative goodwill between the Australian GAAP and the Hong Kong GAAP is disclosed in Note 14 (a).

### **(f) Investments**

#### *Investments held for Long-Term Purposes*

Investments which are clearly identified to be held for long-term purposes, including controlled entities, associate entity and joint venture, are carried at cost less any provision for impairment in value in the financial statement of the investee.

The carrying amount of the investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed based on the underlying worth of the investments. The expected net cash flows from the investments have not been discounted to their present value in determining the recoverable amounts.

A provision for impairment in value of the investments, if considered to be permanent, is made and recognised as an expense in the statement of financial performance/income statement.

#### *Quoted Investments ("also known as Listed Investments")*

Securities in listed corporations are stated at fair values. Fair values are determined by reference to stock exchanges quoted selling prices at the close of business on the date of statement of financial position/balance sheet.

Increases in the value of non-current quoted investments are credited directly to the asset revaluation reserve, unless they are reversing a previous decrement charged to the statement of financial performance/income statement, in which case the increment is credited to the statement of financial performance/income statement. Decreases in the value of quoted investments are recognised as expenses in the statement of financial performance/income statement, unless they are reversing revaluation increments previously credited to, and still included in the balance of the asset revaluation reserve in respect of that same class of assets.

# NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2001

## *Other Investments*

Other investments not held for trading purposes are stated at the lower of cost and fair values at the date of statement of financial position/balance sheet. The fair value is the market value as determined by the directors.

## *On Disposal of Investments*

When the investments are disposed of, the cumulative gain or loss in the asset revaluation reserve is recognised as a transfer to retained profits.

## **(g) Non-Current Assets**

The carrying amounts of all non-current assets are reviewed at least annually to determine whether they exceed their replacement values or recoverable amounts, as appropriate. In cases where the recoverable amount test is used, it is assessed on the basis of net cash flows which will be received from the assets' employment and subsequent disposal. These cash flows have not been discounted to their present value.

## **(h) Plant and Equipment**

All plant and equipment are initially stated at cost less accumulated depreciation.

Depreciation of plant and equipment is provided using the straight-line method to write off the cost/revalued amount over their estimated useful lives, allowing for their estimated residual value. The annual depreciation rates, expressed on a percentage of cost, are as follows:-

### **2001 and 2000**

Plant and equipment (depending on the nature of the item)	6.43% or 9.5%
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Surpluses arising on revaluation are credited to revaluation reserve. Any deficits arising on revaluation are charged against the revaluation reserve to the extent of a previous surplus held in the revaluation reserve for the same assets. In all other cases, a decrease in carrying amount is charged to statement of financial performance/income statement. On disposal of revalued assets, amounts in the revaluation reserve relating to those assets are transferred to retained earnings.

In accordance with Australian GAAP, prior to the introduction of AASB 1006, the negative goodwill of the Joint Venture of approximately A\$763,000 was applied on consolidation to reduce the cost of property, plant and equipment. The annual depreciation charge of the relevant property, plant and equipment of the Joint Venture is adjusted accordingly for the purpose of consolidation (refer to Note 1(e)).

## **(i) Cash Equivalents**

Cash equivalents comprise 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 financial institutions repayable within three months from the date of the advance, if any.

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

**(j) Contributed Equity**

As the parent entity is a Bermuda company, its financial statements will continue to reflect details regarding authorised share capital and par value of shares.

**(k) Provisions and Contingent Liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the parent entity or the consolidated entity has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(l) Borrowing Costs**

Interest charges incurred are charged to statement of financial performance/income statement except those interest charges directly attributable to the acquisition, construction or production of qualifying assets (being assets that necessarily take a substantial period of time to get ready for their intended use or sale) which are capitalised as part of the cost of those assets. Capitalisation or deferral of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

**(m) Foreign Currency Translation**

*Financial Statements of Parent Entity, Controlled Entities, Associate Entity and Joint Venture*

The financial statements of the parent entity, controlled entities, associate entity and the Joint Venture are maintained in the respective operating currencies. Transactions in foreign currencies are translated at the average rate of exchange ruling during the financial year. Monetary assets and liabilities denominated in foreign currencies are translated into the respective operating currencies at the exchange rates prevailing at the date of statement of financial position/balance sheet. Foreign currency translation gains or losses are included in the income statements.

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

### *Financial Statements of Consolidated Entity*

For Australian reporting purposes, the financial statements of the associate entity and the Joint Venture are translated into A\$ using the current rate method for the statement of financial position/balance sheet whilst the average rate has been used to translate the statement of financial performance/income statement. Any exchange difference arising from the translation is taken as a movement on the foreign currency translation reserve account included in equity in the accompanying financial statements. The foreign currency translation reserve represents the consolidated entity's proportionate interest in the reserve of the associate entity and the Joint Venture.

For Hong Kong reporting purposes, the consolidated financial statements are translated from A\$ to HK\$. The consolidated statement of financial position/balance sheet is translated into HK\$ at the exchange rate prevailing at the date of statement of financial position/balance sheet, whereas the consolidated statement of financial performance/income statement is translated into HK\$ at the average rate of exchange ruling during the financial year. Any exchange difference arising from the translation is taken as a movement on the foreign currency translation reserve account.

#### **(n) Revenue Recognition**

##### *Interest Income*

Interest income is recognised on an accrual basis.

##### *Dividend Income*

Dividends are brought to account in the statement of financial performance/income statement of the consolidated entity when received except for dividends from the Joint Venture which are brought to account when they are proposed by the Joint Venture.

##### *Proceeds from Sale of Investments*

Revenue from sale of investments is recognised on an accrual basis upon the sale of an investment.

#### **(o) Related Parties**

Two 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 significant influence.

#### **(p) Segment Reporting**

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group transactions and balances are eliminated as part of the consolidation process, except to the extent that such intra-group transactions and balances are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets, both tangible and intangible, that are expected to be used for more than one period.

### 2. RECEIVABLES

	<b>CONSOLIDATED ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>CURRENT</b>				
Amount owing by the Joint Venture	128	239	510	1,040
Other receivables	3,956	1,586	15,777	6,906
	<u>4,084</u>	<u>1,825</u>	<u>16,287</u>	<u>7,946</u>
<b>NON-CURRENT</b>				
Other receivables	<u>14</u>	<u>107</u>	<u>56</u>	<u>465</u>
	<b>PARENT ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>CURRENT</b>				
Amount owing by the Joint Venture	128	239	510	1,040
Dividends receivable from the Joint Venture	–	1,517	–	6,604
Other receivables	4	12	15	50
	<u>132</u>	<u>1,768</u>	<u>525</u>	<u>7,694</u>
<b>NON-CURRENT</b>				
Amount owing by controlled entities	7,634	8,032	30,444	34,971
Other receivables	14	6	56	27
	<u>7,648</u>	<u>8,038</u>	<u>30,500</u>	<u>34,998</u>



## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

The ageing analysis of receivables is as follows:–

	<b>CONSOLIDATED ENTITY</b>			
	<b>2001</b> <i>A\$'000</i>	<b>2000</b> <i>A\$'000</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Outstanding less than one year	4,084	1,825	16,287	7,946
Outstanding more than one year	14	107	56	465
	<u>4,098</u>	<u>1,932</u>	<u>16,343</u>	<u>8,411</u>
	<b>PARENT ENTITY</b>			
	<b>2001</b> <i>A\$'000</i>	<b>2000</b> <i>A\$'000</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Outstanding less than one year	132	1,768	525	7,694
Outstanding more than one year	7,648	8,038	30,500	34,998
	<u>7,780</u>	<u>9,806</u>	<u>31,025</u>	<u>42,692</u>

The amounts owing by the Joint Venture and the controlled entities are unsecured, interest-free and not subject to fixed terms of repayment.

### 3. OTHER FINANCIAL ASSETS

	<b>CONSOLIDATED ENTITY</b>			
	<b>2001</b> <i>A\$'000</i>	<b>2000</b> <i>A\$'000</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
<b>CURRENT</b>				
Investment in 8% convertible notes (a)	<u>1,330</u>	<u>–</u>	<u>5,304</u>	<u>–</u>
<b>NON-CURRENT</b>				
Investment in 8% convertible notes (a)	–	1,330	–	5,790
Securities listed on prescribed stock exchanges, outside Australia and Hong Kong, at fair value (being market value)	<u>2,063</u>	<u>2,516</u>	<u>8,226</u>	<u>10,953</u>
	<u>2,063</u>	<u>3,846</u>	<u>8,226</u>	<u>16,743</u>
Total other financial assets	<u>3,393</u>	<u>3,846</u>	<u>13,530</u>	<u>16,743</u>

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	<b>PARENT ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT</b>				
Shares in controlled entities, at cost	35,992	<i>(b)</i>	143,539	<i>(b)</i>
Investment in the Joint Venture	<i>(b)</i>	35,992	<i>(b)</i>	156,697
	<u>35,992</u>	<u>35,992</u>	<u>143,539</u>	<u>156,697</u>

(a) The investment in 8% convertible notes is stated at cost.

