

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

1. CORPORATE INFORMATION

The financial statements of the Group and of the Company for the financial year ended 31 December 2003 (the "financial year") were authorised for issue in accordance with a resolution of the Directors on 5 March 2004.

The Company was incorporated in the British Virgin Islands on 17 February 1994 and continued under the laws of Bermuda by migration of its domicile on 21 October 1994. The Company was registered in Australia and Hong Kong as a foreign company pursuant to Section 601CE of the then Australian Corporations Law on 4 November 1994 and Part XI of the Companies Ordinance on 24 May 1999 respectively.

The registered office and principal place of business are as follows:-

| | |
|-----------------------------|---|
| Registered office | : 43 Victoria Street Hamilton HM 12 Bermuda |
| Principal place of business | : 2001 Central Plaza 18 Harbour Road, Wanchai Hong Kong |

2. PRINCIPAL ACTIVITIES

The Company is principally engaged in the business of investment holding.

The Group's principal asset is a 70% equity interest in Guangzhou Pearl River Rubber Tyre Limited (the "Joint Venture"). The principal activity of the Joint Venture is the manufacture and marketing of bias tyres for commercial vehicles.

The Group operates in 4 countries and has 11 employees under the payroll of the Company and its subsidiaries. The number of employees of the Joint Venture was 2,032 as at 31 December 2003.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

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

NOTES TO THE FINANCIAL STATEMENTS

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of Preparation

The Company is listed on the Australian Stock Exchange and The Stock Exchange of Hong Kong (the “HKEx”). The financial statements of the Group and of the Company are prepared in A\$ and HK\$ for the purposes of the reporting requirements that apply in Australia and Hong Kong. The basis of preparation of the financial statements in each jurisdiction is as follows:-

Financial Statements Denominated in A\$

The financial statements of the Group and of the Company denominated in A\$ have been prepared in accordance with all applicable accounting standards issued by the International Accounting Standards Committee (“IASC”) and interpretations issued by the Standing Interpretations Committee of the IASC.

Financial Statements Denominated in HK\$

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

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous years.

(c) Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. The associate and the Joint Venture have been accounted for in the consolidated financial statements using the equity method.

The term “Group” used throughout these financial statements means the Company, the subsidiaries, the associate and the Joint Venture.

Details of the investment in the subsidiaries, the associate and the Joint Venture are set out in Notes 6, 7, 8 and 9.

NOTES TO THE FINANCIAL STATEMENTS

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Principles of Consolidation *(Continued)*

The bases of consolidation are as follows:–

Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

Subsidiaries are consolidated using the acquisition method. Under the acquisition method, the results of the subsidiaries acquired or disposed of are incorporated into the consolidated income statements from the date of acquisition or up to the date of disposal. Transactions during the financial year and outstanding balances at the end of the financial year between the Company and the subsidiaries are eliminated in full at the consolidated financial statements.

In the Company's balance sheet, the investment in subsidiaries is stated at cost less impairment loss, if any.

Associate

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

The equity method involves recognising in the consolidated income statements the Group's share of the results of the associate. In the consolidated balance sheets, the investment in associate is carried at an amount that reflects its cost of investment in the associate plus its share of the associate's post-acquisition profits or losses and reserve increments or decrements retained by the associate.

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

The investment in the associate is held by a subsidiary of the Company. In the subsidiary's balance sheet, the investment in associate is stated at cost less impairment loss, if any.

NOTES TO THE FINANCIAL STATEMENTS

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Goodwill and Negative Goodwill Arising on Consolidation

Joint Venture

A joint venture is an entity where there exists contractually agreed sharing of control by the Group with the other joint venture partner. The investment in the Joint Venture is accounted for in the consolidated financial statements using the equity method.

The investment in the Joint Venture is held by a subsidiary of the Company. In the subsidiary's balance sheet, the investment in the Joint Venture is stated at cost less impairment loss, if any.

Associate

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

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

- (i) goodwill is amortised to the consolidated income statements on a straight-line basis over its estimated useful life. The cost of goodwill less any accumulated amortisation and any impairment losses is included in the carrying amount of the interest in associate; and
- (ii) negative goodwill is accounted for in the same manner as subsidiaries whilst in respect of any negative goodwill not yet recognised in the consolidated statements, such negative goodwill is included in the carrying amount of the interest in associate.

Joint Venture

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

NOTES TO THE FINANCIAL STATEMENTS

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Goodwill and Negative Goodwill Arising on Consolidation *(Continued)*

Joint Venture (Continued)

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

Under IAS, the interest in the Joint Venture is accounted for in the same manner as the associate as set out above, with a notional adjustment to the carrying amounts of the identifiable assets and liabilities of the Joint Venture to reflect fair values and a resultant notional goodwill or negative goodwill being calculated. The Group's share of the Joint Venture's profit is then notionally adjusted by amortisation of goodwill and revised depreciation charges in the same manner as is required for associate. Negative goodwill is accounted for as a notional reduction to the fair values of the Joint Venture's non-monetary assets with a consequent reduction in depreciation charges.

Under Hong Kong accounting standards, the negative goodwill is credited to a reserve account. The reserve is then amortised to the income statements on a straight-line basis over an estimated useful life of 8 years.

The effect of the difference in the treatment of the negative goodwill between the IAS and the Hong Kong accounting standards is disclosed in Note 17.

(e) Investments

Investments Held for Long-Term Purposes

Investments which are clearly identified to be held for long-term purposes, including subsidiaries, associate and the Joint Venture, are carried at cost less any allowance for impairment in value in the financial statements of the investors.

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

An allowance for impairment in the value of the investments is made and recognised as an expense in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Investments (Continued)

Investment in Securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the balance sheet date. Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For available-for-sale investments, unrealised gains and losses are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

For available-for-sale investments that the fair value cannot be reliably determined, the investments are carried at cost less accumulated impairment losses.

On Disposal of Investments

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

(f) Plant and Equipment

Plant and equipment are stated at cost or revalued amount less accumulated depreciation and impairment losses. Depreciation of plant and equipment is calculated using the straight-line method to write off the cost or revalued amount over their estimated useful lives, allowing for their estimated residual values. The annual depreciation rates, expressed on a percentage of cost, are as follows:-

Plant and equipment (depending on the nature of the asset) 6.43% or 9.50%

Surpluses arising on revaluation are credited to the revaluation reserve. Any deficits arising on revaluation are charged against the revaluation reserve to the extent of a previous surplus held in the revaluation reserve for the same assets. In all other cases, a decrease in the carrying amount is charged to the income statement. On the disposal of revalued assets, amounts in the revaluation reserve relating to those assets are transferred to retained profits.

NOTES TO THE FINANCIAL STATEMENTS

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and at banks, demand deposits and short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from financial institutions repayable within three months from the date of the advances, if any.

(h) Share Capital

Share capital is recognised at the fair value of the consideration received by the Group and the Company.

(i) Provisions and Contingent Liabilities

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

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

(j) Borrowing Costs

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

NOTES TO THE FINANCIAL STATEMENTS

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Foreign Currency Translation

Financial Statements of the Company, Subsidiaries, Associate and the Joint Venture

The financial statements of the Company, subsidiaries, associate and Joint Venture are maintained in the respective operating currencies.

Transactions in foreign currencies are translated at the average rate of exchange ruling during the financial year. Monetary assets and liabilities denominated in foreign currencies are translated into the respective operating currencies at the exchange rates prevailing at the balance sheet date whilst non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. Foreign currency translation gains or losses are included in the income statement.

Financial Statements of the Group

For Australian reporting purposes, the financial statements of the associate and the Joint Venture are translated into A\$ using the exchange rate prevailing at the balance sheet date for assets and liabilities whilst the average rate is used to translate revenues and expenses. Any exchange difference arising from the translation is taken as a movement on the foreign currency translation reserve. The foreign currency translation reserve represents the Group's proportionate interest in the reserve of the associate and the Joint Venture.

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

(l) Revenue Recognition

Interest Income

Interest income is recognised on an accrual basis.

Dividend Income

Dividends are brought to account in the consolidated income statement when received except those dividends from the Joint Venture which are brought to account when they are proposed by the Joint Venture.

