

## 1. CORPORATE INFORMATION

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

- manufacture and sale of paint products
- trading of steel products
- processing and sale of marble and granite
- property investment
- property development
- strategic investments
- fuel manufacturing and trading

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

The following new and revised SSAPs are effective for the first time for the current year’s financial statements:

- SSAP 1 (Revised): “Presentation of financial statements”
- SSAP 11 (Revised): “Foreign currency translation”
- SSAP 15 (Revised): “Cash flow statements”
- SSAP 34: “Employee benefits”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 24 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and associates are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for “Foreign currencies” in note 3 to the financial statements.

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

SSAP 15 prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes and the prior year adjustment that has resulted are included in the accounting policies for “Cash and cash equivalents” and “Foreign currencies” in note 3 and in note 35(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in a change in the method of accounting for the Group’s defined benefit pension scheme. Previously, accounting for the pension scheme consisted of recording the contributions payable under the scheme as an expense in the profit and loss account. Under SSAP 34, however, an actuarial estimate is made of the present value of the Group’s future obligations under the scheme, with the net of this obligation and the fair value of the assets set aside under the scheme being recognised in the balance sheet in non-current assets. Movements in the net asset are mainly recorded in the profit and loss account. The recognition of the net asset has resulted in a prior year adjustment, further details of which are included under the heading “Employee benefits” in note 3 and note 24 to the financial statements. In addition, disclosures are now required in respect of the Company’s share option schemes, as detailed in note 33 to the financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Basis of preparation*

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

#### *Subsidiaries*

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

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

#### *Joint venture companies*

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

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

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Joint venture companies* (continued)

- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

#### *Jointly-controlled entities*

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

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

#### *Associates*

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated against consolidated reserves, is included as part of the Group's interests in associates.

#### *Goodwill*

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Goodwill* (continued)

SSAP 30 “Business combinations” was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 goodwill accounting policy above.

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

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

#### *Impairment of assets*

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

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Impairment of assets* (continued)

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

#### *Fixed assets and depreciation*

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

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

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

Freehold land	Nil
Leasehold land	Over the lease terms
Freehold and leasehold buildings	2% - 4% or over the lease terms, whichever the rate is higher
Leasehold improvements	10% - 33% or over the lease terms, whichever the rate is higher
Plant and machinery	9% - 25%
Furniture, fixtures and equipment	10% - 33%
Motor vehicles	18% - 25%

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Fixed assets and depreciation* (continued)

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

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

#### *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

#### *Properties under development*

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

Properties under development held for other purposes are stated at cost less any impairment losses.

#### *Intangible assets*

##### *Mining rights*

Mining rights acquired under contractual arrangements are stated at cost less accumulated amortisation and any impairment losses. Mining rights are amortised on the straight-line basis over the terms of the rights ranging from 5 to 20 years.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Intangible assets* (continued)

##### *Website*

A website acquired is stated at cost less accumulated amortisation and any impairment losses. It is amortised on the straight-line basis over its estimated commercial life of 5 years.

##### *Leased assets*

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

##### *Long term investments*

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account in the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Short term investments*

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

#### *Inventories*

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

#### *Deferred tax*

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

#### *Revenue recognition*

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

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*****Related parties***

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

***Foreign currencies***

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

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and associates and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 has had no material effect on the amounts of the previously-reported cash flows of the prior year.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Employee benefits*

##### *Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

##### *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, at the balance sheet date, in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

##### *Pension schemes and other retirement benefits*

The Group operates a funded final salary defined benefit pension scheme (the "Scheme") for those employees who are eligible to participate in the Scheme. The expected costs of providing pensions under the Scheme are charged to the profit and loss account over the periods during which the employees provide the related service to the Group.

An actuarial estimate is made annually by a professionally qualified independent actuary, using the projected unit credit actuarial valuation method, of the present value of the Group's future defined benefit obligation under the Scheme earned by the employees as at the balance sheet date (the "Scheme obligation"). The assets contributed by the Group to the Scheme (the "Scheme assets") are held separately from the assets of the Group in an independently administered fund, and are valued at their fair value at the balance sheet date.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Employee benefits* (continued)

##### *Pension schemes and other retirement benefits* (continued)

The effect of actuarial gains and losses experienced in the estimation of the Scheme obligation and the valuation of the Scheme assets is initially recorded in the balance sheet and is subsequently recognised in the profit and loss account only when the net cumulative actuarial gains or losses in the balance sheet exceed 10% of the higher of the Scheme obligation and the fair value of Scheme assets at the beginning of the period. Such “excess” net cumulative actuarial gains or losses are recognised in the profit and loss account over the expected average remaining working lives of the employees participating in the Scheme.

When the Group improves the benefits provided by the Scheme, the effect of the resulting increase in the Scheme obligation relating to past service by the employees is initially recorded in the balance sheet and is subsequently recognised in the profit and loss account evenly over the period until the benefits vest with the employees.

The net of the Scheme obligation and the fair value of the Scheme assets at the balance sheet date, together with the actuarial gains and losses remaining in the balance sheet at that date, is recognised in the balance sheet within non-current assets or non-current liabilities, as appropriate. If the net amount results in an asset, the amount of the asset is limited to the net total of any net cumulative actuarial losses remaining in the balance sheet, and the present value of any future refunds from the Scheme or reductions in future contributions to the Scheme. Movements in the net asset or liability recognised in the balance sheet during the period, other than those deferred in the balance sheet, are recorded in the profit and loss account for the period.

The amounts of the contributions payable by the Group to the Scheme are determined by the actuary using the individual entry age normal cost method.

Prior to the adoption of SSAP 34, the accounting for the Scheme consisted of recording the contributions payable by the Group to the Scheme for the period as an expense in the profit and loss account for the period, with no amounts being recorded in the balance sheet. The initial recognition of the transitional net asset under SSAP 34 has resulted in a prior year adjustment as at 1 January 2002 in accordance with the transitional provisions of SSAP 34, with the corresponding entry being to retained profits at that date. Further details of the transitional effects of adopting SSAP 34 are included in the consolidated summary statement of changes in equity and in note 24 to the financial statements.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Employee benefits* (continued)

##### *Pension schemes and other retirement benefits* (continued)

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

##### *Share option schemes*

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

##### *Cash and cash equivalents*

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to import loans, further details of which are included in note 35(a) to the financial statements.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

#### 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

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

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

Intersegment sales and transfers are transacted at mutually agreed terms.

## 4. SEGMENT INFORMATION (continued)

## (a) Business segments

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

## Group

	Paint products		Marble and granite		Property investment		Others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	333,873	355,027	44,903	—	2,393	1,864	28,090	12,617	—	—	409,259	369,508
Intersegment sales	11,303	—	—	—	9,231	9,033	—	—	(20,534)	(9,033)	—	—
Other revenue and gains	8,486	15,789	1,020	—	704	1,263	1,979	1,321	—	—	12,189	18,373
Total	<u>353,662</u>	<u>370,816</u>	<u>45,923</u>	<u>—</u>	<u>12,328</u>	<u>12,160</u>	<u>30,069</u>	<u>13,938</u>	<u>(20,534)</u>	<u>(9,033)</u>	<u>421,448</u>	<u>387,881</u>
Segment results	<u>45,832</u>	<u>66,629</u>	<u>(19,259)</u>	<u>—</u>	<u>(37,272)</u>	<u>(3,461)</u>	<u>(18,242)</u>	<u>(7,147)</u>	<u>4,827</u>	<u>4,866</u>	<u>(24,114)</u>	<u>60,887</u>
Interest income											864	1,913
Unallocated expenses											(156,441)	(42,860)
Profit/(Loss) from operating activities											(179,691)	19,940
Finance costs											(7,846)	(10,226)
Share of profits and losses of:												
A jointly-controlled entity											(313)	(286)
Associates	—	2,596	(10,931)	—	—	—	—	—	—	—	(10,931)	2,596
Unallocated associates											4,145	2,443
Profit/(Loss) before tax											(194,636)	14,467
Tax											(8,216)	(7,655)
Profit/(Loss) before minority interests											(202,852)	6,812
Minority interests											4,794	(49)
Net profit/(loss) from ordinary activities attributable to shareholders											<u>(198,058)</u>	<u>6,763</u>