(b) In the previous financial year, the investment comprises A\$1 and A\$2 in two wholly-owned controlled entities, PRT Capital Pte Ltd (“PRTC”) and Carham Assets Limited (“CAL”) respectively. During the financial year ended 31 December 2001, the investment in CAL was increased to A\$35,992,000 or HK\$143,539,000 as a result of the transfer of the investment in Guangzhou Pearl River Rubber Tyre Limited (the “Joint Venture”) from the parent entity to CAL in exchange for the issue of further shares by CAL to the parent entity.

Particulars of the controlled entities are as follows:–

<b>Name</b>	<b>Place/Date of Incorporation/ Establishment</b>	<b>Authorised/ Issued and Fully Paid-Up Ordinary Share Capital</b>	<b>Attributable Equity Interest</b>		<b>Principal Activities</b>
			<b>2001</b>	<b>2000</b>	
PRT Capital Pte Ltd	The British Virgin Islands /3 December 1996	US\$50,000 /US\$1	100%	100%	Investment holding
Carham Assets Limited	The British Virgin Islands /1 September 1997	US\$50,000 /US\$2	100%	100%	Investment holding

The 8% unsecured convertible notes are an investment held by PRTC in a proprietary limited company incorporated in Australia together with a company which is substantially and collectively owned and controlled by Ang Guan Seng and Goh Nan Kioh.

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## 4. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	<b>CONSOLIDATED ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT</b>				
Investment in the Joint Venture (a)	62,479	58,826	255,296	258,107
Investment in associate entity (b)	3,077	2,562	12,272	11,152
	<hr/>	<hr/>	<hr/>	<hr/>
Total investments accounted for using the equity method	<u>65,556</u>	<u>61,388</u>	<u>267,568</u>	<u>269,259</u>

(a) The investment in the Joint Venture was previously held by the parent entity. During the financial year ended 31 December 2001, the investment in the Joint Venture was transferred to CAL. The investment in the Joint Venture is stated at cost and adjusted to reflect changes in the Consolidated Entity's share of the net assets of the Joint Venture using the equity method. Information relating to the Joint Venture is set out below:-

	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Retained profits attributable to the Joint Venture</b>				
At 1 January	(6,240)	724	6,910	39,245
At 31 December	(7,910)	(6,240)	332	6,910
<b>Revaluation reserve attributable to the Joint Venture</b>				
At 1 January	1,500	–	6,418	–
At 31 December	1,500	1,500	6,418	6,418
<b>Translation reserve attributable to the Joint Venture</b>				
At 1 January	20,374	11,734	22,954	19,721
At 31 December	25,697	20,374	26,721	22,954
<b>Movement in carrying amount of investment in the Joint Venture</b>				
Carrying amount at the beginning of the financial year	58,826	55,650	258,107	280,791
Share of current year movement in reserves:-				
– net profit/(loss)	1,636	(6,964)	6,611	(32,335)
– dividends proposed	(3,306)	–	(13,189)	–
– revaluation reserve	–	1,500	–	6,418
– translation reserve	5,323	8,640	3,767	3,233
	<hr/>	<hr/>	<hr/>	<hr/>
Carrying amount at the end of the financial year	<u>62,479</u>	<u>58,826</u>	<u>255,296</u>	<u>258,107</u>

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	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	A\$'000	A\$'000	HK\$'000	HK\$'000
<b>Share of the Joint Venture's assets and liabilities</b>				
Current assets	40,497	36,158	161,505	157,422
Non-current assets	57,927	56,430	237,144	247,671
Current liabilities	(35,945)	(33,762)	(143,353)	(146,986)
	<u>62,479</u>	<u>58,826</u>	<u>255,296</u>	<u>258,107</u>
<b>Share of the Joint Venture's revenue and expenses</b>				
Revenue	83,798	54,260	349,509	250,102
Expenses	(82,162)	(60,038)	(342,898)	(276,969)
	<u>1,636</u>	<u>(5,778)</u>	<u>6,611</u>	<u>(26,867)</u>
Net profit/(loss) before income tax expense	1,636	(5,778)	6,611	(26,867)
Income tax expense	–	(1,186)	–	(5,468)
	<u>1,636</u>	<u>(6,964)</u>	<u>6,611</u>	<u>(32,335)</u>
Net profit/(loss) after income tax expense	<u>1,636</u>	<u>(6,964)</u>	<u>6,611</u>	<u>(32,335)</u>
<b>Share of the Joint Venture's expenditure commitments</b>				
Operating lease	<u>18,385</u>	<u>17,704</u>	<u>73,320</u>	<u>77,080</u>

- (b) This investment in associate entity is held by PRTC and is stated at cost and adjusted to reflect changes in the consolidated entity's share of the net assets of the associate entity. Information relating to the associate entity is set out below:–

	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	A\$'000	A\$'000	HK\$'000	HK\$'000
<b>Movement in carrying amount of investment in associate entity</b>				
Carrying amount at the beginning of the financial year	2,562	–	11,152	–
New capital invested	132	2,477	552	11,414
	<u>2,694</u>	<u>2,477</u>	<u>11,704</u>	<u>11,414</u>
Share of net profit of associate entity accounted for using the equity method	383	85	1,599	393
Exchange rate adjustment	–	–	(1,031)	(655)
	<u>3,077</u>	<u>2,562</u>	<u>12,272</u>	<u>11,152</u>
Carrying amount at the end of the financial year	<u>3,077</u>	<u>2,562</u>	<u>12,272</u>	<u>11,152</u>

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	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Results attributable to associate entity</b>				
Operating profit before income tax	532	85	2,220	393
Income tax expense	(149)	–	(621)	–
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Operating profit after income tax	383	85	1,599	393
Retained profits attributable to associate entity at the beginning of the financial year	85	–	393	–
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Retained profits attributable to associate entity at the end of the financial year	<u>468</u>	<u>85</u>	<u>1,992</u>	<u>393</u>
<b>Share of associate entity's expenditure commitments</b>				
Operating lease	<u>24</u>	<u>353</u>	<u>94</u>	<u>1,538</u>
<b>Summary of the performance and financial position of associate entity</b>				
The aggregate profits, assets and liabilities are:–				
– profit from ordinary activities after income tax expense	1,494	484	6,233	2,231
– assets	15,356	7,514	61,241	32,714
– liabilities	<u>5,576</u>	<u>2,531</u>	<u>22,238</u>	<u>11,021</u>

The financial statements of the associate entity are audited by chartered accountants other than Horwath Sydney Partnership.

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

Particulars of the Joint Venture and the associate entity are as follows:–

Name	Place/Date of Incorporation /Establishment	Authorised /Issued and Fully Paid Share Capital	Attributable Equity Interest		Principal Activities
			2001	2000	
<i>Joint Venture</i>					
Guangzhou Pearl River Rubber Tyre Limited *	The People's Republic of China (the "PRC")/ 11 December 1993	US\$63,236,666/ US\$43,202,166	70%	70%	Manufacture and sales of bias tyres
<i>Associate Entity</i>					
Omega Semiconductor Sdn Bhd ("Omega")	Malaysia/ 25 November 1993	RM5,000,000/ RM2,250,000	26.1%	25.0%	Sub-contracting of assembly works of integrated circuits and transistors

\* *The Joint Venture was established as a Sino-foreign joint venture under the Chinese Joint Venture Law. The Joint Venture is 70% owned by CAL and 30% owned by Guangzhou Guang Xiang Tyre Enterprise Group Company Limited, a state-owned enterprise, established in Guangzhou, the PRC, which was structured to take over the assets and liabilities of Guangzhou Rubber Tyre Factory ("GRTF").*

### 5. PLANT AND EQUIPMENT

	CONSOLIDATED ENTITY			
	2001 A\$'000	2000 A\$'000	2001 HK\$'000	2000 HK\$'000
At Cost				
At 1 January	347	350	1,443	1,749
Additions	–	8	–	38
Assets written off	–	(11)	–	(53)
Exchange rate adjustment	–	–	(121)	(291)
At 31 December	<u>347</u>	<u>347</u>	<u>1,322</u>	<u>1,443</u>
Accumulated Depreciation				
At 1 January	125	95	481	476
Charge for the financial year	34	33	145	153
Assets written off	–	(3)	–	(14)
Exchange rate adjustment	–	–	(55)	(134)
At 31 December	<u>159</u>	<u>125</u>	<u>571</u>	<u>481</u>
Net Book Value				
At 31 December	<u>188</u>	<u>222</u>	<u>751</u>	<u>962</u>

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

### 6. PAYABLES

	<b>CONSOLIDATED ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount owing to a director	8	86	30	370
Accruals	281	199	1,121	866
	<u>289</u>	<u>285</u>	<u>1,151</u>	<u>1,236</u>
	<b>PARENT ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accruals	<u>281</u>	<u>199</u>	<u>1,121</u>	<u>866</u>

The amount owing to a director is unsecured, interest-free and not subject to fixed terms of repayment.