NOTES TO THE FINANCIAL STATEMENTS

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Related Parties

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

(n) Segment Reporting

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

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

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

4. EQUIPMENT

| | THE GROUP | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Balance at the beginning of the financial year, net of accumulated depreciation | 156 | 188 | 682 | 751 |
| Depreciation | (33) | (32) | (166) | (139) |
| Foreign currency translation adjustment | – | – | 199 | 70 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Balance at the end of the financial year, net of accumulated depreciation | <u>123</u> | <u>156</u> | <u>715</u> | <u>682</u> |
| Cost | 331 | 331 | 1,926 | 1,454 |
| Accumulated depreciation | (208) | (175) | (1,211) | (772) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net carrying amount | <u>123</u> | <u>156</u> | <u>715</u> | <u>682</u> |

NOTES TO THE FINANCIAL STATEMENTS

5. RECEIVABLES

| | THE GROUP | | | |
|-----------------------------------|-------------------------------|-------------------------------|--------------------------------|--------------------------------|
| | 2003 <i>A\$'000</i> | 2002 <i>A\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Current | | | | |
| Amount owing by the Joint Venture | 16 | 53 | 89 | 234 |
| Other receivables | <u>1,305</u> | <u>1,530</u> | <u>7,595</u> | <u>6,714</u> |
| | <u>1,321</u> | <u>1,583</u> | <u>7,684</u> | <u>6,948</u> |
| | | | | |
| | THE COMPANY | | | |
| | 2003 <i>A\$'000</i> | 2002 <i>A\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Non-Current | | | | |
| Amount owing by subsidiaries | 9,016 | 8,800 | 52,468 | 38,619 |
| Other receivables | <u>21</u> | <u>18</u> | <u>125</u> | <u>74</u> |
| | <u>9,037</u> | <u>8,818</u> | <u>52,593</u> | <u>38,693</u> |
| | | | | |
| Current | | | | |
| Amount owing by the Joint Venture | 16 | 53 | 89 | 234 |
| Other receivables | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>16</u> | <u>53</u> | <u>89</u> | <u>234</u> |

The ageing analysis of receivables is as follows:-

| | THE GROUP | | | |
|--------------------------------|-------------------------------|-------------------------------|--------------------------------|--------------------------------|
| | 2003 <i>A\$'000</i> | 2002 <i>A\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Outstanding less than one year | 1,321 | 1,583 | 7,684 | 6,948 |
| Outstanding more than one year | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>1,321</u> | <u>1,583</u> | <u>7,684</u> | <u>6,948</u> |
| | | | | |
| | THE COMPANY | | | |
| | 2003 <i>A\$'000</i> | 2002 <i>A\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Outstanding less than one year | 16 | 53 | 89 | 234 |
| Outstanding more than one year | <u>9,037</u> | <u>8,818</u> | <u>52,593</u> | <u>38,693</u> |
| | <u>9,053</u> | <u>8,871</u> | <u>52,682</u> | <u>38,927</u> |

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

NOTES TO THE FINANCIAL STATEMENTS

6. OTHER FINANCIAL ASSETS *(Continued)*

Particulars of the controlled subsidiaries and associate are as follows:–

| Name | Place/Date Of Incorporation /Establishment | Authorised /Issued And Fully Paid-Up Share Capital | Attributable Equity Interest | | Principal Activities |
|-------------------------------|--|--|---------------------------------|------|-------------------------|
| | | | 2003 | 2002 | |
| <i>Subsidiary</i> | | | | | |
| PRT Capital Pte Ltd | The British Virgin Islands /3 December 1996 | US\$50,000 /US\$1 | 100% | 100% | Investment holding |
| Carham Assets Limited | The British Virgin Islands /1 September 1997 | US\$50,000 /US\$2 | 100% | 100% | Investment holding |
| <i>Associate</i> | | | | | |
| Thames Electronics Sdn Bhd | Malaysia /30 January 2003 | RM100,000 /RM100,000 | 28.4% | – | Investment holding |

7. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | THE GROUP | | | |
|--|-----------------|-----------------|------------------|------------------|
| | 2003 A\$'000 | 2002 A\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Investment in the Joint Venture <i>(Note 8)</i> | 36,324 | 53,774 | 213,168 | 237,644 |
| Investment in associate <i>(Note 9)</i> | 4,063 | 5,130 | 23,647 | 22,514 |
| | 40,387 | 58,904 | 236,815 | 260,158 |

The investments are stated at cost and adjusted to reflect changes in the Group's share of the net assets of the Joint Venture and the associate. Information relating to the Joint Venture and the associate are set out in Notes 8 and 9, respectively.

NOTES TO THE FINANCIAL STATEMENTS

8. INVESTMENT IN THE JOINT VENTURE

Details of the Joint Venture are as follows:-

| Name | Place/Date Of Incorporation /Establishment | Authorised /Issued And Fully Paid-Up Share Capital | Attributable Equity Interest | | Principal Activities |
|---|---|--|---------------------------------|------|---|
| | | | 2003 | 2002 | |
| Guangzhou Pearl River Rubber Tyre Limited | The People's Republic of China (the "PRC") /11 December 1993 | US\$43,202,166 /US\$43,202,166 | 70% | 70% | Manufacture and sales of bias tyres |

The Joint Venture was established as a Sino-foreign joint venture under the Chinese Joint Venture Law. The Joint Venture is 70% owned by Carham Assets Limited and 30% owned by Guangzhou Guang Xiang Tyre Enterprise Group Company Limited, a state-owned enterprise, established in Guangzhou, the PRC.

| | 2003 A\$'000 | 2002 A\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
|---|-----------------|-----------------|------------------|------------------|
| The movement in the carrying amount of the investment in the Joint Venture is as follows:- | | | | |
| At 1 January (as reported previously) | 53,774 | 62,479 | 237,644 | 255,296 |
| Share of adjustment on the change in the accounting policy for warranty provision | — | (2,000) | — | (7,976) |
| At 1 January (as restated) | 53,774 | 60,479 | 237,644 | 247,320 |
| Share of movement in reserves: | | | | |
| – net (loss)/profit | (4,598) | 401 | (23,548) | 1,485 |
| – proposed dividends | — | (1,502) | — | (6,595) |
| – foreign currency translation reserve | (12,852) | (5,604) | (928) | (4,566) |
| At 31 December (<i>Note 7</i>) | <u>36,324</u> | <u>53,774</u> | <u>213,168</u> | <u>237,644</u> |

NOTES TO THE FINANCIAL STATEMENTS

8. INVESTMENT IN THE JOINT VENTURE *(Continued)*

| | 2003 A\$'000 | 2002 A\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
|---|-----------------------|----------------------|------------------------|-----------------------|
| The Group's share of the Joint Venture's assets and liabilities are as follows:- | | | | |
| Non-current assets | 37,028 | 51,289 | 215,486 | 225,077 |
| Current assets | 21,022 | 32,355 | 122,338 | 141,982 |
| Current liabilities | <u>(21,726)</u> | <u>(29,870)</u> | <u>(126,433)</u> | <u>(131,078)</u> |
| | 36,324 | 53,774 | 211,391 | 235,981 |
| Reversal of notional adjustment applied under IAS | - | - | (2,663) | (1,785) |
| Discount on acquisition credited to reserves <i>(Note 17)</i> | <u>-</u> | <u>-</u> | <u>4,440</u> | <u>3,448</u> |
| At 31 December | <u><u>36,324</u></u> | <u><u>53,774</u></u> | <u><u>213,168</u></u> | <u><u>237,644</u></u> |
| | | | | |
| | 2003 A\$'000 | 2002 A\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| The Group's share of the Joint Venture's revenues and expenses are as follows:- | | | | |
| Revenues | 75,507 | 90,100 | 382,429 | 381,401 |
| Costs and expenses | <u>(78,430)</u> | <u>(88,039)</u> | <u>(397,489)</u> | <u>(372,890)</u> |
| (Loss)/Profit from continuing operations | (2,923) | 2,061 | (15,060) | 8,511 |
| Finance costs | <u>(1,135)</u> | <u>(1,429)</u> | <u>(5,751)</u> | <u>(6,049)</u> |
| (Loss)/Profit from continuing operations before taxes | (4,058) | 632 | (20,811) | 2,462 |
| Tax expense | <u>(540)</u> | <u>(231)</u> | <u>(2,737)</u> | <u>(977)</u> |
| Net (loss)/profit from continuing operations <i>(Note 23)</i> | <u><u>(4,598)</u></u> | <u><u>401</u></u> | <u><u>(23,548)</u></u> | <u><u>1,485</u></u> |

A reconciliation of the statutory tax rate to the effective tax rate applicable to income from continuing operations of the Joint Venture for the financial year was as follows:-

| | 2003 % | 2002 % |
|--|-----------------|-----------------|
| Statutory tax rate | 27 | 27 |
| Availability of unutilised tax losses brought forward | <u>(27)</u> | <u>(19)</u> |
| Effective tax rate based on the local operating currency | <u><u>-</u></u> | <u><u>8</u></u> |

Additional information on the results and financial position of the Joint Venture are set out in Note 28 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

9. INVESTMENT IN ASSOCIATE

Details of the Associate are as follows:-

| Name | Place/Date Of Incorporation /Establishment | Authorised /Issued And Fully Paid-Up Share Capital | Attributable Equity Interest | | Principal Activities |
|--------------------------------|--|--|---------------------------------|--------------------------------|---|
| | | | 2003 | 2002 | |
| Omega Semiconductor Sdn Bhd | Malaysia/25 November 1993 | RM5,000,000 /RM4,161,592 | 21.0% | 28.4% | Provision of "full turnkey" subcontracting services for the manufacture of semiconductor components |
| | | 2003 <i>A\$'000</i> | 2002 <i>A\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |

The movement in the carrying amount of the investment in the Associate is as follows:-

| | | | | |
|--|--------------|--------------|---------------|---------------|
| At 1 January | 5,130 | 3,077 | 22,514 | 12,272 |
| New capital invested | 30 | 1,180 | 175 | 4,996 |
| Share of movement in reserves: | | | | |
| – net profit | 1,053 | 873 | 5,335 | 3,695 |
| – final dividends | (769) | – | (4,475) | – |
| – foreign currency translation reserve | (1,381) | – | 98 | 1,551 |
| At 31 December (<i>Note 7</i>) | <u>4,063</u> | <u>5,130</u> | <u>23,647</u> | <u>22,514</u> |

