

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
- manufacturing and trading of fuel

2. IMPACT OF REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

The following revised SSAP and Interpretation are effective for the first time for the current year’s financial statements and have had a significant impact thereon:

- SSAP 12 (Revised): “Income taxes”
- Interpretation 20: “Income taxes - Recovery of revalued non-depreciable assets”

This SSAP and Interpretation 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 this SSAP and Interpretation are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;

2. IMPACT OF REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”) (continued)

- a deferred tax liability has been recognised on the revaluation of the Group’s land and buildings;
- a deferred tax liability has been recognised relating to the fair value adjustments arising from the acquisition of associates; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 31 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 31 to the financial statements.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment properties in the deferred tax calculated under SSAP 12.

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 2003. 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, where by 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 21 months to 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)

Prior to the adoption of SSAP 30 “Business combinations” in 2001, 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 the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries or 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 rate is higher
Leasehold improvements	10% - 33% or over the lease terms, whichever rate is higher
Plant and machinery	9% - 25%
Furniture, fixtures and equipment	10% - 33%
Motor vehicles	18% - 25%

The transitional provisions set out in paragraph 80 of SSAP 17 "Property, plant and equipment" have been adopted for fixed assets stated at valuation. As a result, those assets stated at revalued amounts based on revaluations which were reflected in the financial statements for periods ended before 30 September 1995 have not been further revalued after that date.

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. On disposal or retirement, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

Construction in progress 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 of 21 months to 20 years.

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.

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***Income tax*** (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*Employee benefits* (continued)*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 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*Employee benefits (continued)**Pension schemes and other retirement benefits (continued)*

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.

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.

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

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, 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 the 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) the investment in residential and commercial premises for their rental income potential;
 - (ii) the development and sale of properties;
- (d) the fuel segment engages in the manufacturing and trading of fuel; and
- (e) the "others" segment comprises, principally, the trading of steel products, the sale of crushed stone and the trading of marketable securities.

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

Intersegment sales and transfers are transacted at mutually agreed terms.

NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2003

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		Fuel		Others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	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 revenue:														
Sales to external customers	354,224	333,873	15,330	44,903	2,667	2,393	86,328	15,202	30,255	12,888	—	—	488,804	409,259
Intersegment sales	128	11,303	—	—	9,372	9,231	153	—	—	—	(9,653)	(20,534)	—	—
Other revenue and gains	6,748	8,486	3,949	1,020	159	704	656	13	3,971	1,966	—	—	15,483	12,189
Total	361,100	353,662	19,279	45,923	12,198	12,328	87,137	15,215	34,226	14,854	(9,653)	(20,534)	504,287	421,448
Segment results	33,823	45,832	(65,366)	(19,259)	(11,886)	(37,272)	(1,836)	(11,640)	(2,702)	(6,602)	5,129	4,827	(42,838)	(24,114)
Interest income													498	864
Unallocated expenses													(115,868)	(156,441)
Loss from operating activities													(158,208)	(179,691)
Finance costs													(8,917)	(7,846)
Share of profits and losses of:														
A jointly-controlled entity													(223)	(313)
Associates	—	—	—	(10,931)	—	—	—	—	—	—	—	—	—	(10,931)
Unallocated associates													(22,402)	(639)
Loss before tax													(189,750)	(199,420)
Tax													(3,775)	(7,585)
Loss before minority interests													(193,525)	(207,005)
Minority interests													20,196	4,794
Net loss from ordinary activities attributable to shareholders													(173,329)	(202,211)

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Paint products		Marble and granite		Property investment		Fuel		Others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	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	224,935	209,635	72,758	134,899	490,105	502,112	11,835	22,508	33,912	19,773	(474)	(1,237)	833,071	887,690
Intangible assets	—	—	—	3,127	—	—	—	—	1,327	—	—	—	1,327	3,127
Interests in associates	—	—	—	—	38,357	41,784	—	—	—	—	—	—	38,357	41,784
Unallocated assets:														
Interest in a jointly-controlled entity													—	810
Interests in associates													33,119	62,455
Long term investments													167,940	167,940
Deposits for an investment													—	13,190
Intangible assets													—	9,084
Others													71,192	54,382
Bank overdrafts included in segment assets	—	—	4,997	7,330	—	—	—	—	—	—	—	—	4,997	7,330
Total assets													1,150,003	1,247,792
Segment liabilities	74,818	63,223	21,855	38,312	16,662	8,944	11,187	933	21,269	12,590	(474)	(1,237)	145,317	122,765
Unallocated liabilities													184,269	160,409
Bank overdrafts included in segment assets	—	—	4,997	7,330	—	—	—	—	—	—	—	—	4,997	7,330
Total liabilities													334,583	290,504

