

## Notes to the Condensed Financial Statements

For the six months ended 30th June, 2003

### 1. Basis of preparation

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

### 2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities.

In the opinion of the directors, the accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2002, except as described below.

#### *Income Taxes*

In the current period, the Group has adopted SSAP 12 (Revised) “Income Taxes”. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly.

As a result of this change in policy, the opening balance of accumulated losses at 1st January, 2002 has been increased by HK\$10,705,000, representing the Group’s share of deferred tax liabilities recognised by a jointly controlled entity. The net profit for the six months ended 30th June, 2003 has been increased by HK\$166,000 (six months ended 30th June, 2002: a decrease of net loss for the period of HK\$166,000).

### 3. Turnover and segment information

#### Business segments

During the period, the Group is engaged in six business activities - manufacturing and trading of chemical fibers, other trading, provision of finance, property investment and management, investment in securities and other investments. These activities are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Discontinuing operations	Continuing operations						Eliminations	Consolidated
Manufacturing and trading of chemical fibers	Property							
Other trading	Provision of finance	investment and management	Investment in securities	Other investments				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
(Note 13)								

#### Six months ended 30th June, 2003

#### TURNOVER

External sales	183,408	54,542	3,448	1,612	-	-	-	243,010
Inter-segment sales	-	-	-	203	-	-	(203)	-
<b>Total</b>	<b>183,408</b>	<b>54,542</b>	<b>3,448</b>	<b>1,815</b>	<b>-</b>	<b>-</b>	<b>(203)</b>	<b>243,010</b>

#### RESULTS

Segment results	4,579	2,547	3,433	962	2,062	-	-	13,583
Unallocated corporate expenses								(4,793)
Profit from operations								8,790

### 3. Turnover and segment information (continued)

Discontinuing operations	Continuing operations						Eliminations	Consolidated
	Manufacturing and trading of chemical fibers <i>HK\$'000</i> (Note 13)	Other trading <i>HK\$'000</i>	Property investment and Investment in Other					
Provision of finance <i>HK\$'000</i>			management <i>HK\$'000</i>	Investment in securities <i>HK\$'000</i>	Other investments <i>HK\$'000</i>			
<i>Six months ended 30th June, 2002</i>								
TURNOVER								
External sales	164,904	-	641	1,658	1,626	3,108	-	171,937
Inter-segment sales	-	-	-	192	-	-	(192)	-
Total	<u>164,904</u>	<u>-</u>	<u>641</u>	<u>1,850</u>	<u>1,626</u>	<u>3,108</u>	<u>(192)</u>	<u>171,937</u>
RESULTS								
Segment results	<u>(10,426)</u>	<u>-</u>	<u>861</u>	<u>1,721</u>	<u>(115)</u>	<u>812</u>	<u>-</u>	<u>(7,147)</u>
Unallocated corporate expenses								<u>(6,912)</u>
Loss from operations								<u><u>(14,059)</u></u>

#### Notes:

- Inter-segment sales are conducted at terms determined between the parties.
- Other trading transactions during the period represent trading of iron ore.
- The turnover and results attributable to other investments business were not significant for the current period.

#### 4. Profit (loss) from operations

	Six months ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
Profit (loss) from operations has been arrived at after charging (crediting):		
Amortisation of trademarks	–	187
Depreciation and amortisation of property, plant and equipment	14,883	16,227
Impairment loss on property, plant and equipment	4,750	–
Interest income from investments	(3,395)	(3,750)
Interest income, other than from investments	(56)	(536)
Release of negative goodwill to other operating income	(216)	–
Unrealised holding gain on other investments	(2,147)	–
	<u>          </u>	<u>          </u>

#### 5. Taxation

	Six months ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
The charge (credit) comprises:		
Current tax		
The People's Republic of China ("PRC") enterprise income tax, other than Hong Kong Profits Tax	22	–
Overprovision of PRC income tax in prior period	(97)	(120)
	<u>          </u>	<u>          </u>
	(75)	(120)
Share of PRC income tax of a jointly controlled entity	763	632
	<u>          </u>	<u>          </u>
	<u>688</u>	<u>512</u>

PRC income tax is calculated in accordance with the relevant laws and regulations in the PRC.