The Group's share of the Associate's assets and liabilities are as follows:-

| | | | | |
|-------------------------|--------------|--------------|---------------|---------------|
| Non-current assets | 3,696 | 3,375 | 21,509 | 14,811 |
| Current assets | 1,527 | 2,543 | 8,887 | 11,160 |
| Non-current liabilities | (2,439) | (747) | (14,194) | (3,278) |
| Current liabilities | (386) | (1,382) | (2,246) | (6,065) |
| | 2,398 | 3,789 | 13,956 | 16,628 |
| Premium on acquisition | <u>1,665</u> | <u>1,341</u> | <u>9,691</u> | <u>5,886</u> |
| At 31 December | <u>4,063</u> | <u>5,130</u> | <u>23,647</u> | <u>22,514</u> |

NOTES TO THE FINANCIAL STATEMENTS

9. INVESTMENT IN ASSOCIATE *(Continued)*

| | 2003 <i>A\$'000</i> | 2002 <i>A\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|--|------------------------|------------------------|-------------------------|-------------------------|
| The Group's share of the Associate's revenues and expenses are as follows:- | | | | |
| Revenues | 7,998 | 5,686 | 40,508 | 24,070 |
| Costs and expenses | <u>(6,773)</u> | <u>(4,630)</u> | <u>(34,301)</u> | <u>(19,600)</u> |
| Profit from continuing operations | 1,225 | 1,056 | 6,207 | 4,470 |
| Finance costs | <u>(105)</u> | <u>(96)</u> | <u>(532)</u> | <u>(406)</u> |
| Profit before tax | 1,120 | 960 | 5,675 | 4,064 |
| Tax expense | <u>(67)</u> | <u>(87)</u> | <u>(340)</u> | <u>(369)</u> |
| Net profit for the financial year <i>(Note 23)</i> | <u><u>1,053</u></u> | <u><u>873</u></u> | <u><u>5,335</u></u> | <u><u>3,695</u></u> |

A reconciliation of the statutory tax rate to the effective tax rate applicable to income from continuing operations of the associate for the financial year was as follows:

| | 2003 % | 2002 % |
|---|-----------------|-----------------|
| Statutory tax rate | 28 | 28 |
| Non-deductible expenses | 2 | 3 |
| Utilisation of reinvestment allowances | (11) | (17) |
| Unutilised reinvestment allowance benefits recognised as deferred asset | (13) | - |
| Overprovision of deferred tax liabilities in prior years | - | (5) |
| Others | <u>(1)</u> | <u>-</u> |
| Effective tax rate based on the local operating currency | <u><u>5</u></u> | <u><u>9</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

10. CASH AND CASH EQUIVALENTS

| | THE GROUP | | | |
|---------------------------|--------------------|----------------|-----------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Cash in hand and at banks | 1,279 | 828 | 7,445 | 3,634 |
| Short-term deposits | 371 | 3,605 | 2,159 | 15,822 |
| | <u>1,650</u> | <u>4,433</u> | <u>9,604</u> | <u>19,456</u> |
| | THE COMPANY | | | |
| | 2003 | 2002 | 2003 | 2002 |
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Cash in hand and at banks | 18 | 52 | 107 | 230 |
| Short-term deposits | – | – | – | – |
| | <u>18</u> | <u>52</u> | <u>107</u> | <u>230</u> |

Short-term deposits with maturity of less than three months have effective interest rates of 0.6% to 0.8% (2002 – 0.7% to 1.9%) per annum.

11. ISSUED CAPITAL

| | THE COMPANY | | | |
|--|--------------------|----------------|-----------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Authorised share capital 150,000,000 ordinary shares of A\$0.20 each | 30,000 | 30,000 | 166,305 | 166,305 |
| Issued and fully paid-up share capital | <u>21,024</u> | <u>21,024</u> | <u>110,716</u> | <u>110,716</u> |

The issued and fully paid-up share capital of the Company comprises 105,116,280 (2002 – 105,116,280) ordinary shares of A\$0.20 each.

NOTES TO THE FINANCIAL STATEMENTS

12. REVALUATION RESERVE

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

The revaluation reserve is not distributable by way of dividends.

13. CAPITAL RESERVES

| | THE GROUP | | | |
|--|------------------|----------------|-----------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| General reserve (a) | | | | |
| At 1 January | 7,200 | 7,200 | 41,103 | 40,685 |
| Transfer from capital reserve arising on consolidation | — | — | — | 418 |
| At 31 December | <u>7,200</u> | <u>7,200</u> | <u>41,103</u> | <u>41,103</u> |
| Capital reserve arising on consolidation (b) | | | | |
| At 1 January | — | — | 763 | 1,181 |
| Transfer to general reserve | — | — | — | (418) |
| At 31 December | <u>—</u> | <u>—</u> | <u>763</u> | <u>763</u> |
| Total capital reserves | <u>7,200</u> | <u>7,200</u> | <u>41,866</u> | <u>41,866</u> |

(a) This relates to the general reserve and enterprise expansion funds maintained in accordance with the prevailing PRC laws and regulations applicable to Sino-foreign joint ventures in the PRC.

(b) This relates to the negative goodwill arising on acquisition of the Joint Venture. The reserve is amortised over an estimated useful life of 8 years in accordance with the Accounting Guidelines issued by the Hong Kong Society of Accountants.

The capital reserves are not distributable by way of dividends.

NOTES TO THE FINANCIAL STATEMENTS

14. FOREIGN CURRENCY TRANSLATION RESERVE

| | THE GROUP | | | |
|---|-------------------------------|-------------------------------|--------------------------------|--------------------------------|
| | 2003 <i>A\$'000</i> | 2002 <i>A\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| At 1 January | 20,124 | 25,728 | 4,269 | 3,688 |
| Adjustments arising from the translation of the financial statements of the Joint Venture and Associate | <u>(14,232)</u> | <u>(5,604)</u> | <u>8,697</u> | <u>581</u> |
| At 31 December | <u><u>5,892</u></u> | <u><u>20,124</u></u> | <u><u>12,966</u></u> | <u><u>4,269</u></u> |

| | THE COMPANY | | | |
|--|-------------------------------|-------------------------------|--------------------------------|--------------------------------|
| | 2003 <i>A\$'000</i> | 2002 <i>A\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| At 1 January | – | – | (68,285) | (86,521) |
| Adjustments arising from the translation of the Company's financial statements | <u>–</u> | <u>–</u> | <u>63,067</u> | <u>18,236</u> |
| At 31 December | <u><u>–</u></u> | <u><u>–</u></u> | <u><u>(5,218)</u></u> | <u><u>(68,285)</u></u> |

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

15. (ACCUMULATED LOSS)/RETAINED PROFITS – THE GROUP AND THE COMPANY

| | THE GROUP | | | |
|--|-------------------------------|-------------------------------|--------------------------------|--------------------------------|
| | 2003 <i>A\$'000</i> | 2002 <i>A\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| At 1 January | 393 | 2,260 | 18,147 | 26,266 |
| Net (loss)/profit from continuing operations | <u>(5,795)</u> | <u>(1,867)</u> | <u>(29,610)</u> | <u>(8,119)</u> |
| At 31 December | <u><u>(5,402)</u></u> | <u><u>393</u></u> | <u><u>(11,463)</u></u> | <u><u>18,147</u></u> |

| | THE COMPANY | | | |
|-------------------------------------|-------------------------------|-------------------------------|--------------------------------|--------------------------------|
| | 2003 <i>A\$'000</i> | 2002 <i>A\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| At 1 January | 7,088 | 8,628 | 40,207 | 46,723 |
| Net loss from continuing operations | <u>(1,046)</u> | <u>(1,540)</u> | <u>(5,300)</u> | <u>(6,516)</u> |
| At 31 December | <u><u>6,042</u></u> | <u><u>7,088</u></u> | <u><u>34,907</u></u> | <u><u>40,207</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

16. ACCUMULATED LOSSES – THE JOINT VENTURE

According to the prevailing PRC laws and regulations applicable to Sino-foreign joint ventures in the PRC, discretionary dedicated capital, which includes a general reserve fund, an enterprise expansion fund and a staff welfare and incentive bonus fund, should be maintained by the Joint Venture. The Board of Directors of the Joint Venture determines the amount of the annual appropriations to the dedicated capital. Such appropriations are reflected in the Joint Venture's balance sheet under equity. The appropriation for the staff welfare and incentive bonus fund is charged to the income statement of the Joint Venture. This amount, together with general reserve amounting to 10% of the distributable profit for the financial year, net of losses previously incurred, will not be available for distribution to shareholders once appropriated. As at 31 December 2003, the outstanding amount in the general reserve fund of the Joint Venture is as follows:–

| | 2003 | | | 2002 | | |
|----------------------|----------------|----------------|-----------------|----------------|----------------|-----------------|
| | <i>RMB'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> | <i>RMB'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> |
| General reserve fund | 28,014 | 4,511 | 26,250 | 28,014 | 6,014 | 26,394 |

The dividends from the Joint Venture are declared based on profits reported in its statutory financial statements which are prepared in accordance with PRC accounting standards. Such profits will be different from the amounts reported under IAS or Hong Kong GAAP. No dividends were paid or recommended since the end of the previous financial year (31 December 2002 – RMB10,000,000). The Joint Venture recorded an accumulated loss of approximately RMB11,642,000 as at 31 December 2003 (31 December 2002 – Attributable retained earnings of approximately RMB19,274,000), as prepared in accordance with PRC accounting standards.