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## 4. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

## Group

	Paint products		Marble and granite		Property investment		Others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)											
Segment assets	209,635	223,351	134,899	—	502,112	590,883	42,281	11,769	(1,237)	(457)	887,690	825,546
Intangible assets	—	—	3,127	—	—	—	—	—	—	—	3,127	—
Interests in associates	—	—	—	—	41,784	41,396	—	—	—	—	41,784	41,396
Unallocated assets:												
Interest in a jointly-controlled entity											810	308
Interests in associates											66,526	115,547
Long term investments											167,940	170,734
Deposits for investments											13,190	22,870
Intangible assets											9,084	—
Others											53,819	123,866
Bank overdrafts included in segment assets	—	—	7,330	—	—	—	—	—	—	—	7,330	—
Total assets											1,251,300	1,300,267
Segment liabilities	63,223	67,323	38,312	—	8,944	15,315	13,523	10,791	(1,237)	(474)	122,765	92,955
Unallocated liabilities											154,392	125,231
Bank overdrafts included in segment assets	—	—	7,330	—	—	—	—	—	—	—	7,330	—
Total liabilities											284,487	218,186

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## 4. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

## Group

	Paint products		Marble and granite		Property investment		Others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:												
Amortisation of intangible assets	—	—	165	—	—	—	—	—	—	—	165	—
Unallocated amounts											2,289	1,920
											<u>2,454</u>	<u>1,920</u>
Depreciation	13,713	13,593	3,181	—	3,713	3,742	165	7	—	—	20,772	17,342
Unallocated amounts											201	312
											<u>20,973</u>	<u>17,654</u>
Capital expenditure	5,934	6,878	5,485	—	3	8	118	—	—	—	11,540	6,886
Unallocated amounts											208	463
											<u>11,748</u>	<u>7,349</u>
Deficit on revaluation of investment properties	—	—	—	—	16,953	1,047	—	—	—	—	16,953	1,047
Impairment of a property under development	—	—	—	—	8,000	3,000	—	—	—	—	8,000	3,000
Unrealised loss on revaluation of short term investments	—	—	—	—	—	—	3,246	1,419	—	—	3,246	1,419
Impairment of long term investments											2,794	6,400
Impairment of goodwill remaining eliminated against capital reserve	—	—	30,000	—	—	—	—	—	—	—	30,000	—
Unallocated amounts											60,221	—
											<u>90,221</u>	<u>—</u>
Impairment of interest in an associate											20,080	23
Impairment of an intangible asset											3,200	—
Provision for deposit for purchase of a property	—	—	—	—	13,000	—	—	—	—	—	13,000	—
Provision for bad and doubtful debts	5,414	—	4,903	—	—	—	—	—	—	—	10,317	—
	<u>5,414</u>	<u>—</u>	<u>4,903</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,317</u>	<u>—</u>

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## 4. SEGMENT INFORMATION (continued)

## (b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group	Hong Kong		Mainland China		Others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	<u>204,278</u>	<u>167,596</u>	<u>204,097</u>	<u>201,895</u>	<u>884</u>	<u>17</u>	<u>—</u>	<u>—</u>	<u>409,259</u>	<u>369,508</u>
Other segment information:										
Segment assets	546,120	514,077	673,120	766,598	24,730	19,592	—	—	1,243,970	1,300,267
Bank overdrafts included in segment assets	7,330	—	—	—	—	—	—	—	7,330	—
									<u>1,251,300</u>	<u>1,300,267</u>
Capital expenditure	<u>1,109</u>	<u>2,493</u>	<u>10,630</u>	<u>4,856</u>	<u>9</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,748</u>	<u>7,349</u>

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**5. TURNOVER, REVENUE AND GAINS**

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; gross rental income; and proceeds from the sale of short term investments. Turnover is arrived at after the elimination of all significant intra-group transactions.

An analysis of turnover, other revenue and gains is as follows:

	2002	2001
	HK\$'000	HK\$'000
<b>Turnover</b>		
Sale of paint products	333,873	355,027
Sale of marble and granite	44,903	—
Sale of other goods	28,090	9,470
Gross rental income from investment properties	2,393	1,864
Sale of short term investments	—	3,147
	<u>409,259</u>	<u>369,508</u>
<b>Other revenue</b>		
Interest income	864	1,913
Dividend income from a listed investment	19	23
Others	11,821	7,739
	<u>12,704</u>	<u>9,675</u>
<b>Gains</b>		
Gain on disposal of fixed assets	349	100
Gain on disposal of an associate	—	10,511
	<u>349</u>	<u>10,611</u>
	<u>13,053</u>	<u>20,286</u>

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**6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES**

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

	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	251,916	219,685
Depreciation	20,973	17,654
Minimum lease payments under operating leases in respect of land and buildings	18,017	7,192
Auditors' remuneration	2,651	2,155
Staff costs (including directors' remuneration - note 8):		
Wages and salaries	74,448	64,870
Pension scheme contributions (defined contribution schemes)	1,733	1,676
Less: Forfeited contributions	(254)	(71)
Net pension contributions*	1,479	1,605
Pension scheme costs (defined benefit scheme)#	338	—
	1,817	1,605
	76,265	66,475
Included in "Other operating expenses":		
Amortisation of intangible assets	2,454	1,920
Amortisation of goodwill	120	—
Loss on disposal of fixed assets	333	29
Loss on disposal of an investment property	—	32
Deficit on revaluation of investment properties	16,953	1,047
Impairment of a property under development	8,000	3,000
Impairment of long term investments	2,794	6,400
Unrealised loss on revaluation of short term investments	3,246	1,419
Impairment of goodwill remaining eliminated against capital reserve	90,221	—
Impairment of interests in associates	20,080	23
Impairment of an intangible asset	3,200	—
Provision for deposit for an investment	—	1,950
Provision for deposit for purchase of a property	13,000	—
Provision for bad and doubtful debts	10,317	—
Foreign exchange losses, net	1,726	—

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

	2002	2001
	HK\$'000	HK\$'000
and after crediting:		
Gross rental income from investment properties	2,393	1,864
Less: Outgoings	(13)	(10)
Net rental income from investment properties	<u>2,380</u>	<u>1,854</u>
Write back of provision for inventories	—	2,542
Write back of provision for bad and doubtful debts	—	1,630
Gain on disposal of short term investments	—	707
Foreign exchange gains, net	<u>—</u>	<u>117</u>

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

# The costs for the pension scheme for the year ended 31 December 2001 were calculated using the previous accounting policy applied before SSAP 34 was adopted during the current year, and so are not directly comparable with the amount for the current year. The current and previous accounting policies are explained under the heading "Employee benefits: Pension schemes and other retirement benefits" in note 3 to the financial statements.