## **6. Earnings (loss) per share**

The calculation of the basic earnings (loss) per share is based on the net profit for the period of HK\$384,000 (six months ended 30th June, 2002: net loss of HK\$12,037,000) and on the 1,214,115,987 shares in issue during each of the two periods.

No diluted earnings per share has been presented for the six months ended 30th June, 2003 as the Company has no outstanding share options at 30th June, 2003.

No diluted loss per share had been presented for the six months ended 30th June, 2002 as the exercise prices of the Company's outstanding share options were higher than the average price of the shares of the Company during that period.

## **7. Changes of investment properties and property, plant and equipment**

The directors have considered the carrying amount of the Group's investment properties as of 30th June, 2003 and are of the opinion that the carrying amounts do not differ significantly from the open market value of the properties as at that date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

An impairment loss of HK\$4,750,000 was recognised during the period in respect of production machinery as a result of plant relocation.

During the period ended 30th June, 2002, the Group disposed certain of its property, plant and equipment with net book value of approximately HK\$9,913,000 as a result of relocation of Group's plant and equipment.

## 8. Trade and other receivables

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of trade receivables at the reporting date:

	<b>30th June, 2003 HK\$'000</b>	31st December, 2002 HK\$'000
Trade receivables		
0 – 60 days	<b>63,374</b>	14,072
61 – 90 days	<b>1,706</b>	1,716
Over 90 days	<b>2,836</b>	138
	<b>67,916</b>	15,926
Other receivables	<b>24,676</b>	13,200
	<b>92,592</b>	29,126

## 9. Trade and other payables

The following is an aged analysis of trade and bills payables at the reporting date:

	<b>30th June, 2003 HK\$'000</b>	31st December, 2002 HK\$'000
Trade and bills payables		
0 – 60 days	<b>51,063</b>	16,716
61 – 90 days	<b>1,760</b>	177
Over 90 days	<b>517</b>	344
	<b>53,340</b>	17,237
Other payables	<b>61,003</b>	50,907
Value added tax payables	<b>808</b>	306
	<b>115,151</b>	68,450

## 10. Bank and other borrowings

During the period, the Group obtained new bank and other borrowings of HK\$128,701,000. The borrowings bear interest at market rates and are repayable within one year. The proceeds were used for general working capital purposes. In addition, the Group also repaid bank borrowings in the amount of HK\$101,140,000 during the period.

## 11. Related party transactions

(A) During the period, the Group had significant transactions with related parties which are also deemed to be connected persons as defined by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The significant transactions with the connected persons during the period, and significant balances with them at the balance sheet date, are as follows:

Connected persons	Nature of transactions/balances	Six months ended 30th June,	
		2003 HK\$'000	2002 HK\$'000
Transactions:			
(a) HCF Group and its affiliates	Sales of chemical fibers ( <i>note ii</i> )	–	5,648
( <i>note i</i> )	Interest expenses ( <i>note iii</i> )	<u>909</u>	<u>1,071</u>
		<b>30th June,</b>	31st December,
		<b>2003</b>	2002
		<b>HK\$'000</b>	<b>HK\$'000</b>
Balances:			
(b) Current:			
HCF Group and its affiliates	Payable by the Group ( <i>note iv</i> )	<u>–</u>	<u>283</u>
(c) Non-current:			
HCF Group and its affiliates	Payable by the Group ( <i>note v</i> )	55,755	61,882
Elegant Base Development Limited ( <i>note vi</i> )	Payable by the Group ( <i>note vii</i> )	<u>62,915</u>	<u>62,915</u>
		<u>118,670</u>	<u>124,797</u>

### Notes:

- (i) Hangzhou Chemical Fibre Group Company (“HCF Group”) is a 45% shareholder of Hangzhou B.P. Chemical Fibre Co., Ltd. (“Hangzhou B.P.”), a non-wholly owned subsidiary of the Company.