17. RECONCILIATION BETWEEN IAS AND HONG KONG GAAP

According to IAS, the negative goodwill arising on acquisition of approximately A\$763,000, representing the excess of fair values of the identifiable net assets of the Joint Venture acquired over the cost of the acquisition, was applied to notionally reduce the Group's share of the Joint Venture's property, plant and equipment. A notional adjustment has been made to the operating loss of the Joint Venture to then reflect a revision in depreciation arising from the above notional adjustment to property, plant and equipment. The Group has equity accounted its share of the notionally adjusted operating loss of the Joint Venture.

This differs from the method used under Hong Kong GAAP where no notional adjustment is made to the fair values of assets acquired at a discount. Instead, the discount is credited directly to reserves and amortised over an estimated useful life of 8 years.

NOTES TO THE FINANCIAL STATEMENTS

17. RECONCILIATION BETWEEN IAS AND HONG KONG GAAP *(Continued)*

A reconciliation of the total equity and net loss from continuing operations showing the difference between the financial statements prepared in accordance with the respective IAS and Hong Kong GAAP is as follows:-

| | THE GROUP | |
|---|------------------|----------------|
| | 2003 | 2002 |
| Total equity in A\$'000 as prepared under IAS | <u>46,719</u> | <u>66,746</u> |
| Total equity in HK\$'000 equivalent | 269,220 | 291,125 |
| Discount on acquisition credited to reserves <i>(Note 8)</i> | <u>4,440</u> | <u>3,448</u> |
| Total equity in HK\$'000 restated to conform with Hong Kong GAAP | <u>273,660</u> | <u>294,573</u> |
| Net profit from continuing operations in A\$'000 as prepared under IAS | <u>(5,795)</u> | <u>(1,867)</u> |
| Net profit from continuing operations in HK\$'000 equivalent | (29,352) | (7,904) |
| Reversal of notional adjustment applied under IAS | <u>(258)</u> | <u>(215)</u> |
| Net profit from continuing operations in HK\$'000 restated to conform with Hong Kong GAAP | <u>(29,610)</u> | <u>(8,119)</u> |

18. PAYABLES

| | THE GROUP | | | |
|----------------------------|------------------|----------------|-----------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Amount owing to a director | - | 63 | - | 276 |
| Accruals | <u>172</u> | <u>277</u> | <u>1,003</u> | <u>1,217</u> |
| | <u>172</u> | <u>340</u> | <u>1,003</u> | <u>1,493</u> |

| | THE COMPANY | | | |
|------------------------------|--------------------|----------------|-----------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Amount owing to a subsidiary | 1,299 | - | 7,561 | - |
| Accruals | <u>172</u> | <u>277</u> | <u>1,003</u> | <u>1,217</u> |
| | <u>1,471</u> | <u>277</u> | <u>8,564</u> | <u>1,217</u> |

NOTES TO THE FINANCIAL STATEMENTS

19. PROVISIONS

| | THE GROUP/THE COMPANY | | | |
|-------------------|------------------------------|----------------|-----------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Employee benefits | – | – | – | – |
| Others | 21 | 21 | 121 | 91 |
| | <u>21</u> | <u>21</u> | <u>121</u> | <u>91</u> |

20. REVENUES

| | THE GROUP | | | |
|---|------------------|----------------|-----------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Gain on disposal of securities listed on prescribed stock exchanges, outside Australian and Hong Kong | 194 | – | 982 | – |
| Gain on foreign exchange | – | 2 | – | 8 |
| Interest received and receivable from financial institutions | 13 | 47 | 64 | 200 |
| Dividends received and receivable from securities listed on prescribed stock exchanges, outside Australia and Hong Kong | 41 | 32 | 209 | 134 |
| Other operating income | 2 | 1 | 9 | 3 |
| | <u>250</u> | <u>82</u> | <u>1,264</u> | <u>345</u> |

| | THE COMPANY | | | |
|--|--------------------|----------------|-----------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest received and receivable from financial institutions | – | 20 | – | 84 |
| | <u>–</u> | <u>20</u> | <u>–</u> | <u>84</u> |

NOTES TO THE FINANCIAL STATEMENTS

21. OTHER INCOME

Other income represents the write-back of the impairment loss previously made in relation to the securities listed on prescribed stock exchanges, outside Australia and Hong Kong.

22. OTHER EXPENSES

| | THE GROUP | | | |
|--|-------------------------------|-------------------------------|--------------------------------|--------------------------------|
| | 2003 <i>A\$'000</i> | 2002 <i>A\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Impairment losses: | | | | |
| – Available-for-sale securities | – | 549 | – | 2,324 |
| – Held-to-maturity securities | 665 | 665 | 3,368 | 2,815 |
| Loss on disposal of securities listed on prescribed stock exchanges, outside Australia and Hong Kong | – | 92 | – | 388 |
| Other operating expenses | 619 | 839 | 3,134 | 3,549 |
| | <u>1,284</u> | <u>2,145</u> | <u>6,502</u> | <u>9,076</u> |
| | | | | |
| | THE COMPANY | | | |
| | 2003 <i>A\$'000</i> | 2002 <i>A\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Other operating expenses | <u>617</u> | <u>831</u> | <u>3,125</u> | <u>3,516</u> |

Other operating expenses in the previous financial year included finance costs of A\$2,000 or HK\$8,000.

NOTES TO THE FINANCIAL STATEMENTS

23. SHARE OF NET (LOSS)/PROFIT OF THE JOINT VENTURE AND ASSOCIATE ACCOUNTED FOR USING THE EQUITY METHOD

| | THE GROUP | | | |
|--|-------------------------------|-------------------------------|--------------------------------|--------------------------------|
| | 2003 <i>A\$'000</i> | 2002 <i>A\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Share of (loss)/profit before tax of: | | | | |
| – the Joint Venture | (4,058) | 632 | (20,811) | 2,462 |
| – Associate | 1,120 | 960 | 5,675 | 4,064 |
| | <u>(2,938)</u> | <u>1,592</u> | <u>(15,136)</u> | <u>6,526</u> |
| Share of tax expense of: | | | | |
| – the Joint Venture | (540) | (231) | (2,737) | (977) |
| – Associate | (67) | (87) | (340) | (369) |
| | <u>(607)</u> | <u>(318)</u> | <u>(3,077)</u> | <u>(1,346)</u> |
| Share of net (loss)/profit of the Joint Venture, net of discount arising on consolidation (2003 – A\$51,000 or HK\$258,000, 2002 – A\$51,000 or HK\$215,000) (Note 8) | (4,598) | 401 | (23,548) | 1,485 |
| Share of net profit of Associate (Note 9) | 1,053 | 873 | 5,335 | 3,695 |
| | <u>(3,545)</u> | <u>1,274</u> | <u>(18,213)</u> | <u>5,180</u> |

The share of tax expense of the Joint Venture relates substantially to the write-off of the deferred tax asset recognised previously.

NOTES TO THE FINANCIAL STATEMENTS

24. LOSS BEFORE TAX

(i) Loss before tax is arrived at after crediting and charging the following:-

| | THE GROUP | | | |
|---|------------------------|------------------------|-------------------------|-------------------------|
| | 2003 <i>A\$'000</i> | 2002 <i>A\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Crediting | | | | |
| Gain on disposal of securities listed on prescribed stock exchanges, outside Australia and Hong Kong | 194 | - | 982 | - |
| Gain on foreign exchange | - | 2 | - | 8 |
| Interest from financial institutions | 13 | 47 | 64 | 200 |
| Dividends from securities listed on prescribed stock exchanges, outside Australia and Hong Kong | 41 | 32 | 209 | 134 |
| Write-back of impairment loss on the investment in securities listed on prescribed stock exchanges, outside Australia and Hong Kong | <u>362</u> | <u>-</u> | <u>1,834</u> | <u>-</u> |
| Charging | | | | |
| Depreciation expense | 33 | 32 | 166 | 139 |
| Impairment losses: | | | | |
| – Available-for-sale securities | - | 549 | - | 2,324 |
| – Held-to-maturity securities | 665 | 665 | 3,368 | 2,815 |
| Loss on foreign exchange | 1,135 | 504 | 5,749 | 2,134 |
| Loss on disposal of securities listed on prescribed stock exchanges, outside Australia and Hong Kong | <u>-</u> | <u>92</u> | <u>-</u> | <u>388</u> |
| | 2003 | 2002 | 2003 | 2002 |
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| THE COMPANY | | | | |
| Crediting | | | | |
| Interest from financial institutions | - | 20 | - | 84 |
| Charging | | | | |
| Loss on foreign exchange | <u>19</u> | <u>187</u> | <u>97</u> | <u>789</u> |

NOTES TO THE FINANCIAL STATEMENTS

24. LOSS BEFORE TAX (Continued)

(ii) Remuneration of directors

| | THE GROUP/THE COMPANY | | | |
|-------------------------|------------------------------|----------------|-----------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Fees | | | | |
| Executive Directors | 30 | 30 | 152 | 127 |
| Non-Executive Directors | 70 | 65 | 355 | 275 |
| Other emoluments | | | | |
| Bonuses | – | 9 | 18 | 37 |
| Salaries and allowances | <u>7</u> | <u>43</u> | <u>34</u> | <u>184</u> |

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

| | 2003 | 2002 |
|-------------------------|-------------|-------------|
| A\$0 – A\$9,999 | 2 | – |
| A\$10,000 – A\$19,999 | 9 | 9 |
| A\$20,000 – A\$49,999 | – | – |
| A\$50,000 – A\$59,999 | – | 1 |
| | <u>11</u> | <u>10</u> |
| HK\$0 – HK\$1,000,000 | 11 | 10 |
| HK\$1,000,001 and above | – | – |
| | <u>11</u> | <u>10</u> |

No Directors waived any emoluments or received any inducement or compensation for loss of office during the financial years ended 31 December 2003 and 2002.