### 7. PROVISIONS

	<b>CONSOLIDATED/PARENT ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Employees' entitlements	–	44	–	194
Other provisions	21	21	83	90
	<u>21</u>	<u>65</u>	<u>83</u>	<u>284</u>

### 8. CONTRIBUTED EQUITY

	<b>CONSOLIDATED/PARENT ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised capital				
150,000,000 ordinary shares of				
A\$0.20 each	<u>30,000</u>	<u>30,000</u>	<u>166,305</u>	<u>166,305</u>
Issued and paid-up capital				
At 1 January	21,024	10,512	110,716	62,465
Increase from 52,558,140 to 105,116,280				
ordinary shares of A\$0.20 each by				
way of a bonus issue	–	10,512	–	48,251
At 31 December	<u>21,024</u>	<u>21,024</u>	<u>110,716</u>	<u>110,716</u>

# NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

## 9. SHARE PREMIUM

	<b>CONSOLIDATED/PARENT ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	16,505	27,034	113,157	161,489
Capitalisation for bonus issue of shares	–	(10,512)	–	(48,251)
Listing expenses	–	(17)	–	(81)
	<u>16,505</u>	<u>16,505</u>	<u>113,157</u>	<u>113,157</u>
At 31 December	<u><u>16,505</u></u>	<u><u>16,505</u></u>	<u><u>113,157</u></u>	<u><u>113,157</u></u>

## 10. REVALUATION RESERVE

The revaluation reserve represents the consolidated entity's share of the surplus on revaluation of buildings of the Joint Venture arising from the land and buildings swap in the financial year ended 31 December 2000.

The revaluation reserve is not distributable by way of dividends.

## 11. CAPITAL RESERVES

	<b>CONSOLIDATED ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
General reserve *				
At 1 January	7,200	7,200	40,305	39,890
Transfer from capital reserve arising on consolidation ("capital reserve")	–	–	380	415
	<u>7,200</u>	<u>7,200</u>	<u>40,685</u>	<u>40,305</u>
At 31 December	<u><u>7,200</u></u>	<u><u>7,200</u></u>	<u><u>40,685</u></u>	<u><u>40,305</u></u>
Capital reserve **				
At 1 January	–	–	1,561	1,976
Transfer to general reserve	–	–	(380)	(415)
	<u>–</u>	<u>–</u>	<u>1,181</u>	<u>1,561</u>
At 31 December	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>1,181</u></u>	<u><u>1,561</u></u>
Total capital reserves	<u><u>7,200</u></u>	<u><u>7,200</u></u>	<u><u>41,866</u></u>	<u><u>41,866</u></u>

\* *This relates to the general reserve and enterprise expansion funds maintained in accordance with the prevailing PRC's laws and regulations applicable to Sino-foreign joint ventures in the PRC.*

\*\* *This relates to the negative goodwill arising on acquisition of the Joint Venture. The reserve is credited to a realised general reserve over a period of 8 years in accordance with the accounting standards issued by the Hong Kong Society of Accountants.*

The capital reserves are not distributable by way of dividends.



## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

### 12. FOREIGN CURRENCY TRANSLATION RESERVE

	<b>CONSOLIDATED ENTITY</b>			
	<b>2001</b> <i>A\$'000</i>	<b>2000</b> <i>A\$'000</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
At 1 January	20,374	11,734	3,696	7,963
Adjustments arising from the translation of the Joint Venture's financial statements	<u>5,323</u>	<u>8,640</u>	<u>(132)</u>	<u>(4,267)</u>
At 31 December	<u><u>25,697</u></u>	<u><u>20,374</u></u>	<u><u>3,564</u></u>	<u><u>3,696</u></u>

  

	<b>PARENT ENTITY</b>	
	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
At 1 January	(69,464)	(38,763)
Adjustments arising from the translation of the parent entity's financial statements	<u>(17,057)</u>	<u>(30,701)</u>
At 31 December	<u><u>(86,521)</u></u>	<u><u>(69,464)</u></u>

The foreign currency translation reserve is not distributable by way of dividends.

### 13. RETAINED PROFITS

	<b>CONSOLIDATED ENTITY</b>			
	<b>2001</b> <i>A\$'000</i>	<b>2000</b> <i>A\$'000</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
At 1 January	3,131	11,231	29,742	67,312
Profit/(Loss) from ordinary activities after income tax expense	<u>1,160</u>	<u>(8,100)</u>	<u>4,624</u>	<u>(37,570)</u>
At 31 December	<u><u>4,291</u></u>	<u><u>3,131</u></u>	<u><u>34,366</u></u>	<u><u>29,742</u></u>

  

	<b>PARENT ENTITY</b>			
	<b>2001</b> <i>A\$'000</i>	<b>2000</b> <i>A\$'000</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
At 1 January	9,639	10,174	50,941	53,403
Loss from ordinary activities after income tax expense	<u>(1,011)</u>	<u>(535)</u>	<u>(4,218)</u>	<u>(2,462)</u>
At 31 December	<u><u>8,628</u></u>	<u><u>9,639</u></u>	<u><u>46,723</u></u>	<u><u>50,941</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

According to the prevailing PRC's laws and regulations applicable to Sino-foreign joint ventures in the PRC, discretionary dedicated capital, which includes a general reserve fund, an enterprise expansion fund and a staff welfare and incentive bonus fund, should be maintained by the Joint Venture. The Board of Directors of the Joint Venture will determine the amount of the annual appropriations to dedicated capital. Such appropriations are reflected in the Joint Venture's statement of financial position/balance sheet under equity. The appropriation for the staff welfare and incentive bonus fund is charged to the statement of financial performance/income statement of the Joint Venture. This amount, together with a general reserve amounting to approximately 10% of profits, will not be available for distribution to shareholders once appropriated. As at 31 December 2001, the outstanding amount in the general reserve fund of the Joint Venture is as follows:—

	<b>2001</b>			<b>2000</b>		
	<i>RMB'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>RMB'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>
Total general reserve fund	27,853	6,580	26,240	27,853	6,035	26,277

The dividends from the Joint Venture are declared based on profits reported in its statutory financial statements which are prepared in accordance with the PRC accounting standards. Such profits will be different from the amounts reported under the Australian or Hong Kong GAAP. During the financial year ended 31 December 2001, the Joint Venture declared a final dividend of RMB20,000,000 (31 December 2000 – Nil) of which RMB14,000,000 (31 December 2000 – Nil) is due to CAL for the financial year ended 31 December 2001. As at 31 December 2001, the Joint Venture had distributable retained earnings of approximately RMB21,358,000 (31 December 2000 – RMB21,776,000), after taking into account the declaration of the final dividend, as reported in the financial statements of the Joint Venture prepared in accordance with the PRC accounting standards.

#### **14. RECONCILIATION BETWEEN AUSTRALIAN GAAP AND HONG KONG GAAP**

According to the Australian GAAP, the discount arising on consolidation of approximately A\$763,000, representing the excess of fair values of the identifiable net assets of the Joint Venture acquired over the purchase consideration, was applied to notionally reduce the consolidated entity's share of the Joint Venture's property, plant and equipment. A notional adjustment has been made to the operating profit of the Joint Venture to then reflect a revision in depreciation arising from the above notional adjustment to property, plant and equipment. The consolidated entity has equity accounted its share of the notionally adjusted operating profit of the Joint Venture.

This differs from the method used under the Hong Kong GAAP where no notional adjustment to fair values of assets acquired is made in respect of an acquisition discount. Instead the discount is credited directly to reserves.

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

A reconciliation of the shareholders' equity and the profit from operating activities showing the difference between the financial statements prepared in accordance with the respective Australian GAAP and Hong Kong GAAP is as follows:–

	<b>CONSOLIDATED ENTITY</b>	
	<b>2001</b>	<b>2000</b>
Shareholders' equity in A\$'000 as prepared under Australian GAAP	<u>76,217</u>	<u>69,734</u>
Shareholders' equity in HK\$'000 equivalent	302,542	302,274
Acquisition discount credited to reserves	<u>7,545</u>	<u>3,321</u>
Shareholders' equity in HK\$'000 restated to conform with Hong Kong GAAP	<u>310,087</u>	<u>305,595</u>
Profit/(Loss) from ordinary activities in A\$'000 as prepared under Australian GAAP	<u>1,160</u>	<u>(8,100)</u>
Profit/(Loss) from ordinary activities in HK\$'000 equivalent	4,836	(37,336)
Reversal of notional adjustment applied under Australian GAAP	<u>(212)</u>	<u>(234)</u>
Profit/(Loss) from ordinary activities in HK\$'000 restated to conform with Hong Kong GAAP	<u>4,624</u>	<u>(37,570)</u>

### 15. TOTAL EQUITY

	<b>CONSOLIDATED ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total equity at the beginning of the financial year	69,734	67,711	305,595	341,095
Listing expenses written off against the share premium account	–	(17)	–	(81)
Total changes in equity recognised in the statements of financial performance /income statements	<u>6,483</u>	<u>2,040</u>	<u>4,492</u>	<u>(35,419)</u>
Total equity at the end of the financial year	<u>76,217</u>	<u>69,734</u>	<u>310,087</u>	<u>305,595</u>

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

	<b>PARENT ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total equity at the beginning of the financial year	47,168	47,720	205,350	238,594
Listing expenses written off against the share premium account	–	(17)	–	(81)
Total changes in equity recognised in the statements of financial performance/ income statements	<u>(1,011)</u>	<u>(535)</u>	<u>(21,275)</u>	<u>(33,163)</u>
Total equity at the end of the financial year	<u><u>46,157</u></u>	<u><u>47,168</u></u>	<u><u>184,075</u></u>	<u><u>205,350</u></u>