**7. FINANCE COSTS**

	2002	2001
	HK\$'000	HK\$'000
Interest on:		
Bank loans and overdrafts	7,778	8,575
Other loans wholly repayable within five years	—	1,541
Interest on finance leases	<u>68</u>	<u>110</u>
	<u>7,846</u>	<u>10,226</u>

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**8. DIRECTORS' REMUNERATION**

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

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Fees:		
Executive	2,650	2,750
Non-executive	350	250
	<u>3,000</u>	<u>3,000</u>
Other emoluments:		
Salaries, allowances and benefits in kind	16,505	13,511
Pension scheme contributions	509	407
	<u>17,014</u>	<u>13,918</u>
	<u><u>20,014</u></u>	<u><u>16,918</u></u>

The independent non-executive directors of the Company were entitled to a total sum of HK\$300,000 (2001: HK\$250,000) as directors' fees for the year ended 31 December 2002. There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

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

	<b>Number of directors</b>	
	<b>2002</b>	<b>2001</b>
Nil - HK\$1,000,000	5	5
HK\$2,000,001 - HK\$2,500,000	1	1
HK\$2,500,001 - HK\$3,000,000	2	2
HK\$8,000,001 - HK\$8,500,000	—	1
HK\$10,500,001 - HK\$11,000,000	1	—
	<u>9</u>	<u>9</u>

**8. DIRECTORS' REMUNERATION (continued)**

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

During the year, no share options were granted to the directors in respect of their services to the Group (2001: 144,000,000 share options).

**9. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year included four (2001: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2001: one) non-director, highest paid employee are as follows:

	2002	2001
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	1,030	1,069
Pension scheme contributions	61	56
	<u>1,091</u>	<u>1,125</u>

The remuneration of the remaining non-director highest paid individual fell within the band of HK\$1,000,001 to HK\$1,500,000 for each of the years ended 31 December 2002 and 2001.

During the year, no share options were granted to the non-director, highest paid employee in respect of his services to the Group (2001: 250,000 share options).

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**10. TAX**

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2002 HK\$'000	2001 HK\$'000
Group:		
Provision for tax in respect of profit for the year:		
Hong Kong	—	400
Elsewhere	7,149	6,967
Deferred tax credit (note 31)	—	(56)
	<u>7,149</u>	<u>7,311</u>
Prior year overprovision/(underprovision):		
Hong Kong	(153)	(348)
Elsewhere	389	—
	<u>236</u>	<u>(348)</u>
	<u>7,385</u>	<u>6,963</u>
Share of tax attributable to associates:		
Hong Kong	188	176
Elsewhere	643	516
	<u>831</u>	<u>692</u>
Tax charge for the year	<u><u>8,216</u></u>	<u><u>7,655</u></u>

**11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net profit/(loss) from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company was a net loss of HK\$70,015,000 (2001: HK\$64,242,000).

**12. EARNINGS/(LOSS) PER SHARE**

The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders for the year of HK\$198,058,000 (2001: net profit of HK\$6,763,000) and the weighted average of 1,526,462,000 (2001: 1,528,188,000) ordinary shares in issue during the year.

No diluted loss per share amount is presented for the year ended 31 December 2002, as the potential ordinary shares outstanding during the year had no dilutive effect on the basic loss per share for the year.

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

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## 13. FIXED ASSETS

## Group

	Freehold land and buildings	Leasehold land and buildings	Construc- tion in progress	Leasehold improve- ments	Plant and machinery	Furniture, and fixtures equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:								
At beginning of year	19,273	253,074	—	5,823	103,613	19,222	22,207	423,212
Additions	—	175	2,842	212	5,295	1,163	2,061	11,748
Acquisition of subsidiaries (note 35(c))	—	23,005	8,740	23	32,811	1,110	297	65,986
Transfer from investment properties (note 14)	—	4,441	—	—	—	—	—	4,441
Disposals	—	—	—	(2,586)	(84)	(1,289)	(974)	(4,933)
Exchange realignment	(1,542)	(140)	—	(59)	(44)	(14)	(12)	(1,811)
At 31 December 2002	17,731	280,555	11,582	3,413	141,591	20,192	23,579	498,643
Accumulated depreciation:								
At beginning of year	426	44,233	—	4,048	79,188	15,249	18,318	161,462
Provided during the year	107	7,264	—	662	10,519	1,173	1,248	20,973
Disposals	—	—	—	(2,563)	—	(1,064)	(706)	(4,333)
Exchange realignment	(34)	(42)	—	(40)	(28)	(10)	(13)	(167)
At 31 December 2002	499	51,455	—	2,107	89,679	15,348	18,847	177,935
Net book value:								
At 31 December 2002	17,232	229,100	11,582	1,306	51,912	4,844	4,732	320,708
At 31 December 2001	18,847	208,841	—	1,775	24,425	3,973	3,889	261,750

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**13. FIXED ASSETS** (continued)

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

	HK\$'000
Professional valuation in 1994	216,733
Professional valuation in 1998 (transferred from investment properties)	22,700
Professional valuation in 2001 (transferred from investment properties)	4,441
Cost	65,994
	<u>309,868</u>

**Company**

	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:				
At beginning of year	1,861	3,010	2,805	7,676
Additions	—	159	—	159
Disposals	—	(82)	—	(82)
	<u>1,861</u>	<u>3,087</u>	<u>2,805</u>	<u>7,753</u>
Accumulated depreciation:				
At beginning of year	1,861	2,684	2,565	7,110
Provided during the year	—	141	60	201
Disposals	—	(82)	—	(82)
	<u>1,861</u>	<u>2,743</u>	<u>2,625</u>	<u>7,229</u>
Net book value:				
<b>At 31 December 2002</b>	<u>—</u>	<u>344</u>	<u>180</u>	<u>524</u>
At 31 December 2001	<u>—</u>	<u>326</u>	<u>240</u>	<u>566</u>

The net book value of the Group's fixed assets held under finance leases included in the total amount of furniture, fixtures and equipment and motor vehicles at 31 December 2002 amounted to HK\$1,132,000 (2001: HK\$1,527,000).

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**13. FIXED ASSETS (continued)**

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

Certain of the Group's land and buildings situated in Hong Kong were reclassified from investment properties during the year at their then carrying amount of HK\$4,441,000, as valued on 31 December 2001, by Vigers Hong Kong Limited, independent professionally qualified valuers, at open market value, based on their existing use.

Had these leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying values at 31 December 2002 would have been HK\$169,439,000 (2001: HK\$170,809,000).

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

	<b>Hong Kong</b>	<b>Elsewhere</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
Freehold	—	17,731	17,731
Long term leases	84,141	—	84,141
Medium term leases	105,283	102,713	207,996
	<u>189,424</u>	<u>120,444</u>	<u>309,868</u>

At 31 December 2002, certain of the above fixed assets with a net book value of approximately HK\$222,332,000 (2001: HK\$218,079,000) were pledged to secure general banking facilities granted to the Group (note 29).

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## 14. INVESTMENT PROPERTIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Valuation:		
At beginning of year	157,830	106,598
Transfer to fixed assets (note 13)	(4,441)	—
Transfer from properties under development (note 15)	—	54,217
Disposals	—	(1,938)
Deficit on revaluation	(16,953)	(1,047)
	<u>136,436</u>	<u>157,830</u>

Analysis by geographical location and lease terms:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Long term leasehold land and buildings situated in Hong Kong	11,696	17,000
Medium term leasehold land and buildings situated in:		
Hong Kong	72,900	79,200
Elsewhere	51,840	61,630
	<u>124,740</u>	<u>140,830</u>
	<u>136,436</u>	<u>157,830</u>

The Group's investment properties were revalued on 31 December 2002 by Vigers Hong Kong Limited and Norton Appraisals Limited, independent professionally qualified valuers. The properties were either revalued at open market value, based on their existing use, or on the basis of capitalisation of net rental income. Certain investment properties are leased to third parties under operating leases, further summary details of which are included in note 37 to the financial statements.