(iii) Five highest paid employees

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

| | THE GROUP/THE COMPANY | | | |
|-------------------------|------------------------------|----------------|-----------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Bonuses | 18 | 46 | 92 | 195 |
| Salaries and allowances | <u>315</u> | <u>330</u> | <u>1,595</u> | <u>1,395</u> |

NOTES TO THE FINANCIAL STATEMENTS

24. LOSS BEFORE TAX *(Continued)*

(iii) Five highest paid employees *(Continued)*

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

| | 2003 | 2002 |
|-------------------------|------|------|
| A\$0 – A\$49,999 | – | – |
| A\$50,000 – A\$59,999 | 2 | – |
| A\$60,000 – A\$69,999 | 1 | 2 |
| A\$70,000 – A\$79,999 | 1 | 2 |
| A\$80,000 – A\$89,999 | 1 | – |
| A\$90,000 – A\$99,999 | – | 1 |
| | 5 | 5 |
| | 5 | 5 |
| HK\$0 – HK\$1,000,000 | 5 | 5 |
| HK\$1,000,001 and above | – | – |
| | 5 | 5 |
| | 5 | 5 |

None of these highest paid employees waived any emoluments or received any inducement or compensation for loss of office during the financial years ended 31 December 2003 and 2002.

25. TAX EXPENSE

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

No provision for Australian or Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Australia or Hong Kong for the financial year and the previous financial year.

26. BASIC LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss of A\$5,795,000 or HK\$29,610,000 (2002 – A\$1,867,000 or HK\$8,119,000) for the financial year and on the number of shares in issue during the financial year of 105,116,280 (2002 – 105,116,280).

There is no dilutive effect on the basic loss per share for the financial year and the previous financial year.

NOTES TO THE FINANCIAL STATEMENTS

27. NOTES TO THE STATEMENTS OF CASH FLOWS

- (i) A reconciliation of the net cash flows (used in)/from operating activities to the net loss from continuing operations was as follows:-

| | THE GROUP | | THE COMPANY | |
|---|-------------------|-------------------|--------------------|-------------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>A\$'000</i> | <i>A\$'000</i> |
| Net loss from continuing operations | (5,795) | (1,867) | (1,046) | (1,540) |
| Adjustments for:- | | | | |
| Depreciation expense | 33 | 32 | - | - |
| Impairment losses: | | | | |
| – Available-for-sale securities | - | 549 | - | - |
| – Held-to-maturity securities | 665 | 665 | - | - |
| Unrealised loss on foreign exchange | 753 | 504 | 19 | 186 |
| Impairment loss on available-for-sale securities written back | (362) | - | - | - |
| (Gain)/Loss on disposal of listed securities | (194) | 92 | - | - |
| Share of net (loss)/profit of the Joint Venture and Associate | 3,545 | (1,274) | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Operating loss before working capital changes | (1,355) | (1,299) | (1,027) | (1,354) |
| Decrease/(Increase) in receivables | 386 | 3,305 | (5) | 2 |
| (Decrease)/Increase in payables | (99) | 2 | (105) | (4) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net cash flows (used in)/from operating activities | <u>(1,068)</u> | <u>2,008</u> | <u>(1,137)</u> | <u>(1,356)</u> |

NOTES TO THE FINANCIAL STATEMENTS

27. NOTES TO THE STATEMENTS OF CASH FLOWS *(Continued)*

- (ii) A reconciliation of the net cash used in operating activities to the net (loss)/profit from continuing operations was as follows:

| | THE GROUP | | THE COMPANY | |
|---|------------------|-----------------|--------------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net loss from continuing operations | (29,610) | (8,119) | (5,300) | (6,516) |
| Adjustments for:– | | | | |
| Other dividend income | (209) | (134) | – | – |
| Interest income | (64) | (200) | – | (84) |
| Depreciation expense | 166 | 139 | – | – |
| Impairment losses: | | | | |
| – Available-for-sale securities | – | 2,324 | – | – |
| – Held-to-maturity securities | 3,368 | 2,815 | – | – |
| Unrealised loss on foreign exchange | 3,816 | 2,134 | 24 | 789 |
| Impairment loss on available-for-sale securities written back | (1,834) | – | – | – |
| (Gain)/Loss on disposal of listed securities | (982) | 388 | – | – |
| Share of net profit/(loss) of the Joint Venture and Associate | 18,213 | (5,180) | – | – |
| Operating loss before working capital changes | (7,136) | (5,833) | (5,276) | (5,811) |
| (Increase)/Decrease in receivables | (878) | (8) | (27) | 4 |
| Increase/(decrease) in payables | (611) | 8 | (611) | (17) |
| Net cash used in operating activities | <u>(8,625)</u> | <u>(5,833)</u> | <u>(5,914)</u> | <u>(5,824)</u> |

NOTES TO THE FINANCIAL STATEMENTS

28. THE JOINT VENTURE

For better understanding of the Group's operating results, the results of the Joint Venture for the financial year together with the comparative figures for the previous financial year are set out below:-

(i) Balance Sheets

| | 2003 <i>A\$'000</i> | 2002 <i>A\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---------------------------------------|------------------------|------------------------|-------------------------|-------------------------|
| Non-Current Assets | | | | |
| Property, plant and equipment | 52,411 | 72,493 | 305,011 | 318,128 |
| Intangibles | 486 | 777 | 2,827 | 3,410 |
| | 52,897 | 73,270 | 307,838 | 321,538 |
| Total Non-Current Assets | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | 4,319 | 6,295 | 25,136 | 27,627 |
| Receivables | 8,091 | 14,977 | 47,083 | 65,723 |
| Inventories | 17,621 | 23,723 | 102,550 | 104,104 |
| Tax assets | – | 1,226 | – | 5,378 |
| | 30,031 | 46,221 | 174,769 | 202,832 |
| Total Current Assets | | | | |
| Current Liabilities | | | | |
| Payables | 7,392 | 9,531 | 43,017 | 41,827 |
| Interest-bearing loans and borrowings | 20,931 | 28,984 | 121,814 | 127,192 |
| Tax liabilities | 219 | 612 | 1,273 | 2,685 |
| Provisions and other liabilities | 2,494 | 3,544 | 14,514 | 15,550 |
| | 31,036 | 42,671 | 180,618 | 187,254 |
| Total Current Liabilities | | | | |
| Net Current (Liabilities)/Assets | (1,005) | 3,550 | (5,849) | 15,578 |
| Net Assets | | | | |
| | 51,892 | 76,820 | 301,989 | 337,116 |
| Equity | | | | |
| Issued capital | 59,475 | 59,475 | 348,470 | 348,470 |
| Capital deficit | (1,027) | (1,066) | (6,090) | (6,323) |
| Revaluation reserve | 2,144 | 2,144 | 9,169 | 9,169 |
| Foreign currency translation reserve | 8,584 | 26,909 | 26,590 | 28,310 |
| Accumulated losses | (17,284) | (10,642) | (76,150) | (42,510) |
| | 51,892 | 76,820 | 301,989 | 337,116 |
| Total Equity | | | | |

NOTES TO THE FINANCIAL STATEMENTS

28. THE JOINT VENTURE *(Continued)*

(ii) Income Statements

| | 2003 <i>A\$'000</i> | 2002 <i>A\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|--|------------------------|------------------------|-------------------------|-------------------------|
| Revenue | 107,781 | 128,420 | 545,894 | 543,616 |
| Cost of sales | <u>(96,402)</u> | <u>(105,521)</u> | <u>(488,260)</u> | <u>(446,681)</u> |
| Gross profit | 11,379 | 22,899 | 57,634 | 96,935 |
| Other revenue | 86 | 294 | 433 | 1,243 |
| Administrative and other operating costs | (11,752) | (13,810) | (59,521) | (58,463) |
| Selling and distribution costs | <u>(3,961)</u> | <u>(6,510)</u> | <u>(20,061)</u> | <u>(27,556)</u> |
| (Loss)/Profit from continuing operations | (4,248) | 2,873 | (21,515) | 12,159 |
| Finance costs | <u>(1,622)</u> | <u>(2,042)</u> | <u>(8,215)</u> | <u>(8,642)</u> |
| (Loss)/Profit from continuing operations before tax | (5,870) | 831 | (29,730) | 3,517 |
| Tax expense | <u>(772)</u> | <u>(330)</u> | <u>(3,910)</u> | <u>(1,395)</u> |
| Net (loss)/profit from continuing operations | <u>(6,642)</u> | <u>501</u> | <u>(33,640)</u> | <u>2,122</u> |
| Accumulated losses at the beginning of the financial year (as reported previously) | (10,642) | (6,095) | (42,510) | (23,638) |
| Cumulative effect of the change in the accounting policy for warranty provision | <u>–</u> | <u>(2,901)</u> | <u>–</u> | <u>(11,572)</u> |
| Accumulated losses at the beginning of the financial year (as restated) | <u>(10,642)</u> | <u>(8,996)</u> | <u>(42,510)</u> | <u>(35,210)</u> |
| Dividends on ordinary shares | <u>–</u> | <u>(2,147)</u> | <u>–</u> | <u>(9,422)</u> |
| Accumulated losses at the end of the financial year | <u><u>(17,284)</u></u> | <u><u>(10,642)</u></u> | <u><u>(76,150)</u></u> | <u><u>(42,510)</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