### 16. REVENUE FROM ORDINARY ACTIVITIES

	<b>CONSOLIDATED ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Securities listed on prescribed stock exchanges outside Australia and Hong Kong				
– Dividends received and receivable	75	95	312	436
– Proceeds from sale	369	7,457	1,540	34,369
Gain on foreign exchange	548	729	2,284	3,362
Interest received and receivable from financial institutions	<u>104</u>	<u>116</u>	<u>436</u>	<u>536</u>
Revenue from operating activities	<u><u>1,096</u></u>	<u><u>8,397</u></u>	<u><u>4,572</u></u>	<u><u>38,703</u></u>

	<b>PARENT ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Gain on foreign exchange	304	550	1,269	2,534
Interest received and receivable from financial institutions	<u>102</u>	<u>90</u>	<u>424</u>	<u>417</u>
Revenue from operating activities	<u><u>406</u></u>	<u><u>640</u></u>	<u><u>1,693</u></u>	<u><u>2,951</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

### 17. SHARE OF NET PROFIT/(LOSS) OF THE JOINT VENTURE AND ASSOCIATE ENTITY

	<b>CONSOLIDATED ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net profit/(loss) of the Joint Venture	1,636	(6,964)	6,611	(32,335)
Share of net profit of associate entity	383	85	1,599	393
Total share of net profit/(loss) of the Joint Venture and associate entity	2,019	(6,879)	8,210	(31,942)
The total share of net profit/(loss) of the Joint Venture and associate entity comprises the share of the income tax of:–				
– the Joint Venture	–	1,186	–	5,468
– associate entity	149	–	621	–

The results of Omega have been accounted for using the equity method based on the unaudited financial statements made up to the financial year ended 31 December 2001.

The Joint Venture has not provided for any income tax in respect of the financial year ended 31 December 2001 as the Joint Venture had unutilised tax loss brought forward available for offset against the current financial year's profit.

The income tax applied to the results of the operations of Omega is at 28% for the financial year ended 31 December 2001.

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

### 18. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

- (a) Profit/(Loss) from ordinary activities is arrived at after crediting and charging the following items:-

	<b>CONSOLIDATED ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>CREDITING</b>				
Interest received and receivable				
from financial institutions	104	116	436	536
Securities listed on prescribed stock exchanges outside Australia and Hong Kong				
– Dividends received and receivable	75	95	312	436
– Gain on sale	–	1,645	–	7,580
Gain on foreign exchange	<u>548</u>	<u>729</u>	<u>2,284</u>	<u>3,362</u>
<b>CHARGING</b>				
Borrowing costs paid to financial institutions	–	1	–	3
Depreciation expense	34	33	145	153
Equipment written off	–	8	–	39
Bad debts written off	–	9	–	40
Pre-operating expenses written off	3	1	13	4
Securities listed on prescribed stock exchanges outside Australia and Hong Kong				
– Provision for diminution in value	–	2,568	–	11,837
– Loss on sale	<u>131</u>	<u>–</u>	<u>545</u>	<u>–</u>
<b>PARENT ENTITY</b>				
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>CREDITING</b>				
Gain on foreign exchange	304	550	1,269	2,534
Interest received and receivable from financial institutions	<u>102</u>	<u>90</u>	<u>424</u>	<u>417</u>
	<u>406</u>	<u>640</u>	<u>1,693</u>	<u>2,951</u>
<b>CHARGING</b>				
Equipment written off	–	8	–	39
Depreciation expense	<u>–</u>	<u>4</u>	<u>–</u>	<u>17</u>

# NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

(b) Individually insignificant items

	<b>CONSOLIDATED ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision for diminution in the value of securities listed on prescribed stock exchanges outside Australia and Hong Kong	–	(2,568)	–	(11,837)
Share of the Joint Venture's electricity charges refund	–	480	–	2,211
	<u>–</u>	<u>480</u>	<u>–</u>	<u>2,211</u>

(c) Remuneration of directors

	<b>CONSOLIDATED/PARENT ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>DIRECTORS' FEES</b>				
Executive	30	30	125	138
Non-executive	75	77	313	356
<b>OTHER EMOLUMENTS</b>				
Salaries and other allowances	85	38	354	174
Bonuses	22	6	93	27
	<u>212</u>	<u>151</u>	<u>885</u>	<u>695</u>

Number of directors whose income was within the following bands:–

	<b>CONSOLIDATED/ PARENT ENTITY</b>	
	<b>2001</b>	<b>2000</b>
A\$0 – A\$9,999	–	4
A\$10,000 – A\$19,999	9	8
A\$30,000 – A\$39,999	–	1
A\$50,000 – A\$59,999	2	–
	<u>11</u>	<u>13</u>
HK\$0 – HK\$1,000,000	11	13
HK\$1,000,001 and above	–	–
	<u>11</u>	<u>13</u>

No Director waived any emoluments or received any inducement, compensation for loss of office during the financial years ended 31 December 2001 and 2000.

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

(d) Five highest paid employees

The aggregate amounts of emoluments paid to the five highest paid employees are as follows:–

	<b>CONSOLIDATED/PARENT ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other allowances	343	264	1,430	1,216
Bonuses	88	37	365	172
	<u>431</u>	<u>301</u>	<u>1,795</u>	<u>1,388</u>

Number of five highest paid employees whose income was within the following bands:–

	<b>CONSOLIDATED/ PARENT ENTITY</b>	
	<b>2001</b>	<b>2000</b>
A\$30,000 – A\$39,999	–	1
A\$40,000 – A\$49,999	–	1
A\$50,000 – A\$59,999	–	2
A\$60,000 – A\$69,999	2	–
A\$70,000 – A\$79,999	2	–
A\$100,000 – A\$109,999	–	1
A\$150,000 – A\$159,999	1	–
	<u>5</u>	<u>5</u>
HK\$0 – HK\$1,000,000	5	5
HK\$1,000,001 and above	–	–
	<u>5</u>	<u>5</u>

### 19. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the consolidated profit after taxation of A\$1,160,000 or HK\$4,624,000 (2000 – consolidated loss after taxation of A\$8,100,000 or HK\$37,570,000) for the financial year ended 31 December 2001 and on the weighted average number of shares on issue during the financial year of 105,116,280 (2000 – 105,116,280).

There is no dilutive effect on the basic earnings/(loss) per share for the financial years ended 31 December 2001 and 2000.



## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

### 20. NOTES TO THE STATEMENTS OF CASH FLOWS

For the purpose of the statements of cash flows, cash includes cash in hand and at banks and deposits at call.

- (a) Reconciliation of net cash provided by operating activities from profit/(loss) from ordinary activities:–

	<b>CONSOLIDATED ENTITY</b>		<b>PARENT ENTITY</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>A\$'000</i>	<i>A\$'000</i>
Profit/(Loss) from ordinary activities	1,160	(8,100)	(1,011)	(535)
Non-cash flows in profit/(loss) from ordinary activities:–				
Bad debts written off	–	9	–	–
Depreciation expense	34	33	–	4
Pre-operating expenses written off	3	1	–	–
Charges to provisions	(45)	18	(45)	18
Equipment written off	–	8	–	8
Loss/(Gain) on sale of equity investments	131	(1,645)	–	–
Revaluation decrement on equity investments	–	2,568	–	–
Share of net profit of associate entity	(383)	(85)	–	–
Share of net (profit)/loss of the Joint Venture	(1,636)	6,964	–	–
Unrealised gain on foreign exchange	(73)	–	–	–
Changes in assets and liabilities:–				
Decrease in other receivables	1,667	1,077	1,517	1,137
Decrease/(Increase) in prepayments	6	(1)	6	(1)
Decrease in others payables	–	(352)	–	–
Increase in accruals	83	24	83	24
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>947</u></b>	<b><u>519</u></b>	<b><u>550</u></b>	<b><u>655</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

- (b) Reconciliation of net cash outflow for operating activities from profit/(loss) before income tax from ordinary activities:–

	<b>CONSOLIDATED ENTITY</b>		<b>PARENT ENTITY</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(Loss) before income tax from ordinary activities	4,624	(37,570)	(4,218)	(2,462)
Non-cash flows in profit/(loss) before income tax:–				
Other dividends received	(312)	(436)	–	–
Interest received	(436)	(536)	(424)	(417)
Interest paid	–	3	–	–
Bad debts written off	–	40	–	–
Depreciation expense	145	153	–	17
Pre-operating expenses written off	13	4	–	–
Equipment written off	–	39	–	39
Loss/(Gain) on sale of equity investments	545	(7,580)	–	–
Revaluation decrement on equity investments	–	11,837	–	–
Share of profit before income tax of associate entity	(1,599)	(393)	–	–
Share of (profit)/loss before income tax of the Joint Venture	(6,611)	32,335	–	–
Unrealised gain on foreign exchange	(298)	–	–	–
Changes in assets and liabilities:–				
Increase in other receivables	(30)	(1,039)	–	(789)
Increase/(Decrease) in prepayments	23	(4)	23	(4)
Decrease in others payables	–	(1,532)	–	–
Increase in accruals	151	189	151	189
<b>NET CASH OUTFLOW FOR OPERATING ACTIVITIES</b>	<b><u>(3,785)</u></b>	<b><u>(4,490)</u></b>	<b><u>(4,468)</u></b>	<b><u>(3,427)</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

(c) Analysis of changes in financing activities during the financial year:–

	<b>Amount owing to a director HK\$'000</b>
At 1 January 2001	370
Advances	28
Unrealised gain on foreign exchange	(368)
	<hr/>
At 31 December 2001	<u>30</u>

### 21. INCOME TAX

The parent entity was incorporated under the laws of the British Virgin Islands and continued under the laws of Bermuda subsequent to its migration. At the present time, no income, profit, capital or capital gain taxes are levied in Bermuda. Accordingly, no provision for such taxes has been recorded by the parent entity. In the event that such taxes are levied, the parent entity has received an undertaking from the Bermuda Government exempting it from all such taxes until 28 March 2016.