At 31 December 2002, certain of the Group's investment properties with a value of HK\$87,576,000 (2001: HK\$100,040,000), were pledged to secure general banking facilities granted to the Group (note 29).

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## 15. PROPERTIES UNDER DEVELOPMENT

	Group	
	2002	2001
	HK\$'000	HK\$'000
At beginning of year	162,003	219,212
Additions	—	8
Withdrawal of a minority shareholder of a subsidiary*	(56,000)	—
Transfer to investment properties (note 14)	—	(54,217)
Impairment provided during the year	(8,000)	(3,000)
	<u>98,003</u>	<u>162,003</u>
At end of year	<u>98,003</u>	<u>162,003</u>

\* During the year, the Group's equity interest in a subsidiary was increased upon the withdrawal of a minority shareholder of that subsidiary (the "Deemed Acquisition"). Upon the completion of the Deemed Acquisition, certain properties under development in that subsidiary were transferred to that minority shareholder as a return of investment in that subsidiary, after the waiver of certain amounts owed by that subsidiary to the minority shareholder (note 35(b)(i)).

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Long term leasehold land and buildings situated in Hong Kong	14,003	22,003
Medium term leasehold land and buildings situated in		
Mainland China	84,000	140,000
	<u>98,003</u>	<u>162,003</u>

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**16. GOODWILL**

The amount of goodwill capitalised as an asset in the consolidated balance sheet, arising from the Deemed Acquisition (as defined in note 15), is as follows:

<b>Group</b>	<b>HK\$'000</b>
Cost:	
Deemed acquisition of further interest in a subsidiary and balance at 31 December 2002	2,418
Accumulated amortisation:	
Amortisation provided during the year and balance at 31 December 2002	120
Net book value:	
<b>At 31 December 2002</b>	<b>2,298</b>
At 31 December 2001	—

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves.

At the balance sheet date, the Group reviewed the carrying amount of goodwill remaining eliminated against consolidated reserves and recognised an impairment loss of HK\$90,221,000. The impairment arose primarily due to changes in the business and development plans, as well as underlying economic factors and business arrangements, of certain subsidiaries/associates during the year.

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**16. GOODWILL (continued)**

The amount of the goodwill remaining in consolidated reserves as at 31 December 2002, arising from the acquisition of subsidiaries and associates prior to 1 January 2001, are as follows:

	<b>Leasehold land and buildings revaluation reserve HK\$'000</b>	<b>Capital reserve HK\$'000</b>	<b>General reserve HK\$'000</b>
Cost:			
At beginning of year	41,006	237,413	8,736
Adjustment to the consideration for the acquisition of subsidiaries* (note 35(c))	—	(16,155)	—
Write off	(41,006)	—	(8,396)
At 31 December 2002	<u>—</u>	<u>221,258</u>	<u>340</u>
Accumulated impairment:			
At beginning of year	41,006	—	8,396
Impairment provided during the year	—	90,221	—
Write off	(41,006)	—	(8,396)
At 31 December 2002	<u>—</u>	<u>90,221</u>	<u>—</u>
Net amount:			
<b>At 31 December 2002</b>	<u>—</u>	<u>131,037</u>	<u>340</u>
At 31 December 2001	<u>—</u>	<u>237,413</u>	<u>340</u>

\* In January 2000, in consideration for the Group entering into a subscription agreement for the acquisition of certain equity interest in Elegant Stone International Ltd. ("Elegant Stone"), an associate of the Group as at 31 December 2001, Express Regent Holdings Limited (the "Guarantor") and Mr. Lam Yau Pui executed a deed (the "Deed") to, inter alia, provide a guarantee in favour of the Group on the amount of dividends to be distributed by a wholly-owned subsidiary of Elegant Stone for certain years as set out in the Deed. Pursuant to the Deed, if there was any shortfall in dividends distributed from the amounts as set out in the Deed during the relevant periods, the Group could require the Guarantor to, inter alia, transfer such number of shares of Elegant Stone to the Group at a price of HK\$1,000,000 for each 2% of the then issued capital of Elegant Stone up to a total transfer price equal to the amount of any shortfall in dividends attributable to the Group.

During the year, the Group demanded the Guarantor to transfer 26.7% equity interest in Elegant Stone to the Group to compensate for the shortfall in dividends pursuant to the Deed. Upon the completion of such transfer, Elegant Stone became a 76.1% owned subsidiary of the Group. As the guaranteed dividend income was a condition for the acquisition of Elegant Stone, the additional 26.7% equity interest in Elegant Stone transferred to the Group during the year has been accounted for as an adjustment to the goodwill arising from that acquisition, which was previously eliminated against the capital reserve.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	224,095	224,095
Due from subsidiaries	1,703,449	1,596,393
Due to subsidiaries	(2,951)	(2,661)
	<u>1,924,593</u>	<u>1,817,827</u>
Provision for impairment	(886,540)	(709,300)
	<u>1,038,053</u>	<u>1,108,527</u>

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for amounts due from subsidiaries of HK\$340,812,000 (2001: HK\$318,790,000) which bear interest at Hong Kong dollar prime rate plus 1% (2001: Hong Kong dollar prime rate plus 1%) per annum.

Particulars of the principal subsidiaries are as follows:

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

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## 17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (continued):

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

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## 17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Conley Investment Limited	Hong Kong	HK\$2	—	100	Property investment
Coral Reef Enterprises Limited	British Virgin Islands	US\$1	—	100	Investment holding
Dalian Qinggang Hotel # *	Mainland China	HK\$21,000,000	—	100	Property investment
Dalian Qinggang Realestate Development Co., Ltd. ## *	Mainland China	US\$2,100,000	—	60	Property development
Dongola Holdings Limited	British Virgin Islands	US\$1	100	—	Investment holding
Dragon Century Investment Limited @	British Virgin Islands	US\$100	—	70	Development of website contents and facilities
Elegant Stone International Ltd. * @	British Virgin Islands	US\$360	—	76.1 (note 19)	Investment holding
Fan Ball Development Limited	Hong Kong	HK\$10,000	—	100	Property investment
Full Pool Limited	Hong Kong	HK\$2	—	100	Property investment

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## 17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Gold Tower Assets Limited	British Virgin Islands	US\$1	—	100	Investment holding
Golden Premium Limited	Hong Kong	HK\$2	—	100	Property development
Honour Rich Development Limited	Hong Kong	HK\$2	—	100	Investment holding
Hua Xia International Development Co. Ltd. *	Taiwan	NTD25,000,000	100	—	Property holding
Hubei Zhonghe Paint Mfg Co., Ltd ##	Mainland China	RMB40,000,000	—	90.5	Manufacture and sale of paint products
Majority Faith Corporation	British Virgin Islands	US\$1	—	100	Investment holding
Multibest Resources Limited	British Virgin Islands	US\$1	—	100	Investment holding
Ocean Wide Assets Limited	British Virgin Islands	US\$1	—	100	Investment holding
Opulent Profits Limited	British Virgin Islands	US\$1	—	100	Investment holding
Poly Victory (Hong Kong) Limited	Hong Kong	HK\$2	—	100	Property investment

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Profit Source Limited	Hong Kong	HK\$2	—	100	Securities investment
Rainbow Path Enterprises Limited	Hong Kong	HK\$1,000	—	100	Investment holding
R, J & Thomas Secretaries Limited	Hong Kong	HK\$30,000	—	100	Investment holding
Shinfull Development Limited	Hong Kong	HK\$10	—	60	Property development
Tatpo Corporation Limited	Liberia	US\$20,872	100	—	Investment holding
Vivien Resources Limited	Hong Kong	HK\$2	—	100	Investment holding
Wilfred Marble Engineering Limited * @	Hong Kong	Ordinary HK\$10,001,000 Non-voting deferred HK\$500,000	—	76.1 (note 19)	Processing and sale of marble and granite