28. THE JOINT VENTURE *(Continued)*

(iii) Statements Of Cash Flows

| | 2003 | 2002 |
|---|----------------|----------------|
| | <i>A\$'000</i> | <i>A\$'000</i> |
| Cash flows from operating activities | | |
| Receipts from customers | 107,762 | 135,007 |
| Payments to suppliers and employees | (102,989) | (123,960) |
| Interest received | 33 | 96 |
| Interest paid | (1,482) | (1,909) |
| Income tax received/(paid) | 220 | (508) |
| | <u>3,544</u> | <u>8,726</u> |
| Net cash flows from operating activities | | |
| Net cash flows used in investing activity | | |
| Acquisition of property, plant and equipment | (3,118) | (4,659) |
| Cash flows for financing activities | | |
| Subsidy from government bodies | 46 | - |
| Repayments of loans and borrowings | (928) | (3,228) |
| Repayment to the Company | - | (78) |
| Repayment to a Joint Venture equity holder | (7) | (57) |
| Dividends paid on ordinary shares | - | (4,452) |
| | <u>(889)</u> | <u>(7,815)</u> |
| Net cash flows used in financing activities | | |
| Net decrease in cash and cash equivalents | (463) | (3,748) |
| Cash and cash equivalents at the beginning of the financial year | 6,295 | 10,904 |
| Exchange rate adjustment | (1,513) | (861) |
| | <u>4,319</u> | <u>6,295</u> |
| Cash and cash equivalents at the end of the financial year | <u>4,319</u> | <u>6,295</u> |

NOTES TO THE FINANCIAL STATEMENTS

28. THE JOINT VENTURE *(Continued)*

(iv) Statements Of Cash Flows

| | 2003 | 2002 |
|---|----------------------|----------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Operating activities | | |
| Receipts from customers | 545,792 | 571,486 |
| Payments to suppliers and employees | <u>(521,619)</u> | <u>(524,721)</u> |
| Net cash generated from operations | 24,173 | 46,765 |
| Interest paid | (7,504) | (8,082) |
| Income tax refunded/(paid) | <u>1,114</u> | <u>(2,149)</u> |
| Net cash generated from operating activities | <u>17,783</u> | <u>36,534</u> |
| Investing activities | | |
| Acquisition of property, plant and equipment | (15,794) | (19,723) |
| Interest received | <u>166</u> | <u>407</u> |
| Net cash used in investing activities | <u>(15,628)</u> | <u>(19,316)</u> |
| Net cash inflow before financial activities | 2,155 | 17,218 |
| Financing activities | | |
| Subsidy from government bodies | 235 | – |
| Repayments of loans and borrowings | (4,701) | (13,664) |
| Repayment to the Company | – | (330) |
| Repayment to a Joint Venture equity holder | (38) | (243) |
| Dividends paid on ordinary shares | <u>–</u> | <u>(18,847)</u> |
| Net cash used in financing activities | <u>(4,504)</u> | <u>(33,084)</u> |
| Net decrease in cash and cash equivalents | (2,349) | (15,866) |
| Cash and cash equivalents at the beginning of the financial year | 27,627 | 43,486 |
| Exchange rate adjustment | <u>(142)</u> | <u>7</u> |
| Cash and cash equivalents at the end of the financial year | <u><u>25,136</u></u> | <u><u>27,627</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

28. THE JOINT VENTURE *(Continued)*

(v) Operating lease commitments

As at 31 December 2003, the total future minimum lease rentals under non-cancellable operating leases are payable to GRTF as follows:-

| | 2003 <i>A\$'000</i> | 2002 <i>A\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---|------------------------|------------------------|-------------------------|-------------------------|
| Within one year | 892 | 1,189 | 5,189 | 5,217 |
| After one year but not more than five years | 3,566 | 4,755 | 20,755 | 20,869 |
| More than five years | 11,661 | 16,737 | 67,860 | 73,449 |
| | 16,119 | 22,681 | 93,804 | 99,535 |

The operating leases are in respect of land and buildings and certain machinery. The lease terms are set out in Note 30 to the financial statements. None of these leases includes contingent rentals.

The Group's interest in the above operating leases is 70% (2002 – 70%).

29. FINANCIAL INSTRUMENTS

(i) Financial Risk Management Policies

The Group's financial risk management policies seek to ensure that adequate financial resources are available for the development of the Group's business whilst managing its foreign currency, interest rate, market, credit, liquidity and cash flow risks. The Group operates within defined guidelines that are approved by the Board and the policies in respect of the major areas of treasury activity are as follows:-

(a) Foreign Currency Risk

The Group is exposed to foreign currency risk on sales, purchases, borrowings and investments that are denominated in foreign currencies. The Group does not use any derivative financial instruments to manage its exposure to foreign currency risk as the directors are of the opinion that the net exposure is not significant.

At the balance sheet date, the extent of Australian and Hong Kong dollars equivalent of foreign currency monetary items not effectively hedged are set out in Note 33.

NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL INSTRUMENTS *(Continued)*

(i) Financial Risk Management Policies *(Continued)*

(b) Interest Rate Risk

The Group's exposure to interest rate risk arises mainly from cash deposits and interest-bearing loans and borrowings. The Group does not use any derivative financial instruments to manage its exposure to interest rate risk as the directors are of the opinion that the net exposure is not significant.

(c) Market Risk

The Group's exposure to market risk arises mainly from changes in quoted market bid prices. The Group does not use any derivative financial instruments to manage its exposure to market risk.

(d) Credit Risk

The Group's exposure to credit risk, or the risk of counterparties defaulting, arises mainly from cash deposits and receivables. The maximum exposure to credit risk is represented by the total carrying amounts of these financial assets in the balance sheet reduced by the effects of any netting arrangements with counterparties.

The Group does not have any major concentrations of credit risk related to any individual customer or counterparty.

The Group manages its exposure to credit risk by investing its cash assets safely and profitably, and by the application of credit approvals, credit limits and monitoring procedures on an on-going basis.

(e) Liquidity And Cash Flow Risks

Liquidity and cash flow risks arise mainly from general funding and business activities. The Group practises prudent risk management by maintaining sufficient cash and the availability of funding through certain committed credit facilities.

(ii) Net Fair Values

The financial assets and liabilities are carried at fair values in the balance sheet. The fair value of listed securities is determined by reference to market value whilst the investment in 8% convertible notes is stated at cost less allowance for impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

30. RELATED PARTY TRANSACTIONS

The following is a summary of the related party transactions:-

- (i) On 2 November 1994, pursuant to an asset investment and leasing agreement entered into between the Joint Venture, the Company and GRTF, the Joint Venture agreed to lease from GRTF the exclusive right to use certain machinery for the duration of the joint venture, being 30 years from 11 December 1993 at RMB2,000,000 per annum. During the financial year ended 31 December 2003, the Joint Venture paid lease rental of approximately A\$371,000 or HK\$1,881,000 (2002 – A\$445,000 or HK\$1,885,000) for the machinery.
- (ii) The terms of an agreement to license between the Joint Venture and GRTF dated 2 November 1994, which provided for the transfer to the Joint Venture of:-
 - (a) the right to use the trademark “Pearl River”; and
 - (b) any technology and know-how necessary for the production of bias tyres at the production levels contained in the Joint Venture Agreement for the term of the Joint Venture Agreement.

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

During the financial year ended 31 December 2003, the Joint Venture has paid royalties of approximately A\$89,000 or HK\$451,000 (2002 – A\$105,000 or HK\$442,000) equal to 0.2% of “Pearl River” tyre sales revenue to GRTF as defined in the Joint Venture Agreement.

- (iii) The Joint Venture has contributed to the administrative expenses of a hospital and staff canteen under the management of GRTF. The services of the hospital and staff canteen are provided for the welfare of the staff members of the Joint Venture, GRTF, Guangzhou Bolex Tyre Limited (“Bolex”) and a third party. The respective contribution made by the Joint Venture, GRTF, Bolex and the third party is proportional to the number of staff members employed by each of the above entities. During the financial year ended 31 December 2003, the Joint Venture has contributed approximately A\$286,000 or HK\$1,450,000 (2002 – A\$349,000 or HK\$1,475,000) as its share of the administrative expenses for the hospital and staff canteen.
- (iv) On 28 October 1999, the Joint Venture entered into a leasing agreement to lease a hostel from GRTF. The lease term is 20 years from 1 January 2000 and the annual rental is RMB28,800 for the first 5 years, thereafter, the annual rental will be revised based on the consumer price index at the time. During the financial year ended 31 December 2003, the Joint Venture paid lease rental of approximately A\$5,000 or HK\$27,000 (2002 – A\$6,000 or HK\$27,000) for the hostel.