## 11. Related party transactions *(continued)*

- (ii) These transactions were carried out at market prices and were subject to a waiver granted by The Stock Exchange of Hong Kong Limited from making disclosure on each occasion when they arose as disclosed in the Company's announcement dated 5th August, 1999.
  - (iii) The interest was charged at the prevailing market rate on the outstanding advances from the HCF Group.
  - (iv) The balance was unsecured, interest-free and had no fixed repayment terms.
  - (v) The balance is unsecured and has no fixed repayment terms. Other than an aggregate amount of approximately HK\$30.1 million (31st December, 2002: HK\$34.8 million) which carries interest at the prevailing market rates, the balance is interest-free. In the opinion of the directors, the amount will not be repayable within one year from the balance sheet date and accordingly, the amount is shown as non-current.
  - (vi) Elegant Base Development Limited is a 20% shareholder of Success Harbour International Limited, a non-wholly owned subsidiary of the Company.
  - (vii) The balance is unsecured, interest-free and has no fixed repayment terms. In the opinion of the directors, the amount will not be repayable within one year from the balance sheet date and accordingly, the amount is shown as non-current.
- (B) At 31st December, 2002, the Company had given a guarantee of approximately HK\$6.1 million to a bank in respect of credit facilities granted to Hangzhou B.P.. The Company was released from such guarantee during the period. In addition, at 30th June, 2003, the Group has also advanced approximately HK\$33 million to Hangzhou B.P. for financing of its operations (31st December, 2002: HK\$33 million). These advances are unsecured, interest-free and have no fixed repayment terms.

At the balance sheet date, HCF Group, the minority shareholder of Hangzhou B.P., has also provided guarantees in favour of, and advances to, Hangzhou B.P. in amounts not less than its proportionate interest in Hangzhou B.P..

## 12. Capital commitments

At 30th June 2003, the Company had contracted but not provided for commitments in respect of the acquisition of a securities brokerage subsidiary of approximately HK\$19 million (31st December, 2002: Nil).



### 13. Disposal of subsidiaries

#### *Discontinuing operations*

On 13th January, 2003, the Company entered into an agreement (“Agreement”) to dispose of the entire issued share capital in Grandace Investments Ltd. (“Grandace”), a wholly-owned subsidiary of the Company, and an unsecured, interest-free shareholder’s loan of approximately HK\$74,621,000 due from Grandace to the Company for an aggregate consideration of HK\$50,000,000 (subject to adjustments) to be satisfied by 3 installments in cash on or before the completion of the Agreement.

Grandace and its 55% owned subsidiary (the “Grandace Group”) are engaged in the manufacturing and trading of chemical fibers in the PRC.

Details of the discontinuing operations of manufacturing and trading of chemical fibers are summarised as follows:

	Six months ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
Turnover	183,408	164,904
Other operating income	806	830
Operating costs	(179,635)	(176,160)
Profit (loss) from operations	4,579	(10,426)
Finance costs	(6,262)	(6,689)
Loss before taxation	(1,683)	(17,115)
PRC enterprise income tax, other than Hong Kong Profits Tax	(75)	(120)
Net loss for the period	(1,608)	(16,995)

The carrying amounts of the total assets and the total liabilities of the Grandace Group as of 30th June, 2003 are approximately HK\$354.70 million and approximately HK\$357.70 million, respectively.

The Grandace Group contributed approximately HK\$6.0 million, HK\$14.9 million and HK\$30.6 million to the Group’s net cash outflows from operating activities, net cash inflows from investing activities and net cash outflows from financing activities, respectively.

The aforesaid transaction is completed in September 2003.