@ acquired during the year

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

# wholly foreign-owned enterprise registered in Mainland China

## sino-foreign equity joint venture registered in Mainland China

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

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## 18. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net liabilities	(599)	(286)
Due from the jointly-controlled entity	1,409	594
	<u>810</u>	<u>308</u>

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

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of			Principal activity
			Ownership interest	Voting power	Profit sharing	
Right Talent Limited	Corporate	Hong Kong	40	33.3	40	Provision of online English teaching service

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

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## 19. INTERESTS IN ASSOCIATES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	—	—	20,820	20,820
Share of net assets	(16,614)	17,503	—	—
Due from associates	140,011	154,527	6,780	6,780
	<u>123,397</u>	<u>172,030</u>	<u>27,600</u>	<u>27,600</u>
Provision for impairment	(15,087)	(15,087)	(27,600)	(27,600)
	<u>108,310</u>	<u>156,943</u>	<u>—</u>	<u>—</u>
Goodwill on acquisition	20,080	—	—	—
Provision for impairment	(20,080)	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>108,310</u>	<u>156,943</u>	<u>—</u>	<u>—</u>

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

Particulars of the principal associates are as follows:

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group #		Principal activities
		2002	2001	
Arran Investment Company, Limited	Hong Kong	50	50	Property investment
Elegant Stone International Ltd.	British Virgin Islands	76.1	44.4	Investment holding
Hugewell Holdings Ltd.	British Virgin Islands	35	35	Investment holding
Liaoyang Beiyang Real Estate Development Company Limited	Mainland China	50	50	Property development

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**19. INTERESTS IN ASSOCIATES** (continued)

Particulars of the principal associates are as follows (continued):

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group #		Principal activities
		2002	2001	
Shenzhen Norinco-CP Company Limited	Mainland China	35	35	Manufacture and sale of containers
Treasure Auctioneer International Limited	British Virgin Islands	45	20	Investment holding
Worldwide Education Limited	British Virgin Islands	20	20	Investment holding

# all of the associates of the Group were not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms for the year ended 31 December 2002.

\* During the year, the Group acquired an additional 31.7% equity interest in Elegant Stone International Ltd. and its subsidiaries after which they have been treated as subsidiaries (note 17).

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

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

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**20. INVESTMENTS**

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long term investments:				
Unlisted equity investments, at cost	249,376	249,376	52,501	52,501
Less: Provisions for impairment	(81,436)	(78,642)	(52,501)	(52,501)
	<u>167,940</u>	<u>170,734</u>	<u>—</u>	<u>—</u>
Short term investments:				
Equity investments listed in				
Hong Kong, at market value	<u>3,457</u>	<u>6,703</u>	<u>—</u>	<u>—</u>

**21. DEPOSIT FOR PURCHASE OF A PROPERTY**

The amount represents a deposit paid to an independent third party (the "Vendor") in May 1999 for the acquisition of certain lots of land in Hong Kong, subject to the surrender to and regrant (the "Regrant") by the Hong Kong Government SAR (the "Government") of such lots of land. The land premium payable by the Group for the Regrant is under negotiation with the Government. Should the Regrant of the land not be completed before 12 May 2002, the Group has the right to demand repayment of the entire deposit. The Regrant had not been completed as at 31 December 2002, however, the Group has not demanded the repayment of the deposit and accordingly, the deposit paid continues to be classified as a non-current asset. An impairment provision of HK\$13,000,000 was made against the carrying amount of the deposit in the current year.

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## 22. INTANGIBLE ASSETS

## Group

	Website HK\$'000	Mining rights HK\$'000	Total HK\$'000
Cost:			
At beginning of year	—	6,400	6,400
Acquisition of a subsidiary (note 35(c))	10,093	—	10,093
Addition	—	3,292	3,292
At 31 December 2002	10,093	9,692	19,785
Accumulated amortisation and impairment:			
At beginning of year	—	1,920	1,920
Amortisation provided during the year	1,009	1,445	2,454
Impairment during the year	—	3,200	3,200
At 31 December 2002	1,009	6,565	7,574
Net book value:			
At 31 December 2002	9,084	3,127	12,211
At 31 December 2001	—	4,480	4,480

## 23. MORTGAGE LOANS RECEIVABLE

	Group	
	2002 HK\$'000	2001 HK\$'000
Mortgage loans receivable, secured	1,894	2,183
Portion classified as current assets	(89)	(89)
Long term portion	1,805	2,094
Mortgage loans receivable repayable:		
Within one year	89	89
In the second year	96	96
In the third to fifth years, inclusive	331	331
After five years	1,378	1,667
	1,894	2,183

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

**24. PENSION SCHEME ASSET**

- (a) SSAP 34 was adopted during the current year, as further explained in note 2 and under the heading “Employee benefits: Pension schemes and other retirement benefits” in note 3 to the financial statements. In accordance with the transitional provisions of SSAP 34, the Group’s net pension asset of HK\$637,000 under SSAP 34, was recognised in the consolidated balance sheet as at 1 January 2002 (note (b) below), with the corresponding entry being an equivalent credit to retained profits at that date, as detailed in the consolidated summary statement of changes in equity on page 24 of the financial statements. Under the Group’s previous accounting policy for the pension scheme, no amounts were recognised in the consolidated balance sheet.

The net pension scheme costs charged to the consolidated profit and loss account for the year under SSAP 34 amounting to HK\$338,000 (note (b) and (d) below). Under the previous accounting policy, the consolidated profit and loss account charge for the pension scheme comprised the contributions payable to the scheme for the year (note 6).

SSAP 34 does not require the 2001 comparative balance sheet or profit and loss account amount to be restated under the new accounting policy, and therefore there are no comparative amounts for the information disclosed below.

- (b) The movements in the Group’s net pension scheme asset in the consolidated balance sheet during the year were as follows:

	2002 HK\$’000
At beginning of year:	
As previously reported	—
Prior year adjustment	637
	<hr/>
As restated	637
Net pension scheme cost recognised in the consolidated profit and loss account	(338)
Contributions paid to the pension scheme	11
	<hr/>
At 31 December	<u>310</u>

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**24. PENSION SCHEME ASSET (continued)**

(c) The components of the Group's pension scheme net asset as at the balance sheet date, were as follows:

	2002 HK\$'000
Present value of defined benefit obligation	(6,884)
Fair value of scheme assets	6,301
	<u>(583)</u>
Net cumulative actuarial losses remaining in the balance sheet	893
Net asset recognised at 31 December	<u>310</u>

(d) The components of the Group's net pension scheme cost recognised in the consolidated profit and loss account for the year, together with the actual return on the scheme assets for the year, were as follows:

	2002 HK\$'000
Current service cost	425
Interest cost on defined benefit obligation	426
Expected return on pension scheme assets	(513)
	<u>338</u>
Actual negative return on scheme assets	<u>(662)</u>

The above amount of the Group's net pension scheme cost was included in the administrative expenses on the face of the consolidated profit and loss account.