No provision for Australia or Hong Kong profits tax has been made as the consolidated entity had no assessable profits derived from or earned in Australia or Hong Kong for the financial years ended 31 December 2001 and 2000.

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

### 22. INTEREST IN THE JOINT VENTURE

For better understanding of the consolidated entity's operating results, the results of the Joint Venture for the financial year ended 31 December 2001 together with the comparative figures for the previous financial year are set out below:-

#### (a) Statements of Financial Position/Balance Sheets

	2001 A\$'000	2000 A\$'000	2001 HK\$'000	2000 HK\$'000
<b>Non-Current Assets</b>				
Property, plant and equipment	81,755	79,568	326,048	346,414
Intangible asset	998	1,046	3,978	4,553
<b>Total Non-Current Assets</b>	<b>82,753</b>	<b>80,614</b>	<b>330,026</b>	<b>350,967</b>
<b>Current Assets</b>				
Cash assets	10,904	7,122	43,486	31,007
Receivables	24,314	22,070	96,968	96,085
Inventories	22,469	22,356	89,608	97,331
Prepayments	165	107	660	466
<b>Total Current Assets</b>	<b>57,852</b>	<b>51,655</b>	<b>230,722</b>	<b>224,889</b>
<b>Current Liabilities</b>				
Payables	10,619	8,237	42,349	35,858
Interest bearing liabilities	35,315	37,422	140,841	162,925
Provisions	5,416	2,572	21,600	11,197
<b>Total Current Liabilities</b>	<b>51,350</b>	<b>48,231</b>	<b>204,790</b>	<b>209,980</b>
<b>Net Current Assets</b>	<b>6,502</b>	<b>3,424</b>	<b>25,932</b>	<b>14,909</b>
<b>Net Assets</b>	<b>89,255</b>	<b>84,038</b>	<b>355,958</b>	<b>365,876</b>
<b>Equity</b>				
Contributed equity	59,475	59,475	348,470	348,470
Capital deficit	(1,066)	(1,066)	(6,323)	(6,323)
Revaluation reserve	2,144	2,144	8,649	9,169
Foreign currency translation reserve	34,797	27,120	28,800	28,800
Accumulated losses	(6,095)	(3,635)	(23,638)	(14,240)
<b>Total Equity</b>	<b>89,255</b>	<b>84,038</b>	<b>355,958</b>	<b>365,876</b>

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

### (b) Statements of Financial Performance/Income Statements

	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from sale of goods	119,170	76,769	497,045	353,854
Cost of sales	<u>(92,980)</u>	<u>(66,153)</u>	<u>(387,810)</u>	<u>(304,918)</u>
Gross profit	26,190	10,616	109,235	48,936
Other revenue from ordinary activities				
Interest income	116	100	484	463
Management fee	42	38	174	173
Other income	383	607	1,596	2,798
	541	745	2,254	3,434
Other expenses from ordinary activities				
Depreciation expense	(1,168)	(777)	(4,873)	(3,582)
General and administrative	(10,659)	(10,282)	(44,449)	(47,394)
Selling and distribution	(10,353)	(6,390)	(43,182)	(29,456)
Financial	(2,287)	(2,239)	(9,541)	(10,320)
	<u>(24,467)</u>	<u>(19,688)</u>	<u>(102,045)</u>	<u>(90,752)</u>
Profit/(Loss) from ordinary activities before income tax expense	2,264	(8,327)	9,444	(38,382)
Income tax expense	<u>–</u>	<u>(1,695)</u>	<u>–</u>	<u>(7,812)</u>
Profit/(Loss) from ordinary activities after income tax expense	2,264	(10,022)	9,444	(46,194)
(Accumulated loss)/Retained profits at the beginning of the financial year	<u>(3,635)</u>	<u>6,387</u>	<u>(14,240)</u>	<u>31,954</u>
Total available for appropriation	(1,371)	(3,635)	(4,796)	(14,240)
Dividends	<u>(4,724)</u>	<u>–</u>	<u>(18,842)</u>	<u>–</u>
Accumulated losses at the end of the financial year	<u><u>(6,095)</u></u>	<u><u>(3,635)</u></u>	<u><u>(23,638)</u></u>	<u><u>(14,240)</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

### (c) Statements of Cash Flows

	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>
Cash Flows From Operating Activities		
Receipts from customers	119,465	82,649
Payments to suppliers and employees	(105,089)	(71,169)
Interest received	116	100
Interest and other costs of finance paid	(2,196)	(2,181)
Income tax refund	–	427
Net Cash Provided By Operating Activities	12,296	9,826
Cash Flows For Investing Activities		
Purchase of property, plant and equipment	(1,660)	(2,236)
Proceeds from sale of property, plant and equipment	–	292
Net Cash Used In Investing Activities	(1,660)	(1,944)
Cash Flows For Financing Activities		
Repayment of borrowings	(5,244)	(531)
Repayment to a Joint Venture equity holder	(49)	(784)
Repayment to the parent entity	(79)	–
Dividends paid to shareholders	(2,260)	(2,040)
Net Cash Used In Financing Activities	(7,632)	(3,355)
Net Increase in Cash Held	3,004	4,527
Cash At The Beginning of The Financial Year	7,122	2,007
Exchange rate adjustment	778	588
Cash At The End of The Financial Year	10,904	7,122

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

### (d) Statements of Cash Flows

	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net Cash Inflow From Operating Activities	59,954	52,977
Returns On Investment And Servicing Of Finance		
Interest received	484	463
Interest and other costs of finance paid	(9,158)	(10,052)
Net Cash Outflow For Returns On Investment And Servicing Of Finance	(8,674)	(9,589)
Taxation		
PRC profits tax refund	–	1,967
Investing Activities		
Purchase of property, plant and equipment	(6,925)	(10,305)
Proceeds from sale of property, plant and equipment	–	1,346
Net Cash Outflow For Investing Activities	(6,925)	(8,959)
Net Cash Inflow Before Financing Activities	44,355	36,396
Financing Activities		
Repayment of borrowings	(21,872)	(2,445)
Repayment to a Joint Venture equity holder	(203)	(3,612)
Repayment to the parent entity	(330)	–
Dividends paid to shareholders	(9,428)	(9,405)
Net Cash Outflow For Financing Activities	(31,833)	(15,462)
Net Increase in Cash Held	12,522	20,934
Cash At The Beginning of The Financial Year	31,007	10,035
Exchange rate adjustment	(43)	38
Cash At The End of The Financial Year	43,486	31,007

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

### (e) Operating Lease Commitments

As at 31 December 2001, the total future minimum lease payments under non-cancellable operating leases are payable to GRTF as follows:-

	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,308	1,200	5,217	5,224
After one year but within five years	5,232	4,800	20,867	20,896
After five years	19,724	19,292	78,659	83,994
	<u>26,264</u>	<u>25,292</u>	<u>104,743</u>	<u>110,114</u>

The operating leases are in respect of land and buildings and certain machinery. The lease terms are set out in Note 25 to the financial statements. None of the leases includes contingent rentals.

The consolidated entity's interest in the above operating leases is 70% (2000 – 70%).



# NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2001

## 23. FINANCIAL INSTRUMENTS

	NOTE	CONSOLIDATED ENTITY				Total A\$'000
		Floating interest rate A\$'000	Fixed interest maturing in:- one year or less A\$'000		more than one year A\$'000	
<b>31 DECEMBER 2001</b>						
<b>FINANCIAL ASSETS</b>						
Cash assets		-	2,571	-	721	3,292
Receivables	2	-	-	-	4,098	4,098
Financial assets	3					
- trading investments		-	-	-	2,063	2,063
- other investment		-	-	-	1,330	1,330
		<u>-</u>	<u>2,571</u>	<u>-</u>	<u>8,212</u>	<u>10,783</u>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>FINANCIAL ASSETS</b>						
Cash assets		-	10,253	-	2,876	13,129
Receivables	2	-	-	-	16,343	16,343
Financial assets	3					
- trading investments		-	-	-	8,226	8,226
- other investment		-	-	-	5,304	5,304
		<u>-</u>	<u>10,253</u>	<u>-</u>	<u>32,749</u>	<u>43,002</u>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Weighted average interest rate		<u>-</u>	<u>4.23%</u>	<u>-</u>	<u>-</u>	<u>0.94%</u>
		<i>A\$'000</i>	<i>A\$'000</i>	<i>A\$'000</i>	<i>A\$'000</i>	<i>A\$'000</i>
<b>FINANCIAL LIABILITIES</b>						
Payables	6	<u>-</u>	<u>-</u>	<u>-</u>	<u>289</u>	<u>289</u>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>FINANCIAL LIABILITIES</b>						
Payables	6	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,151</u>	<u>1,151</u>
Weighted average interest rate		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net financial assets/(liabilities)						
- A\$'000		<u>-</u>	<u>2,571</u>	<u>-</u>	<u>7,923</u>	<u>10,494</u>
- HK\$'000		<u>-</u>	<u>10,253</u>	<u>-</u>	<u>31,598</u>	<u>41,851</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2001

		CONSOLIDATED ENTITY					
		Fixed interest maturing in:-			Non- interest		
		Floating interest rate	one year or less	more than one year	bearing	Total	
31 DECEMBER 2000	NOTE	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	
<b>FINANCIAL ASSETS</b>							
Cash assets		960	1,583	-	145	2,688	
Receivables	2	-	-	-	1,932	1,932	
Financial assets	3						
- trading investments		-	-	-	2,516	2,516	
- other investment		-	-	-	1,330	1,330	
		<u>960</u>	<u>1,583</u>	<u>-</u>	<u>5,923</u>	<u>8,466</u>	
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
<b>FINANCIAL ASSETS</b>							
Cash assets		4,181	6,890	-	631	11,702	
Receivables	2	-	-	-	8,411	8,411	
Financial assets	3						
- trading investments		-	-	-	10,953	10,953	
- other investment		-	-	-	5,790	5,790	
		<u>4,181</u>	<u>6,890</u>	<u>-</u>	<u>25,785</u>	<u>36,856</u>	
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Weighted average interest rate		<u>2.13%</u>	<u>4.30%</u>	<u>-</u>	<u>-</u>	<u>1.37%</u>	
		<i>A\$'000</i>	<i>A\$'000</i>	<i>A\$'000</i>	<i>A\$'000</i>	<i>A\$'000</i>	
<b>FINANCIAL LIABILITIES</b>							
Payables	6	<u>-</u>	<u>-</u>	<u>-</u>	<u>285</u>	<u>285</u>	
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
<b>FINANCIAL LIABILITIES</b>							
Payables	6	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,236</u>	<u>1,236</u>	
Weighted average interest rate		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Net financial assets							
- A\$'000		960	1,583	-	5,638	8,181	
- HK\$'000		<u>4,181</u>	<u>6,890</u>	<u>-</u>	<u>24,549</u>	<u>35,620</u>	

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

The carrying amounts and net fair values of financial assets and liabilities as at 31 December 2001 are as follows:-

	<b>CONSOLIDATED ENTITY</b>			
	<b>2001</b> <i>A\$'000</i>	<b>2001</b> <i>A\$'000</i>	<b>2000</b> <i>A\$'000</i>	<b>2000</b> <i>A\$'000</i>
	<b>Carrying amount</b>	<b>Net fair value</b>	<b>Carrying amount</b>	<b>Net fair value</b>
<b>FINANCIAL ASSETS</b>				
Cash in hand and at banks	721	721	145	145
Time deposits with maturity				
less than three months	2,571	2,571	2,543	2,543
Amount owing by the Joint Venture	128	128	239	239
Other receivables	3,970	3,970	1,693	1,693
Investment in 8% convertible notes	1,330	1,330	1,330	1,330
	<u>8,720</u>	<u>8,720</u>	<u>5,950</u>	<u>5,950</u>
Non-trading financial assets	8,720	8,720	5,950	5,950
Trading investments ( <i>Note 3</i> )	2,063	2,063	2,516	2,516
	<u>10,783</u>	<u>10,783</u>	<u>8,466</u>	<u>8,466</u>
<b>FINANCIAL LIABILITIES</b>				
Amount owing to a director	8	8	86	86
Payables	281	281	199	199
	<u>289</u>	<u>289</u>	<u>285</u>	<u>285</u>
Non-trading financial liabilities	289	289	285	285
	<u>289</u>	<u>289</u>	<u>285</u>	<u>285</u>
<b>CONSOLIDATED ENTITY</b>				
	<b>2001</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
	<b>Carrying amount</b>	<b>Net fair value</b>	<b>Carrying amount</b>	<b>Net fair value</b>
<b>FINANCIAL ASSETS</b>				
Cash in hand and at banks	2,876	2,876	631	631
Time deposits with maturity				
less than three months	10,253	10,253	11,071	11,071
Amount owing by the Joint Venture	510	510	1,040	1,040
Other receivables	15,833	15,833	7,371	7,371
Investment in 8% convertible notes	5,304	5,304	5,790	5,790
	<u>34,776</u>	<u>34,776</u>	<u>25,903</u>	<u>25,903</u>
Non-trading financial assets	34,776	34,776	25,903	25,903
Trading investments ( <i>Note 3</i> )	8,226	8,226	10,953	10,953
	<u>43,002</u>	<u>43,002</u>	<u>36,856</u>	<u>36,856</u>
<b>FINANCIAL LIABILITIES</b>				
Amount owing to a director	30	30	370	370
Payables	1,121	1,121	866	866
	<u>1,151</u>	<u>1,151</u>	<u>1,236</u>	<u>1,236</u>
Non-trading financial liabilities	1,151	1,151	1,236	1,236
	<u>1,151</u>	<u>1,151</u>	<u>1,236</u>	<u>1,236</u>

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

Net fair value is exclusive of costs which would be incurred on realisation of an asset, and inclusive of costs which would be incurred on settlement of a liability.

Other than assets denoted as “trading”, none of the classes of financial assets and liabilities are readily traded on organised markets in standardised form.

### 24. COMMITMENTS

On 28 August 1997, the parent entity entered into an agreement with GRTF to increase the issued and paid-up capital of the Joint Venture. Details of the agreed increase in capital are as follows :-

	US\$'000	A\$'000	HK\$'000
As at 28 August 1997	39,667	54,150	306,785
Increased on 30 March 1998	3,535	5,325	27,424
As at 31 December 1998	43,202	59,475	334,209
Subsequent increase before			
– 30 June 1999 (known as the second increase)	11,785	18,385	91,573
– 30 June 2000 (known as the third increase)	8,250	12,870	64,100
	63,237	90,730	489,882

On 25 June 1999, pursuant to a resolution of the Board of Directors, the second and third increases are to be deferred until such time when the Joint Venture requires additional funds to meet its operational requirements.

### 25. CONNECTED TRANSACTIONS

The following is a summary of the connected transactions:-

#### (a) On-going connected transactions

- (i) On 2 November 1994, pursuant to an asset investment and leasing agreement entered into between the Joint Venture, the parent entity and GRTF, the Joint Venture agreed to lease from GRTF the exclusive right to use certain machinery for the duration of the joint venture, being 30 years from 11 December 1993 at RMB2,000,000 per annum.
- (ii) The terms of an agreement to license between the Joint Venture and GRTF dated 2 November 1994, which provided for the transfer to the Joint Venture of:-
  - (1) the right to use the trademark “Pearl River”; and
  - (2) any technology and know-how necessary for the production of bias tyres at the production levels contained in the Joint Venture Agreement for the term of the Joint Venture Agreement.

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

The Joint Venture paid GRTF US\$1,000,000 in 1996 as consideration for the trademark and transfer of technology relating to the production of bias tyres and the expansion project. This consideration has been classified as a deferred asset and is being amortised over a period of 14 years.

During the financial year ended 31 December 2001, the Joint Venture has paid royalties of approximately A\$108,000 or HK\$452,000 (2000 – A\$93,000 or HK\$428,000) equal to 0.2% of “Pearl River” tyres sales revenue to GRTF as defined in the Joint Venture Agreement.

- (iii) The Joint Venture has contributed to the administrative expenses of a hospital and staff canteen under the management of GRTF. The services of the hospital and staff canteen are provided for the welfare of the staff members of the Joint Venture, GRTF, Guangzhou Bolex Tyre Limited (“Bolex”) and a third party. The respective contribution made by the Joint Venture, GRTF, Bolex and the third party is proportional to the number of staff members employed by each of the above entities. During the financial year ended 31 December 2001, the Joint Venture has contributed approximately A\$286,000 or HK\$1,193,000 (2000 – A\$449,000 or HK\$2,069,000) as its share of the administrative expenses for the hospital and staff canteen.
- (iv) Pursuant to an agreement entered into between the Joint Venture and Bolex in December 1996, the Joint Venture agreed to process certain raw materials for Bolex in return of a contribution by Bolex of an agreed percentage of the rental costs of the equipment used (further details are set out in (vii) below) and the employees employed for such processing service. During the financial year ended 31 December 2001, the contribution received and receivable from Bolex for the processing of the raw materials amounted to approximately A\$979,000 or HK\$4,085,000 (2000 – A\$2,268,000 or HK\$10,455,000).
- (v) Pursuant to an agreement entered into between the Joint Venture and Bolex in December 1996, the Joint Venture agreed to provide certain administrative and management services to Bolex in return of a contribution by Bolex of an agreed amount of the respective costs of the supporting divisions involved. During the financial year ended 31 December 2001, the Joint Venture charged Bolex management fee of approximately A\$42,000 or HK\$174,000 (2000 – A\$38,000 or HK\$173,000). The Joint Venture also received interest income of approximately A\$42,000 or HK\$177,000 (2000 – A\$31,000 or HK\$143,000) from Bolex for advances/loans outstanding during the financial year ended 31 December 2001.
- (vi) The 8% unsecured convertible notes are an investment held by PRTC in a proprietary limited company incorporated in Australia together with a company which is substantially and collectively owned and controlled by Ang Guan Seng and Goh Nan Kioh. The notes are convertible until 31 December 2002, at the option of PRTC, into 50% of the equity capital of the proprietary limited company failing which they will be redeemed at that date. Interest on the notes has not been accrued for the financial years ended 31 December 2001 and 2000.