NOTES TO THE FINANCIAL STATEMENTS

30. RELATED PARTY TRANSACTIONS *(Continued)*

- (v) On 30 October 2000, the Joint Venture entered into a real estate lease contract with GRTF to lease a piece of land with an area of 170,729 sq.m. and buildings erected thereon. The buildings leased from GRTF, with a total gross floor area of 42,547sq.m. are mainly used by the Joint Venture for its office, industrial production and operations purposes. The lease term is 20 years from 20 December 2000 at RMB3,508,668 per annum. The lease rental will be revised based on the land use fee and real estate tax at the time. During the financial year ended 31 December 2003, the Joint Venture paid lease rental of approximately A\$651,000 or HK\$3,299,000 (2002 – A\$781,000 or HK\$3,306,000) for the landed properties.
- (vi) Pursuant to an agreement entered into between the Joint Venture and Bolex in December 1996, the Joint Venture agreed to process certain raw materials for Bolex in return for a contribution by Bolex of an agreed percentage of the costs of the equipment used and the employees employed for such processing service. During the financial year ended 31 December 2003, the contribution received and receivable from Bolex for the processing of the raw materials amounted to approximately A\$890,000 or HK\$4,510,000 (2002 – A\$1,203,000 or HK\$5,093,000).
- (vii) Pursuant to an agreement entered into between the Joint Venture and Bolex in December 1996, the Joint Venture agreed to provide certain administrative and management services to Bolex in return for a contribution by Bolex of an agreed amount of the respective costs of the supporting divisions involved. During the financial year ended 31 December 2003, the Joint Venture charged Bolex management fee of approximately A\$53,000 or HK\$267,000 (2002 – A\$60,000 or HK\$252,000). The Joint Venture also received interest income of approximately A\$16,000 or HK\$83,000 (2002 – A\$29,000 or HK\$121,000) from Bolex for advances outstanding during the financial year.
- (viii) The 8% unsecured convertible notes are an investment held by PRTC in a proprietary limited company incorporated in Australia together with a company which is substantially and collectively owned and controlled by two directors of the Company, namely Ang Guan Seng and Goh Nan Kioh. The notes are convertible until 31 December 2004, at the option of PRTC, into 50% of the equity capital of the proprietary limited company failing which they will be redeemed at that date. Interest on the notes has not been accrued for the financial year ended 31 December 2003 (2002 – Nil).

The non-executive independent directors of the Company have reviewed the above-mentioned transactions and confirmed that these on-going related party transactions are in the ordinary and usual course of business, on normal commercial terms and are fair and reasonable so far as the shareholders of the Company are concerned.

NOTES TO THE FINANCIAL STATEMENTS

30. RELATED PARTY TRANSACTIONS *(Continued)*

In addition, in accordance with the waiver letters dated 24 July 2000 and 3 September 2003 in respect of the transactions mentioned in paragraphs (i) to (vii) from The Stock Exchange of Hong Kong Ltd, the non-executive independent directors of the Company also confirmed that:-

- (a) the aggregate value of the transactions mentioned in paragraphs (i) to (v) has not exceeded 3% of the Group's net tangible assets; and
- (b) the aggregate value of the transactions mentioned in paragraphs (vi) and (vii) has not exceeded either the higher of HK\$10 million or 3% of the Group's net tangible assets.

Horwath, the independent external auditors, has also reviewed the above-mentioned transactions. Accordingly, Horwath confirms that:-

- (a) these transactions have received the approval of the Directors of the Company;
- (b) these transactions have been entered into in accordance with the terms of the agreements governing the on-going related party transactions or, where there is no agreement or document, on terms no less favourable than terms available to or from, as appropriate, independent third parties;
- (c) these transactions are conducted in accordance with the pricing policies as stated in the above-mentioned paragraphs;
- (d) the transactions mentioned in paragraphs (i) to (v) have not exceeded 3% of the Group's net tangible assets; and
- (e) the transactions mentioned in paragraphs (vi) and (vii) have not exceeded either the higher of HK\$10 million or 3% of the Group's net tangible assets.

31. AUDITORS' REMUNERATION

| | THE GROUP/THE COMPANY | | | |
|---|------------------------------|-------------------|-------------------|-------------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Amounts received or due and receivable by the Company's auditors for: | | | | |
| – statutory audit | 37 | 65 | 215 | 275 |
| – mid-year review | 17 | 25 | 86 | 106 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

32. NET TANGIBLE ASSETS BACKING

| | THE GROUP | | | |
|--|------------------|----------------|-----------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net tangible assets per ordinary share as at 31 December | <u>A\$0.44</u> | <u>A\$0.63</u> | <u>HK\$2.60</u> | <u>HK\$2.80</u> |

NOTES TO THE FINANCIAL STATEMENTS

33. FOREIGN CURRENCY EXPOSURE

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

| | THE GROUP | | | |
|--|------------------|----------------|-----------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| <i>Current Assets</i> | | | | |
| Amounts receivable in foreign currencies which are not effectively hedged: | | | | |
| – United States Dollar | 95 | 3,666 | 554 | 16,088 |
| – Ringgit Malaysia | 338 | 221 | 1,964 | 971 |
| – Singapore Dollar | 1,170 | 570 | 6,811 | 2,502 |
| – Renminbi | <u>1,142</u> | <u>1,556</u> | <u>6,648</u> | <u>6,829</u> |

| | | | | |
|---|-----------|------------|------------|------------|
| <i>Current Liabilities</i> | | | | |
| Amounts payable in foreign currencies which are not effectively hedged: | | | | |
| – Ringgit Malaysia | <u>31</u> | <u>149</u> | <u>183</u> | <u>656</u> |

| | THE COMPANY | | | |
|--|--------------------|----------------|-----------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| <i>Current Assets</i> | | | | |
| Amounts receivable in foreign currencies which are not effectively hedged: | | | | |
| – United States Dollar | 13 | 16 | 76 | 70 |
| – Ringgit Malaysia | 126 | 52 | 732 | 229 |
| – Renminbi | <u>15</u> | <u>53</u> | <u>89</u> | <u>234</u> |

| | | | | |
|---|-----------|-----------|------------|------------|
| <i>Current Liabilities</i> | | | | |
| Amounts payable in foreign currencies which are not effectively hedged: | | | | |
| – Ringgit Malaysia | <u>31</u> | <u>86</u> | <u>182</u> | <u>379</u> |

NOTES TO THE FINANCIAL STATEMENTS

34. SEGMENTAL INFORMATION

The Group operates in the following 5 areas:-

- (i) the Joint Venture in the PRC relating to the manufacture and sales of bias tyres;
- (ii) an associate in Malaysia relating to the provision of subcontracting services for the manufacture of semiconductor components which are supplied to multinational companies engaged in the manufacture of semiconductor products;
- (iii) a debt investment in Australia;
- (iv) investment in securities listed on a prescribed stock exchange and cash deposits in Singapore; and
- (v) investment in securities listed on a prescribed stock exchange and cash deposits in Malaysia.

NOTES TO THE FINANCIAL STATEMENTS

34. SEGMENTAL INFORMATION *(Continued)*

The following tables present revenue and profit information regarding geographical segments for the financial years ended 31 December 2003 and 2002 and certain asset and liability information regarding geographical segments as at 31 December 2003 and 2002:–

| | The PRC A\$'000 | Australia A\$'000 | Singapore A\$'000 | Malaysia A\$'000 | Total A\$'000 |
|---|--------------------|----------------------|----------------------|---------------------|------------------|
| 2003 | | | | | |
| Revenues from external customers | – | – | 160 | 90 | 250 |
| Revenues from external customers | – | – | 160 | 90 | 250 |
| Other income | – | – | 19 | 343 | 362 |
| Salaries and employee benefits | (410) | – | – | – | (410) |
| Depreciation expense | – | – | (16) | (17) | (33) |
| Loss on foreign exchange | (376) | – | (4) | (755) | (1,135) |
| Other expenses | (618) | (665) | (1) | – | (1,284) |
| (Loss)/Profit from continuing operating activities | (1,404) | (665) | 158 | (339) | (2,250) |
| Share of net (loss)/profit of the Joint Venture and Associate | (4,598) | – | – | 1,053 | (3,545) |
| (Loss)/Profit from continuing operations before tax | (6,002) | (665) | 158 | 714 | (5,795) |
| Tax expense | – | – | – | – | – |
| Net (loss)/profit from continuing operations | (6,002) | (665) | 158 | 714 | (5,795) |
| Segment assets | 1,309 | – | 1,290 | 3,926 | 6,525 |
| Investments accounted for using the equity method | 36,324 | – | – | 4,063 | 40,387 |
| Total assets | 37,633 | – | 1,290 | 7,989 | 46,912 |
| Segment liabilities | 193 | – | – | – | 193 |

NOTES TO THE FINANCIAL STATEMENTS

34. SEGMENTAL INFORMATION *(Continued)*

| | The PRC A\$'000 | Australia A\$'000 | Singapore A\$'000 | Malaysia A\$'000 | Total A\$'000 |
|--|--------------------|----------------------|----------------------|---------------------|------------------|
| 2002 | | | | | |
| Revenues from external customers | - | - | 26 | 56 | 82 |
| Revenues from external customers | - | - | 26 | 56 | 82 |
| Salaries and employee benefits | (542) | - | - | - | (542) |
| Depreciation expense | - | - | (16) | (16) | (32) |
| Loss on foreign exchange | (184) | - | (179) | (141) | (504) |
| Other expenses | (831) | (665) | (224) | (425) | (2,145) |
| Loss from continuing operating activities | (1,557) | (665) | (393) | (526) | (3,141) |
| Share of net profit of the Joint Venture and Associate | 401 | - | - | 873 | 1,274 |
| (Loss)/Profit from continuing operations before tax | (1,156) | (665) | (393) | 347 | (1,867) |
| Tax expense | - | - | - | - | - |
| Net (loss)/profit from continuing operations | (1,156) | (665) | (393) | 347 | (1,867) |
| Segment assets | 1,556 | 665 | 1,342 | 4,640 | 8,203 |
| Investments accounted for using the equity method | 53,774 | - | - | 5,130 | 58,904 |
| Total assets | 55,330 | 665 | 1,342 | 9,770 | 67,107 |
| Segment liabilities | 299 | - | 31 | 31 | 361 |