(e) The principal actuarial assumptions used in determining the Group's net pension scheme asset as at the balance sheet date, were as follows:

	2002 HK\$'000
Discount rate	6.5%
Expected rate of return on pension scheme assets	7.5%
Future salary increases	<u>5.5%</u>

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**24. PENSION SCHEME ASSET (continued)**

- (f) In addition to the above disclosures, the following further information is provided pursuant to the requirements of the Listing Rules. The actuarial valuation of the Group's pension scheme as at 31 December 2002 was performed by Mr. Wilson Tang, a member of the Actuarial Society of Hong Kong, using the valuation method detailed under the heading "Employee benefits: Pension schemes and other retirement benefits" in note 3 to the financial statements.

As at 31 December 2002, the level of funding of the pension scheme was 106%, as calculated under the individual entry age normal cost method used.

**25. INVENTORIES**

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Raw materials and spare parts	65,301	37,342
Work in progress	4,946	3,742
Finished goods	30,676	17,101
	<u>100,923</u>	<u>58,185</u>

The carrying amount of inventories has been carried at after charging a general provision of HK\$6,009,000 (2001: HK\$5,308,000) as at the balance sheet date.

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**26. TRADE RECEIVABLES**

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group maintains a defined credit policy and credit periods are usually granted ranging from one to three months to normal customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management.

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Within three months	68,086	54,629
Four to six months	7,465	7,532
Over six months	26,789	8,933
	<u>102,340</u>	<u>71,094</u>
Less: Provision for doubtful debts	(13,679)	(3,362)
	<u>88,661</u>	<u>67,732</u>

**27. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS**

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	42,757	56,585	2,290	838
Time deposits	6,028	56,314	—	—
	<u>48,785</u>	<u>112,899</u>	<u>2,290</u>	<u>838</u>
Less: Pledged time deposits*	(5,950)	(1,200)	—	—
Cash and cash equivalents	<u>42,835</u>	<u>111,699</u>	<u>2,290</u>	<u>838</u>

\* The time deposits are pledged to secure the general banking facilities granted to certain subsidiaries of the Company.

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**28. TRADE AND BILLS PAYABLES**

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

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within three months	37,916	34,859
Four to six months	1,348	1,223
Over six months	12,116	416
	<u>51,380</u>	<u>36,498</u>

**29. BANK AND OTHER BORROWINGS**

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Bank loans and overdrafts:		
Secured*	150,761	116,899
Unsecured	5,371	—
Other loan, unsecured	—	5,647
	<u>156,132</u>	<u>122,546</u>
Bank loans and overdrafts repayable:		
Within one year or on demand	75,822	35,624
In the second year	6,745	5,410
In the third to fifth years, inclusive	21,945	18,401
Beyond five years	51,620	57,464
	<u>156,132</u>	<u>116,899</u>
Other loan repayable within one year or on demand	—	5,647
	<u>156,132</u>	<u>122,546</u>
Portion classified as current liabilities	<u>(75,822)</u>	<u>(41,271)</u>
Long term portion	<u>80,310</u>	<u>81,275</u>

\* Includes import loans of HK\$18,472,000 (2001: HK\$1,875,000) and bank overdrafts of HK\$7,330,000 (2001: Nil) at 31 December 2002.

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**29. BANK AND OTHER BORROWINGS (continued)**

- (a) The Group's bank loans and overdrafts are secured by:
- (i) Mortgages over certain of the Group's land and buildings which had an aggregate net book value at the balance sheet date of approximately HK\$222,332,000 (2001: HK\$218,079,000).
  - (ii) Mortgages over certain of the Group's investment properties which had an aggregate carrying value at the balance sheet date of approximately HK\$87,576,000 (2001: HK\$100,040,000).
  - (iii) The pledge of certain of the Group's time deposits amounting to HK\$5,950,000 (2001: HK\$1,200,000).
- (b) The other loan represented a loan from the then Chinese joint venture partner of a subsidiary of the Group. The amount was unsecured and interest-free and was settled during the year (note 35(b)(i)).

**30. FINANCE LEASE PAYABLES**

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

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

Group	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amounts payable:				
Within one year	478	653	456	587
In the second year	25	469	22	450
In the third to fifth years, inclusive	24	16	21	15
Total minimum finance lease payments	527	1,138	499	1,052
Future finance charges	(28)	(86)		
Total net finance lease payables	499	1,052		
Portion classified as current liabilities	(456)	(587)		
Long term portion	43	465		

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30. FINANCE LEASE PAYABLES (continued)

Company	Minimum lease		Present value of	
	payments	payments	minimum lease	minimum lease
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	126	125	116	109
In the second year	25	116	22	110
In the third to fifth years, inclusive	24	17	21	15
Total minimum finance lease payments	175	258	159	234
Future finance charges	(16)	(24)		
Total net finance lease payables	159	234		
Portion classified as current liabilities	(116)	(109)		
Long term portion	43	125		

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**31. DEFERRED TAX**

	Group	
	2002	2001
	HK\$'000	HK\$'000
Balance at beginning of year	700	756
Credit for the year (note 10)	—	(56)
	<u>700</u>	<u>700</u>
At 31 December	<u>700</u>	<u>700</u>

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

The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made (2001: Nil).

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

**32. SHARE CAPITAL**

	2002	2001
	HK\$'000	HK\$'000
Authorised:		
2,880,000,000 ordinary shares of HK\$0.10 each	<u>288,000</u>	<u>288,000</u>
Issued and fully paid:		
1,520,530,193 (2001: 1,528,188,193) ordinary shares of HK\$0.10 each	<u>152,053</u>	<u>152,819</u>

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**32. SHARE CAPITAL (continued)**

During the year, the Company repurchased a number of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month/year	Number of ordinary shares of HK\$0.10 repurchased	Purchase price per share		Total price (before expenses) HK\$'000
		Highest price HK\$	Lowest price HK\$	
August 2002	2,664,000	0.100	0.083	256
October 2002	2,580,000	0.095	0.085	236
November 2002	964,000	0.101	0.100	97
December 2002	1,450,000	0.105	0.099	149
	<u>7,658,000</u>			<u>738</u>

The repurchased shares were duly cancelled during the year and the issued share capital of the Company was reduced by the par value thereof. The discount on the repurchase of shares, of HK\$28,000 has been credited to the share premium account (note 34). An amount equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve (note 34).

A summary of the transactions during the year in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2001 and 1 January 2002	1,528,188,193	152,819	700,428	853,247
Repurchase of shares	<u>(7,658,000)</u>	<u>(766)</u>	<u>28</u>	<u>(738)</u>
	1,520,530,193	152,053	700,456	852,509
Share repurchase expenses	<u>—</u>	<u>—</u>	<u>(4)</u>	<u>(4)</u>
At 31 December 2002	<u>1,520,530,193</u>	<u>152,053</u>	<u>700,452</u>	<u>852,505</u>

### 33. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 2 and under the heading “Employee benefits” in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company’s share option schemes are now included in the notes to the financial statements.

The Company operates three share option schemes, which entitle the holders of share options granted under the schemes to subscribe for ordinary shares of the Company at any time during the exercisable periods of the options. Share options do not confer rights on the holders to dividends or to vote at shareholder meetings.

#### (a) Share option scheme adopted in 1991

On 2 May 1991, the Company adopted a share option scheme (the “1991 Scheme”) for the primary purpose of providing incentives to directors and eligible employees of the Group.

The exercise price of a share in respect of any particular option granted was the higher of the nominal value of the Company’s share and 80% of the average closing price of the Company’s shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the option.

The 1991 Scheme expired on 2 May 2001 and a new scheme was adopted on 13 June 2001 (note 33 (b)). The share options which had been granted during its life but remained unexercised shall continue to be valid and exercisable in accordance with their terms of issue and the rules of the 1991 Scheme.