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

In 1999, PRTC entered into a call and put option with the company which is substantially and collectively owned and controlled by certain directors to dispose of this investment. Either option, if exercised, would result in PRTC realising the notes at their cost. Both call and put option are exercisable on or before 31 December 2002. The existence of this call and put option ensures that the investment is recoverable in full.

- (vii) On 1 January 2001, pursuant to a leasing agreement entered into between the Joint Venture, GRTF and Bolex, the Joint Venture and Bolex agreed to lease from GRTF a “bambery” for 1 year at an annual rental of RMB860,000. The lease rental is shared based on the budgeted production volume of each of the two entities. During the financial year ended 31 December 2001, the Joint Venture has paid approximately A\$49,000 or HK\$203,000 (2000 – A\$116,000 or HK\$534,000) as its share of the use of the “bambery”.
- (viii) On 28 October 1999, the Joint Venture entered into a leasing agreement to lease a hostel from GRTF. The lease term is 20 years from 1 January 2000 and the annual rental is RMB28,800 for the first 5 years, thereafter, the annual rental will be revised based on the consumer price index at the time.

The non-executive independent directors of the parent entity have reviewed the abovementioned transactions and confirmed that these on-going connected transactions are in the ordinary and usual course of business, on normal commercial terms and are fair and reasonable so far as the shareholders of the parent entity are concerned. In addition, in accordance with a waiver letter dated 24 July 2000 in respect of transactions mentioned in paragraphs (a) (iv) and (v) in the previous page from the Stock Exchange of Hong Kong, the non-executive independent directors of the parent entity also confirm that the aggregate value of these transactions exceeds 3% of the consolidated entity’s annual turnover due to a change in accounting treatment of the results of the Joint Venture mentioned in Note 1 (d). Had the method of accounting for the Joint Venture remained the same as the previous financial years, the aggregate value of the transactions mentioned in paragraphs (a) (iv) and (v) does not exceed 3% of the consolidated entity’s annual turnover.

Horwath Sydney Partnership, the independent external auditors, has also reviewed the abovementioned transactions. However, in accordance with the abovementioned waiver letter, Horwath Sydney Partnership is only required to comment on the transactions mentioned in paragraphs (a) (iv) and (v) in the annual report. Accordingly, Horwath Sydney Partnership confirms that:–

- (1) these transactions have received the approval of the Directors of the parent entity;
- (2) these transactions have been entered into in accordance with the terms of the agreements governing the on-going connected transactions or, where there is no agreement/document, on terms no less favourable than terms available to/from, as appropriate, independent third parties;

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

- (3) these transactions are conducted in accordance with the pricing policies as stated in the abovementioned paragraphs; and
- (4) the transactions mentioned in paragraphs (a) (iv) and (v) have exceeded 3% of the consolidated entity's annual turnover due to a change in accounting treatment of the results of the Joint Venture mentioned in Note 1 (d). Had the method of accounting for the Joint Venture remained the same as the previous financial years, the aggregate value of the transactions mentioned in paragraphs (a) (iv) and (v) does not exceed 3% of the consolidated entity's annual turnover.

**(b) Other connected transaction**

On 30 October 2000, the Joint Venture entered into a real estate lease contract with GRTF to lease a piece of land with an area of 170,729 sq.m. and buildings erected thereon. The buildings leased from GRTF, with a total gross floor area of 42,547 sq.m., are mainly used by the Joint Venture for its office, industrial production and operation purposes.

The lease term is 20 years from 20 December 2000 at an annual rental of RMB3,508,668. The rental will be revised based on the land use fee and real estate tax at the time.

**26. AUDITORS' REMUNERATION**

	<b>CONSOLIDATED/PARENT ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>A\$'000</i>	<i>A\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts received or due and receivable by parent entity auditors for:–				
– auditing the financial statements	65	65	271	300
– other services	<u>25</u>	<u>25</u>	<u>104</u>	<u>115</u>

**27. NET TANGIBLE ASSET BACKING**

	<b>CONSOLIDATED ENTITY</b>			
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
Net tangible assets per share as at 31 December	<u>A\$0.73</u>	<u>A\$0.66</u>	<u>HK\$2.95</u>	<u>HK\$2.91</u>

# NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

## 28. FOREIGN CURRENCY EXPOSURE

The Australian and Hong Kong dollars equivalent of foreign currency monetary items included in the financial statements to the extent they are not effectively hedged are as follows:–

	<b>CONSOLIDATED ENTITY</b>			
	<b>2001</b> <i>A\$'000</i>	<b>2000</b> <i>A\$'000</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
<b>CURRENT ASSETS</b>				
Amounts receivable in foreign currencies which are not effectively hedged:–				
– United States dollar	2,689	1,683	10,723	7,328
– Ringgit Malaysia	775	2,172	3,091	9,457
– Singapore dollar	559	1,419	2,228	6,180
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

<b>CURRENT LIABILITIES</b>				
Amounts payable in foreign currencies which are not effectively hedged:–				
– Ringgit Malaysia	121	56	481	243
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

	<b>PARENT ENTITY</b>			
	<b>2001</b> <i>A\$'000</i>	<b>2000</b> <i>A\$'000</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
<b>CURRENT ASSETS</b>				
Amounts receivable in foreign currencies which are not effectively hedged:–				
– United States dollar	2,689	1,628	10,723	7,086
– Ringgit Malaysia	83	13	332	56
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

<b>CURRENT LIABILITIES</b>				
Amounts payable in foreign currencies which are not effectively hedged:–				
– Ringgit Malaysia	113	45	451	194
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## 29. SEGMENTAL INFORMATION

The consolidated entity has operated in five areas during the financial year ended 31 December 2001:–

- (i) the Joint Venture in the PRC relating to the manufacture and sales of bias tyres;
- (ii) debt investment in Australia;
- (iii) investment in a prescribed stock exchange and cash deposits in Singapore;
- (iv) investment in a prescribed stock exchange and cash deposits in Malaysia; and
- (v) unquoted equity accounted investment in Malaysia.



## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

The segmental results and assets allocation are as follows:-

	The PRC A\$'000	Australia A\$'000	Singapore A\$'000	Malaysia A\$'000	Total A\$'000
<b>2001</b>					
Revenue from external customers	<u>59</u>	<u>–</u>	<u>894</u>	<u>143</u>	<u>1,096</u>
Revenue from external customers	59	–	894	143	1,096
Employee benefits expense	(485)	–	–	–	(485)
Depreciation expense	–	–	(17)	(17)	(34)
Other expenses	(935)	–	(500)	(1)	(1,436)
Share of net profit of the Joint Venture and associate entity	<u>1,636</u>	<u>–</u>	<u>–</u>	<u>383</u>	<u>2,019</u>
Consolidated profit before income tax expense	<u>275</u>	<u>–</u>	<u>377</u>	<u>508</u>	<u>1,160</u>
Segment assets	3,435	1,330	4,239	1,967	10,971
Investments accounted for using the equity method	<u>62,479</u>	<u>–</u>	<u>–</u>	<u>3,077</u>	<u>65,556</u>
Total assets	<u>65,914</u>	<u>1,330</u>	<u>4,239</u>	<u>5,044</u>	<u>76,527</u>
Segment liabilities	<u>310</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>310</u>
<b>2000</b>					
Revenue from external customers	<u>547</u>	<u>–</u>	<u>820</u>	<u>7,030</u>	<u>8,397</u>
Revenue from external customers	547	–	820	7,030	8,397
Employee benefits expense	(212)	–	–	–	(212)
Depreciation expense	(4)	–	(14)	(15)	(33)
Borrowing costs expense	–	–	(1)	–	(1)
Other expenses	(959)	–	(1,503)	(6,910)	(9,372)
Share of net (loss)/profit of the Joint Venture and associate entity	<u>(6,964)</u>	<u>–</u>	<u>–</u>	<u>85</u>	<u>(6,879)</u>
Consolidated (loss)/profit before income tax expense	<u>(7,592)</u>	<u>–</u>	<u>(698)</u>	<u>190</u>	<u>(8,100)</u>
Segment assets	1,780	1,491	3,023	2,402	8,696
Investments accounted for using the equity method	<u>58,826</u>	<u>–</u>	<u>–</u>	<u>2,562</u>	<u>61,388</u>
Total assets	<u>60,606</u>	<u>1,491</u>	<u>3,023</u>	<u>4,964</u>	<u>70,084</u>
Segment liabilities	<u>350</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>350</u>