NOTES TO THE FINANCIAL STATEMENTS

34. SEGMENTAL INFORMATION *(Continued)*

| | The PRC HK\$'000 | Australia HK\$'000 | Singapore HK\$'000 | Malaysia HK\$'000 | Total HK\$'000 |
|---|---------------------|-----------------------|-----------------------|----------------------|-------------------|
| 2003 | | | | | |
| Revenues from external customers | — | — | 808 | 456 | 1,264 |
| Revenues from external customers | — | — | 808 | 456 | 1,264 |
| Other income | — | — | 99 | 1,735 | 1,834 |
| Salaries and employee benefits | (2,078) | — | — | — | (2,078) |
| Depreciation expense | — | — | (83) | (83) | (166) |
| Loss on foreign exchange | (1,903) | — | (23) | (3,823) | (5,749) |
| Other expenses | (3,130) | (3,368) | (4) | — | (6,502) |
| (Loss)/Profit from continuing operating activities | (7,111) | (3,368) | 797 | (1,715) | (11,397) |
| Share of net (loss)/profit of the Joint Venture and Associate | (23,548) | — | — | 5,335 | (18,213) |
| (Loss)/Profit from continuing operations before tax | (30,659) | (3,368) | 797 | 3,620 | (29,610) |
| Tax expense | — | — | — | — | — |
| Net (loss)/profit from continuing operations | (30,659) | (3,368) | 797 | 3,620 | (29,610) |
| Segment assets | 7,613 | — | 7,509 | 22,847 | 37,969 |
| Investments accounted for using the equity method | 213,168 | — | — | 23,647 | 236,815 |
| Total assets | 220,781 | — | 7,509 | 46,494 | 274,784 |
| Segment liabilities | 1,124 | — | — | — | 1,124 |

NOTES TO THE FINANCIAL STATEMENTS

34. SEGMENTAL INFORMATION *(Continued)*

| | The PRC HK\$'000 | Australia HK\$'000 | Singapore HK\$'000 | Malaysia HK\$'000 | Total HK\$'000 |
|--|---------------------|-----------------------|-----------------------|----------------------|-------------------|
| 2002 | | | | | |
| Revenues from external customers | - | - | 108 | 237 | 345 |
| Revenues from external customers | - | - | 108 | 237 | 345 |
| Salaries and employee benefits | (2,295) | - | - | - | (2,295) |
| Depreciation expense | - | - | (69) | (70) | (139) |
| Loss on foreign exchange | (779) | - | (758) | (597) | (2,134) |
| Other expenses | (3,519) | (2,815) | (946) | (1,796) | (9,076) |
| Loss from continuing operating activities | (6,593) | (2,815) | (1,665) | (2,226) | (13,299) |
| Share of net profit of the Joint Venture and Associate | 1,485 | - | - | 3,695 | 5,180 |
| (Loss)/Profit from continuing operations before tax | (5,108) | (2,815) | (1,665) | 1,469 | (8,119) |
| Tax expense | - | - | - | - | - |
| Net (loss)/profit from continuing operations | (5,108) | (2,815) | (1,665) | 1,469 | (8,119) |
| Segment assets | 6,829 | 2,919 | 5,890 | 20,361 | 35,999 |
| Investments accounted for using the equity method | 237,644 | - | - | 22,514 | 260,158 |
| Total assets | 244,473 | 2,919 | 5,890 | 42,875 | 296,157 |
| Segment liabilities | 1,308 | - | 138 | 138 | 1,584 |

35. SUBSEQUENT EVENTS

No event has since 31 December 2003 arisen that would be likely to materially affect the operations of the Group, the results of the Group or the state of affairs of the Group which has not been disclosed or recognised in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

36. FOREIGN EXCHANGE RATES

| | 2003 | 2002 |
|---|---------------|---------------|
| Average rates during the financial year:- | | |
| - A\$1 equals RMB | 5.3866 | 4.4921 |
| - A\$1 equals HK\$ | 5.0648 | 4.2330 |
| - A\$1 equals RM | 2.4713 | 2.0611 |
| - HK\$1 equals RMB | 1.0637 | 1.0612 |
| - HK\$1 equals RM | 0.4879 | 0.4869 |
| Rates as at 31 December:- | | |
| - A\$1 equals RMB | 6.2107 | 4.6578 |
| - A\$1 equals HK\$ | 5.8196 | 4.3884 |
| - A\$1 equals RM | 2.8420 | 2.1384 |
| - HK\$1 equals RMB | 1.0674 | 1.0614 |
| - HK\$1 equals RM | <u>0.4883</u> | <u>0.4873</u> |

37. FIVE YEAR FINANCIAL SUMMARY

| | 2003 | 2002 | As Restated 2001 ⁽¹⁾ | As Restated 2000 ⁽¹⁾ | As Restated 1999 ⁽¹⁾ | As Previously Reported 1999 ⁽²⁾ |
|--|----------------|----------------|------------------------------------|------------------------------------|------------------------------------|--|
| | <i>A\$'000</i> | <i>A\$'000</i> | <i>A\$'000</i> | <i>A\$'000</i> | <i>A\$'000</i> | <i>A\$'000</i> |
| Revenues | <u>250</u> | <u>82</u> | <u>727</u> | <u>2,585</u> | <u>597</u> | <u>88,434</u> |
| (Loss)/Profit from continuing operations before tax and minority interests | (5,795) | (1,867) | 809 | (7,894) | (570) | (1,726) |
| Tax expense | - | - | - | - | - | 434 |
| Minority interests, net of tax | - | - | - | - | - | 196 |
| Net (loss)/profit from continuing operations | <u>(5,795)</u> | <u>(1,867)</u> | <u>809</u> | <u>(7,894)</u> | <u>(570)</u> | <u>(1,096)</u> |
| Non-current assets | 43,941 | 61,091 | 65,821 | 64,012 | 55,691 | 73,443 |
| Current assets | 2,971 | 6,016 | 8,706 | 4,519 | 11,050 | 68,283 |
| Current liabilities | (193) | (361) | (310) | (350) | (576) | (49,924) |
| Minority interests | - | - | - | - | - | (24,091) |
| Equity attributable to members of the Company | <u>46,719</u> | <u>66,746</u> | <u>74,217</u> | <u>68,181</u> | <u>66,165</u> | <u>67,711</u> |

NOTES TO THE FINANCIAL STATEMENTS

37. FIVE YEAR FINANCIAL SUMMARY (Continued)

| | 2003 | 2002 | As Restated 2001 ⁽¹⁾ | As Restated 2000 ⁽¹⁾ | As Restated 1999 ⁽¹⁾ | As Previously Reported 1999 ⁽²⁾ |
|--|-----------------|-----------------|------------------------------------|------------------------------------|------------------------------------|--|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Revenues | <u>1,264</u> | <u>345</u> | <u>3,032</u> | <u>11,914</u> | <u>2,905</u> | <u>430,231</u> |
| (Loss)/Profit from continuing operations before tax and minority interests | (29,610) | (8,119) | 3,161 | (36,620) | (3,006) | (8,631) |
| Tax expense | - | - | - | - | - | 2,114 |
| Minority interests, net of tax | - | - | - | - | - | 952 |
| Net (loss)/profit from continuing operations | <u>(29,610)</u> | <u>(8,119)</u> | <u>3,161</u> | <u>(36,620)</u> | <u>(3,006)</u> | <u>(5,565)</u> |
| Non-current assets | 257,496 | 269,753 | 268,625 | 280,681 | 280,993 | 369,753 |
| Current assets | 17,288 | 26,404 | 34,720 | 19,673 | 55,251 | 341,417 |
| Current liabilities | (1,124) | (1,584) | (1,234) | (1,520) | (2,879) | (249,617) |
| Minority interests | - | - | - | - | - | (120,458) |
| Equity attributable to members of the Company | <u>273,660</u> | <u>294,573</u> | <u>302,111</u> | <u>298,834</u> | <u>333,365</u> | <u>341,095</u> |

Notes:

1. The comparative figures for the financial years 1999, 2000 and 2001 have been restated to show the changes in accounting policies set out below:-
 - (a) the adoption of IAS represents a change in the accounting policies adopted, where in previous years, the financial statements of the Group and of the Company were prepared in accordance with all applicable Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act, 2001; and
 - (b) the Group changed its accounting policy with respect to the treatment of warranties for its tyre products. Previously, warranties were recognised in the financial statements of the Joint Venture when incurred. The change in the accounting policy is to be consistent with the treatment prescribed by IAS 37 – Provisions, Contingent Liabilities and Contingent Assets and Statement of Standard Accounting Practice 28 – Provisions, Contingent Liabilities and Contingent Assets, where warranty cost is accrued when the tyres are sold.
2. The results of the Joint Venture were previously consolidated with the Group's results using the acquisition method. The financial statements of the Joint Venture are now presented in the consolidated financial statements using the equity method.