The exercise in full of the outstanding 1991 Scheme share options would, under the present capital structure of the Company, result in the issue of 24,000,000 additional ordinary shares of the Company of HK\$0.10 each and additional share capital and share premium of approximately HK\$2,400,000 and HK\$2,906,000 (before issue expenses), respectively.

The following share options were outstanding under the 1991 Scheme during the year:

Category of participant	Date of grant	Vesting/ Exercise period	Exercise price per share HK\$	Number of share options		
				Balance at 1 January 2002	Lapsed during the year	Balance at 31 December 2002
Directors and their associates	23 August 2000	23 August 2000 to 22 August 2003	0.224	14,000,000	—	14,000,000
	26 April 2001	26 April 2001 to 25 April 2006	0.2152	8,000,000	—	8,000,000
				22,000,000	—	22,000,000
Other employees, in aggregate	23 August 2000	23 August 2000 to 22 August 2003	0.224	4,000,000	(2,000,000)	2,000,000
				26,000,000	(2,000,000)	24,000,000

## 33. SHARE OPTION SCHEMES (continued)

*(b) Share option scheme adopted in 2001*

On 13 June 2001, a share option scheme (the “2001 Scheme”) was approved by the shareholders for the purpose of providing incentives to the executive directors and employees of the Group by offering them an opportunity to participate in the growth of the Group.

The exercise price of a share in respect of any particular option granted was the higher of the nominal value of the Company’s share and 80% of the average of the closing prices of the Company’s share on the Stock Exchange for the five trading days immediately preceding the date of grant of the option.

There were no share options granted or exercised under the 2001 Scheme during the year.

With effect from 1 September 2001, the Stock Exchange amended Chapter 17 (Share Option Schemes) of the Listing Rules. In response to the amendments, the Company terminated the 2001 Scheme and then adopted a new scheme on 28 June 2002 (note 33 (c)). The share options which had been granted during its life but remained unexercised shall continue to be valid and exercisable in accordance with their terms of issue and the rules of the 2001 Scheme.

In the prior year, the Company granted a total of 152,284,000 share options under the 2001 Scheme with an exercise period from 27 September 2001 to 26 September 2006 and an exercise price of HK\$0.1576 per grant.

The exercise in full of the outstanding 2001 Scheme share options would, under the present capital structure of the Company, result in the issue of 151,132,000 additional ordinary shares of the Company of HK\$0.10 each and additional share capital and share premium of approximately HK\$15,113,000 and HK\$8,705,000 (before issue expenses), respectively.

The following share options were outstanding under the 2001 Scheme during the year:

Category of participant	Date of grant	Vesting/ Exercise period	Exercise price per share HK\$	Number of share options		
				Balance at 1 January 2002	Lapsed during the year	Balance at 31 December 2002
Directors and their associates	27 September 2001	27 September 2001 to 26 September 2006	0.1576	136,750,000	—	136,750,000
Other employees, in aggregate	27 September 2001	27 September 2001 to 26 September 2006	0.1576	15,534,000	(1,152,000)	14,382,000
				<u>152,284,000</u>	<u>(1,152,000)</u>	<u>151,132,000</u>

**33. SHARE OPTION SCHEMES (continued)****(c) Share option scheme adopted in 2002**

In order to comply with the latest requirements of the Listing Rules, the Company adopted a share option scheme (the “2002 Scheme”) to replace the 2001 Scheme for the purpose of providing incentives to attract and retain employees of the Group, as well as other eligible persons, who made contributions to the Group. The 2002 Scheme was approved and adopted on 28 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company’s shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant; (ii) the average of the closing prices of the Company’s shares as stated in the Stock Exchange’s daily quotations sheet for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company’s share.

At 31 December 2002, no share options has been granted under the 2002 Scheme.

34. RESERVES

Group

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Leasehold land and Investment buildings property			General reserve HK\$'000	Exchange reserve HK\$'000	Reserve fund** HK\$'000	Retained profits/ (Accum- ulated losses) HK\$'000	Total HK\$'000
			Capital reserve HK\$'000	revaluation reserve HK\$'000	revaluation reserve* HK\$'000					
At 1 January 2001	700,428	5,405	56,465	52,378	13,557	10,144	(17,803)	26,704	28,023	875,301
Exchange adjustment on translation of overseas subsidiaries and associates	—	—	—	—	—	—	914	—	—	914
Net profit for the year	—	—	—	—	—	—	—	—	6,763	6,763
At 31 December 2001	<u>700,428</u>	<u>5,405</u>	<u>56,465</u>	<u>52,378</u>	<u>13,557</u>	<u>10,144</u>	<u>(16,889)</u>	<u>26,704</u>	<u>34,786</u>	<u>882,978</u>
At 1 January 2002:										
As previously reported	700,428	5,405	56,465	52,378	13,557	10,144	(16,889)	26,704	34,786	882,978
Prior year adjustment: SSAP 34 - "Employee benefits" (note 24)	—	—	—	—	—	—	—	—	637	637
As restated	700,428	5,405	56,465	52,378	13,557	10,144	(16,889)	26,704	35,423	883,615
Repurchase of shares (note 32)	28	766	—	—	—	—	—	—	(766)	28
Share repurchase expenses (note 32)	(4)	—	—	—	—	—	—	—	—	(4)
Exchange adjustment on translation of overseas subsidiaries and associates	—	—	—	—	—	—	(926)	—	—	(926)
Impairment of goodwill remaining eliminated against the capital reserve (note 16)	—	—	90,221	—	—	—	—	—	—	90,221
Adjustment to the consideration for the acquisition of subsidiaries (note 16)	—	—	16,155	—	—	—	—	—	—	16,155
Net loss for the year	—	—	—	—	—	—	—	—	(198,058)	(198,058)
At 31 December 2002	<u>700,452</u>	<u>6,171</u>	<u>162,841</u>	<u>52,378</u>	<u>13,557</u>	<u>10,144</u>	<u>(17,815)</u>	<u>26,704</u>	<u>(163,401)</u>	<u>791,031</u>
Reserves retained by/ (accumulated in):										
Company and subsidiaries	700,452	6,171	162,841	52,378	13,557	10,144	(16,636)	26,704	(72,724)	882,887
A jointly-controlled entity	—	—	—	—	—	—	—	—	(599)	(599)
Associates	—	—	—	—	—	—	(1,179)	—	(90,078)	(91,257)
At 31 December 2002	<u>700,452</u>	<u>6,171</u>	<u>162,841</u>	<u>52,378</u>	<u>13,557</u>	<u>10,144</u>	<u>(17,815)</u>	<u>26,704</u>	<u>(163,401)</u>	<u>791,031</u>
Company and subsidiaries	700,428	5,405	56,465	52,378	13,557	10,144	(15,741)	26,704	124,281	973,621
A jointly-controlled entity	—	—	—	—	—	—	—	—	(286)	(286)
Associates	—	—	—	—	—	—	(1,148)	—	(89,209)	(90,357)
At 31 December 2001	<u>700,428</u>	<u>5,405</u>	<u>56,465</u>	<u>52,378</u>	<u>13,557</u>	<u>10,144</u>	<u>(16,889)</u>	<u>26,704</u>	<u>34,786</u>	<u>882,978</u>

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**34. RESERVES (continued)**

- \* The investment property revaluation reserve represents the attributable revaluation surplus in respect of the leasehold land and buildings, which were classified as investment properties in the prior years. This revaluation reserve arose while the properties were classified as land and buildings, therefore is not available to offset revaluation deficits arising on the investment properties. The revaluation reserve is transferred to retained profits only upon the disposal or retirement of the relevant assets and such transfer is not made through the profit and loss account.
- \*\* Pursuant to the relevant laws and regulations for foreign investment enterprises, a portion of the profit of a subsidiary of the Group in the PRC is required to be transferred to PRC reserve funds which are restricted as to use. The subsidiary is not required to effect any further transfer when the amount of reserve fund reaches 50% of the subsidiary's registered capital. The reserve fund can be used to make good future losses or to increase the capital of the subsidiary.