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Paint products		Marble and granite		Property investment		Fuel		Others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	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	—	—	—	—	1,230	—	—	—	1,395	165
Unallocated amounts													—	2,289
													1,395	2,454
Depreciation	11,186	13,713	5,991	3,181	3,754	3,713	19	—	575	165	—	—	21,525	20,772
Unallocated amounts													226	201
													21,751	20,973
Capital expenditure	9,458	5,934	3,734	5,485	11,940	3	190	8	182	110	—	—	25,504	11,540
Unallocated amounts													171	208
													25,675	11,748
Impairment of investment properties	—	—	—	—	10,571	—	—	—	—	—	—	—	10,571	—
Deficit/(surplus) on revaluation of investment properties	—	—	—	—	(1,944)	16,953	—	—	—	—	—	—	(1,944)	16,953
Impairment of a property under development	—	—	—	—	—	8,000	—	—	—	—	—	—	—	8,000
Unrealised loss on revaluation of short term investments	—	—	—	—	—	—	—	—	7	3,246	—	—	7	3,246
Impairment of long term investments	—	—	—	—	—	—	—	—	—	—	—	—	—	2,794
Impairment of goodwill remaining eliminated against capital reserve	—	—	31,740	30,000	—	—	—	—	—	—	—	—	31,740	30,000
Unallocated amounts													24,133	60,221
													55,873	90,221
Provision for an amount due from associate	—	—	—	—	2,639	—	—	—	—	—	—	—	2,639	—
Unallocated amounts													1,324	—
													3,963	—
Impairment of interest in an associate	—	—	—	—	—	—	—	—	—	—	—	—	—	20,080
Impairment of fixed assets	—	—	5,733	—	—	—	—	—	—	—	—	—	5,733	—
Impairment of an intangible asset	—	—	2,962	—	—	—	—	—	—	—	—	—	2,962	—
Unallocated amounts													8,075	3,200
													11,037	3,200
Provision for deposit for purchase of a property	—	—	—	—	—	13,000	—	—	—	—	—	—	—	13,000
Provision for inventories	269	551	15,262	150	—	—	—	—	—	—	—	—	15,531	701
Provision for prepayments, deposits and other receivables	—	—	10,582	—	—	—	—	—	—	—	—	—	10,582	—
Unallocated amounts													9,259	—
													19,841	—
Provision for bad and doubtful debts	1,254	5,414	10,486	4,903	—	—	—	—	—	—	—	—	11,740	10,317

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

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		Japan		Others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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)		(Restated)								(Restated)	
Segment revenue:												
Sales to external customers	140,312	204,278	262,148	204,097	86,328	585	16	299	—	—	488,804	409,259
Other segment information:												
Segment assets	456,618	545,788	659,566	669,944	11,202	6,923	17,620	17,807	—	—	1,145,006	1,240,462
Bank overdrafts included in segment assets	4,997	7,330	—	—	—	—	—	—	—	—	4,997	7,330
											1,150,003	1,247,792
Capital expenditure	5,234	1,109	20,251	10,630	190	—	—	9	—	—	25,675	11,748

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

5. TURNOVER, REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; and gross rental income. All significant intra-group transactions have been eliminated on consolidation.

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

	2003	2002
	HK\$'000	HK\$'000
Turnover		
Sale of paint products	354,224	333,873
Sale of fuel	86,328	15,202
Sale of marble and granite	15,330	44,903
Sale of other goods	30,255	12,888
Gross rental income from investment properties	2,667	2,393
	<u>488,804</u>	<u>409,259</u>
Other revenue		
Interest income	498	864
Dividend income from a listed investment	—	19
Others	14,853	11,821
	<u>15,351</u>	<u>12,704</u>
Gains		
Gain on disposal of fixed assets	65	349
Gain on disposal of an associate	565	—
	<u>630</u>	<u>349</u>
	<u>15,981</u>	<u>13,053</u>

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

6. LOSS FROM OPERATING ACTIVITIES

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

	Notes	2003 HK\$'000	2002 K\$'000
Cost of inventories sold*		337,481	251,916
Depreciation	13	21,751	20,973
Minimum lease payments under operating leases in respect of land and buildings		18,847	18,017
Auditors' remuneration		2,000	2,651
Staff costs (including directors' remuneration - note 8):			
Wages and salaries		78,121	74,448
Pension scheme contributions (defined contribution schemes)		1,564	1,733
Less: Forfeited contributions		(31)	(254)
Net pension contributions*		1,533	1,479
Pension scheme costs (defined benefit scheme)		372	338
		1,905	1,817
		80,026	76,265
Included in "Other operating expenses, net":			
Amortisation of intangible assets	22	1,395	2,454
Amortisation of goodwill	16	1,408	120
Loss on disposal of fixed assets		2,080	333
Impairment of investment properties	14	10,571	—
Deficit/(surplus) on revaluation of investment properties	14	(1,944)	16,953
Impairment of a property under development		—	8,000
Impairment of long term investments		—	2,794
Unrealised loss on revaluation of short term investments		7	3,246
Impairment of goodwill remaining eliminated against capital reserve	16	55,873	90,221
Provision for amounts due from associates		3,963	—
Impairment of interest in an associate		—	20,080
Impairment of fixed assets	13	5,733	—
Impairment of intangible assets	22	11,037	3,200

NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2003

6. LOSS FROM OPERATING ACTIVITIES (continued)

	2003	2002
	HK\$'000	HK\$'000
Provision for an amount due from a jointly-controlled entity	18 1,209	—
Provision for deposit for purchase of a property	—	13,000
Provision for bad and doubtful debts	11,740	10,317
Provision for prepayments, deposits and other receivables	19,841	—
Foreign exchange losses, net	—	1,726
and after crediting:		
Gross rental income from investment properties	2,667	2,393
Less: Outgoings	(14)	(13)
Net rental income from investment properties	<u>2,653</u>	<u>2,380</u>
Foreign exchange gains, net	<u>550</u>	<u>—</u>

* The provision for inventories included in cost of inventories sold amounted to HK\$15,531,000 (2002: HK\$701,000).