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

	The PRC HK\$'000	Australia HK\$'000	Singapore HK\$'000	Malaysia HK\$'000	Total HK\$'000
<b>2001</b>					
Revenue from external customers	<u>245</u>	<u>–</u>	<u>3,730</u>	<u>597</u>	<u>4,572</u>
Revenue from external customers	245	–	3,730	597	4,572
Employee benefits expense	(2,024)	–	–	–	(2,024)
Depreciation expense	–	–	(74)	(71)	(145)
Other expenses	(3,900)	–	(2,085)	(4)	(5,989)
Share of net profit of the Joint Venture and associate entity	<u>6,611</u>	<u>–</u>	<u>–</u>	<u>1,599</u>	<u>8,210</u>
Consolidated profit before income tax expense	<u>932</u>	<u>–</u>	<u>1,571</u>	<u>2,121</u>	<u>4,624</u>
Segment assets	13,702	5,304	16,905	7,842	43,753
Investments accounted for using the equity method	<u>255,296</u>	<u>–</u>	<u>–</u>	<u>12,272</u>	<u>267,568</u>
Total assets	<u>268,998</u>	<u>5,304</u>	<u>16,905</u>	<u>20,114</u>	<u>311,321</u>
Segment liabilities	<u>1,234</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,234</u>
<b>2000</b>					
Revenue from external customers	<u>2,519</u>	<u>–</u>	<u>3,780</u>	<u>32,404</u>	<u>38,703</u>
Revenue from external customers	2,519	–	3,780	32,404	38,703
Employee benefits expense	(978)	–	–	–	(978)
Depreciation expense	(17)	–	(68)	(68)	(153)
Borrowing costs expense	–	–	(3)	–	(3)
Other expenses	(4,418)	–	(6,926)	(31,853)	(43,197)
Share of net (loss)/profit of the Joint Venture and associate entity	<u>(32,335)</u>	<u>–</u>	<u>–</u>	<u>393</u>	<u>(31,942)</u>
Consolidated (loss)/profit before income tax expense	<u>(35,229)</u>	<u>–</u>	<u>(3,217)</u>	<u>876</u>	<u>(37,570)</u>
Segment assets	7,745	6,491	13,161	10,459	37,856
Investments accounted for using the equity method	<u>258,107</u>	<u>–</u>	<u>–</u>	<u>11,152</u>	<u>269,259</u>
Total assets	<u>265,852</u>	<u>6,491</u>	<u>13,161</u>	<u>21,611</u>	<u>307,115</u>
Segment liabilities	<u>1,520</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,520</u>

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

### 30. EVENTS SUBSEQUENT TO THE FINANCIAL YEAR END

Since 31 December 2001, no event has arisen that would be likely to materially affect the operations of the consolidated entity, the results of the consolidated entity or the state of affairs of the consolidated entity which has not been disclosed in the financial statements.

### 31. NUMBER OF EMPLOYEES

The number of employees of the parent entity and the consolidated entity at the end of the financial year was 12 (31 December 2000 – 6).

### 32. CURRENCY CONVERSION RATES

	2001	2000
Average rates during the financial year		
– A\$1 equals RMB	4.4241	4.9010
– A\$1 equals HK\$	4.1709	4.6094
– HK\$1 equals RMB	1.0607	1.0633
– A\$1 equals RM	1.9894	2.0357
– HK\$1 equals RM	0.4770	0.4416
Rates as at 31 December		
– A\$1 equals RMB	4.2333	4.6149
– A\$1 equals HK\$	3.9881	4.3537
– HK\$1 equals RMB	1.0615	1.0600

## NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

### 33. FIVE YEAR FINANCIAL SUMMARY

	2001 <i>A\$'000</i>	As Restated 2000 <i>A\$'000</i>	As Restated 1999* <i>A\$'000</i>	As Previously Reported 1999* <i>A\$'000</i>	As Previously Reported 1998* <i>A\$'000</i>	As Previously Reported 1997* <i>A\$'000</i>
<b>Results</b>						
Turnover from ordinary activities	<u>1,096</u>	<u>8,397</u>	<u>2,080</u>	<u>88,434</u>	<u>112,213</u>	<u>107,916</u>
Profit/(Loss) from ordinary activities before income tax <sup>#</sup>	1,309	(6,914)	(1,400)	(1,726)	14,240	14,878
Income tax attributable to profit/(loss) from ordinary activities	<u>(149)</u>	<u>(1,186)</u>	<u>304</u>	<u>434</u>	<u>(1,030)</u>	<u>(2,334)</u>
Profit/(Loss) from ordinary activities after income tax	1,160	(8,100)	(1,096)	(1,292)	13,210	12,544
Outside equity interest in (loss)/profit from ordinary activities after income tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>196</u>	<u>(4,322)</u>	<u>(4,132)</u>
Profit/(Loss) from ordinary activities after income tax attributable to members of parent entity	<u>1,160</u>	<u>(8,100)</u>	<u>(1,096)</u>	<u>(1,096)</u>	<u>8,888</u>	<u>8,412</u>
<b>Net Assets</b>						
Non-current assets	67,821	65,565	57,237	73,443	77,847	67,039
Current assets	8,706	4,519	11,050	68,283	59,980	63,345
Current liabilities	(310)	(350)	(576)	(49,924)	(38,428)	(40,353)
Non-current liabilities	-	-	-	-	-	(1,917)
Outside equity interest in the Joint Venture	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,091)</u>	<u>(26,808)</u>	<u>(25,338)</u>
Equity attributable to members of parent entity	<u>76,217</u>	<u>69,734</u>	<u>67,711</u>	<u>67,711</u>	<u>72,591</u>	<u>62,776</u>

\* *The financial statements of the Joint Venture were consolidated using acquisition method.*

# NOTES TO THE FINANCIAL STATEMENTS

*For the Financial Year ended 31 December 2001*

	2001 <i>HK\$'000</i>	As Restated 2000 <i>HK\$'000</i>	As Restated 1999* <i>HK\$'000</i>	As Previously Reported 1999* <i>HK\$'000</i>	As Previously Reported 1998* <i>HK\$'000</i>	As Previously Reported 1997* <i>HK\$'000</i>
<b>Results</b>						
Turnover from ordinary activities	<u>4,572</u>	<u>38,703</u>	<u>10,120</u>	<u>430,231</u>	<u>547,599</u>	<u>618,175</u>
Profit/(Loss) from ordinary activities before income tax <sup>#</sup>	5,245	(32,102)	(7,045)	(8,631)	68,498	85,225
Income tax attributable to profit/(loss) from ordinary activities	<u>(621)</u>	<u>(5,468)</u>	<u>1,480</u>	<u>2,114</u>	<u>(5,026)</u>	<u>(13,370)</u>
Profit/(Loss) from ordinary activities after income tax	4,624	(37,570)	(5,565)	(6,517)	63,472	71,855
Outside equity interest in (loss)/profit from ordinary activities after income tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>952</u>	<u>(20,793)</u>	<u>(23,669)</u>
Profit/(Loss) from ordinary activities after income tax attributable to members of parent entity	<u>4,624</u>	<u>(37,570)</u>	<u>(5,565)</u>	<u>(5,565)</u>	<u>42,679</u>	<u>48,186</u>
<b>Net Assets</b>						
Non-current assets	276,601	287,442	288,723	369,753	370,863	341,045
Current assets	34,720	19,673	55,251	341,417	283,706	318,625
Current liabilities	(1,234)	(1,520)	(2,879)	(249,617)	(181,764)	(202,976)
Non-current liabilities	-	-	-	-	-	(9,643)
Outside equity interest in the Joint Venture	<u>-</u>	<u>-</u>	<u>-</u>	<u>(120,458)</u>	<u>(126,513)</u>	<u>(127,450)</u>
Equity attributable to members of parent entity	<u>310,087</u>	<u>305,595</u>	<u>341,095</u>	<u>341,095</u>	<u>346,292</u>	<u>319,601</u>

\* *The financial statements of the Joint Venture were consolidated using acquisition method.*

# *Operating profit/(loss) from continuing operations before income tax is arrived at after taking into account the following abnormal items:-*

- (a) *for the financial year ended 31 December 2000, details are set out in Note 18 (b) to the financial statements.*
- (b) *for the financial year ended 31 December 1999, it relates to the Joint Venture's underdepreciation of buildings relating to previous years arising from a correction in the depreciation rate.*
- (c) *for the financial year ended 31 December 1998, it relates to the writing back of a provision for diminution in the value of the investment amounting to A\$1,330,000 in 8% convertible notes in a proprietary limited company incorporated in Australia made in the financial year ended 31 December 1997.*

## **NOTES TO THE FINANCIAL STATEMENTS**

*For the Financial Year ended 31 December 2001*

The financial statements of the Joint Venture are presented in the consolidated financial statements using the equity method for the financial years ended 31 December 1999 to 2001.

Prior to these financial years, the financial statements of the Joint Venture were consolidated using the acquisition method. The Directors are of the opinion that it would involve expense out of proportion to the value to the shareholders of the parent entity if the comparative figures for 1997 and 1998 were to be restated in accordance with the equity method for the consolidation of the financial statements of the Joint Venture.