Certain amounts of goodwill arising on the acquisition of subsidiaries and associates in prior years remain eliminated against consolidated reserves, as explained in notes 16 and 19 to the financial statements.

**Company**

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2001	700,428	5,405	288,473	28,017	1,022,323
Net loss for the year	—	—	—	(64,242)	(64,242)
At 31 December 2001					
and 1 January 2002	700,428	5,405	288,473	(36,225)	958,081
Repurchase of shares (note 32)	28	766	—	(766)	28
Share repurchase expenses (note 32)	(4)	—	—	—	(4)
Net loss for the year	—	—	—	(70,015)	(70,015)
<b>At 31 December 2002</b>	<b>700,452</b>	<b>6,171</b>	<b>288,473</b>	<b>(107,006)</b>	<b>888,090</b>

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

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

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

**35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT****(a) Prior year adjustment**

SSAP 15 (Revised) was adopted during the year, as detailed in note 2 to the financial statements. The definition of “cash equivalents” under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading “Cash and cash equivalents” in note 3 to the financial statements. This has resulted in import loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31 December 2001 has been adjusted to remove import loans amounting to HK\$1,875,000, previously included at that date. The year’s movement in import loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

**(b) Major non-cash transactions**

- (i) During the year, as further detailed in note 15 to the financial statements, the Group transferred certain of its properties under development with a carrying value of HK\$56,000,000 to a minority shareholder of a subsidiary as a return of investment to the minority shareholder after the waiver by that minority shareholder, upon the completion of the Deemed Acquisition, of a loan and other payable owed by the Group to the minority shareholder, of HK\$5,647,000 and HK\$5,927,000, respectively.
- (ii) During the year, a deposit for an investment in the amount of HK\$9,680,000 was reclassified as interests in associates upon the completion of the relevant share transfer for the purchase.
- (iii) During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$37,000 (2001: HK\$994,000).

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## 35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

## (c) Acquisition of subsidiaries

		2002	2001
	Notes	HK\$'000	HK\$'000
Net assets acquired:			
Fixed assets	13	65,986	—
Long term investment		—	800
Intangible asset	22	10,093	—
Inventories		42,981	—
Trade receivables		12,254	—
Prepayments, deposits, and other receivables		41,399	—
Cash and bank balances		110	1
Trade and bills payables		(13,769)	—
Other payables and accruals		(28,304)	(14)
Bank overdrafts		(3,960)	—
Bank loans		(8,735)	—
Due to shareholders		(18,205)	—
Minority interests		(24,320)	—
		<u>75,530</u>	<u>787</u>
Adjustment to the consideration for the			
acquisition of subsidiaries	16	(16,155)	—
Assignment of the amount due to a shareholder		1,715	—
		<u>61,090</u>	<u>787</u>
Satisfied by:			
Cash		7,065	787
Reclassification to interests in subsidiaries			
from interests in associates		<u>54,025</u>	—
		<u>61,090</u>	<u>787</u>

\* The total consideration included incidental costs of acquisition totalling approximately HK\$65,000, comprising primarily legal and professional fees, which were satisfied by cash.

**35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)****(c) Acquisition of subsidiaries (continued)**

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

	2002	2001
	HK\$'000	HK\$'000
Cash consideration	(7,065)	(787)
Bank overdrafts acquired	(3,960)	—
Cash and bank balances acquired	<u>110</u>	<u>1</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(10,915)</u>	<u>(786)</u>

On 17 January 2002, the Group acquired a 70% interest in Dragon Century Investment Limited from an independent third party. The purchase consideration for the acquisition of HK\$7,000,000 was in the form of cash and was paid at the acquisition date.

The subsidiaries acquired during the year contributed HK\$44,903,000 to the Group's consolidated turnover and accounted for HK\$21,142,000 to the consolidated loss after tax and before minority interests for the year ended 31 December 2002. In the case of the associates which were reclassified to subsidiaries, these turnover and loss after tax amounts exclude the former associates' contribution to the results prior to their becoming subsidiaries.

The subsidiary acquired in the prior year had no significant impact on the Group's consolidated turnover or profit after tax and before minority interests for the year ended 31 December 2001.

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**36. CONTINGENT LIABILITIES**

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

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	—	—	105,050	85,036
Associates	37,748	50,825	—	—
	<u>37,748</u>	<u>50,825</u>	<u>105,050</u>	<u>85,036</u>

- (b) At 31 December 2002, the Group and the Company had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$1,726,000 (2001: HK\$893,000) and HK\$234,000 (2001: HK\$121,000), respectively, as further explained in note 3 to the financial statements. The contingent liability has arisen as a number of current employees have achieved the required number of years of service to the Group, at the balance sheet date, in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

**37. OPERATING LEASE ARRANGEMENTS****(a) As lessor**

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

At 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within one year	1,632	1,726
In the second to fifth years, inclusive	2,939	4,305
After five years	—	167
	<u>4,571</u>	<u>6,198</u>

**(b) As lessee**

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

At 31 December 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Within one year	14,993	12,918	204	439
In the second to fifth years, inclusive	10,747	2,815	153	141
After five years	186	—	—	—
	<u>25,926</u>	<u>15,733</u>	<u>357</u>	<u>580</u>

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**38. CAPITAL COMMITMENTS**

In addition to the operating lease commitments detailed in note 37(b) above, the Group and the Company had the following capital commitments at the balance sheet date:

	Note	Group		Company	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Contracted, but not provided for:					
Acquisition of a subsidiary		—	7,020	—	—
Acquisition of associates		—	30,400	—	—
Acquisition of a joint venture company	(i)	21,450	21,450	—	—
Construction of a property under development		8,338	—	—	—
		<u>29,788</u>	<u>58,870</u>	<u>—</u>	<u>—</u>

Note:

- (i) On 15 December 2000, the Group entered into an agreement (the "Agreement") with an independent third party (the "JV Partner"), for the subscription of a 25% equity interest in a joint venture company at a consideration of US\$3,000,000. Pursuant to the Agreement, the joint venture company would acquire from the JV Partner certain exclusive rights to manufacture, distribute and sell certain fuel and other products currently held or to be further developed or acquired by the JV Partner (the "Rights"). On 15 January 2001, in accordance with the Agreement, the Group paid a deposit of US\$250,000. The remaining balance of the consideration is US\$2,750,000, approximately HK\$21,450,000. Due to the uncertainties of the JV Partner's ownership of the Rights, the directors may consider to terminate the Agreement.

**39. RELATED PARTY TRANSACTIONS**

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

	Notes	2002 HK\$'000	Group 2001 HK\$'000
Purchases of raw materials and work in progress			
from associates	(i)	29,005	18,440
Sales of finished goods and raw materials			
to associates	(ii)	—	40,480
		<u>          </u>	<u>          </u>

Notes:

- (i) The directors consider that the purchases of raw materials and work in progress were made according to the prices and conditions similar to those offered to other customers of the suppliers. The balance owing to the associates at 31 December 2002 was HK\$6,654,000 (2001: HK\$4,421,000).
- (ii) The directors consider that the sales of finished goods and raw materials were made according to the terms and conditions as set out in their agreements. The aggregate amount due from associates at 31 December 2002 was HK\$3,000 (2001: HK\$87,000).

**40. COMPARATIVE AMOUNTS**

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

**41. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 22 April 2003.