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

7. FINANCE COSTS

	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	8,850	7,778
Interest on finance leases	67	68
	<u>8,917</u>	<u>7,846</u>

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

8. DIRECTORS' REMUNERATION

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees:		
Executive	2,650	2,650
Non-executive	200	350
	<u>2,850</u>	<u>3,000</u>
Other emoluments:		
Salaries, allowances and benefits in kind	16,027	16,505
Pension scheme contributions	572	509
	<u>16,599</u>	<u>17,014</u>
	<u>19,449</u>	<u>20,014</u>

The independent non-executive directors of the Company were entitled to a total sum of HK\$150,000 (2002: HK\$300,000) as directors' fees for the year ended 31 December 2003. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

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

	Number of directors	
	2003	2002
Nil - HK\$1,000,000	5	5
HK\$2,000,001 - HK\$2,500,000	3	1
HK\$2,500,001 - HK\$3,000,000	—	2
HK\$10,500,001 - HK\$11,000,000	—	1
HK\$11,000,001 - HK\$11,500,000	1	—
	<u>9</u>	<u>9</u>

8. DIRECTORS' REMUNERATION (continued)

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

During the year, no share options were granted to the directors in respect of their services to the Group (2002: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2002: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2002: one) non-director, highest paid employee for the year are as follows:

	2003	2002
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	1,055	1,030
Pension scheme contributions	66	61
	1,121	1,091

During the year, no share options were granted to the non-director, highest paid employee in respect of his services to the Group (2002: Nil).

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. 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.

	2003 HK\$'000	2002 HK\$'000 (Restated)
Group:		
Current - Hong Kong		
Overprovision in prior year	—	(153)
Current - Elsewhere		
Charge for the year	5,614	7,149
Underprovision in prior year	—	389
Deferred (note 31)	505	82
	<u>6,119</u>	<u>7,467</u>
Share of tax attributable to associates:		
Hong Kong	(536)	(525)
Elsewhere	(1,808)	643
	<u>(2,344)</u>	<u>118</u>
Total tax charge for the year	<u>3,775</u>	<u>7,585</u>

10. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries, jointly-controlled entities and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Group			
	2003		2002	
	HK\$'000	%	HK\$'000	%
Loss before tax	(189,750)		(199,420)	
Tax at the statutory tax rate	(33,206)	17.5	(31,907)	16.0
Effect on opening deferred tax of increase in rate	82	(0.0)	—	—
Lower tax rate for specific provinces in the People's Republic of China (the "PRC")	(699)	0.4	(299)	0.1
Adjustments in respect of current tax of previous periods	—	—	236	(0.1)
Depreciation adjustments	160	(0.1)	76	(0.0)
Income not subject to tax	(186)	0.1	(194)	0.1
Expenses not deductible for tax	20,591	(10.9)	27,100	(13.6)
Tax losses utilised from previous periods	(1,028)	0.5	(456)	0.2
Tax losses not recognised	18,061	(9.5)	13,029	(6.5)
Tax charge at the Group's effective rate	3,775	(2.0)	7,585	(3.8)

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK\$19,953,000 (2002: HK\$70,015,000).

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$173,329,000 (2002: HK\$202,211,000, as restated) and the weighted average of 1,517,406,000 (2002: 1,526,462,000) ordinary shares in issue during the year.

No diluted loss per share amount is presented for the years ended 31 December 2003 and 2002, as the potential ordinary shares outstanding during the years had no dilutive effect on the basic loss per share for the years.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

13. FIXED ASSETS

Group

	Freehold land and buildings HK\$'000	Leasehold land and buildings HK\$'000	Construc- tion in progress HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:								
At beginning of year	17,731	280,555	11,582	3,413	141,591	20,192	23,579	498,643
Additions	—	19	1,840	3,185	3,788	1,691	3,214	13,737
Acquisition of a subsidiary								
(note 35(b))	—	648	—	103	14,540	201	601	16,093
Disposals	—	(883)	—	(45)	(2,186)	(2,102)	(2,902)	(8,118)
Transfers	—	11,951	(12,380)	—	429	—	—	—
Exchange realignment	—	—	—	—	—	2	14	16
At 31 December 2003	<u>17,731</u>	<u>292,290</u>	<u>1,042</u>	<u>6,656</u>	<u>158,162</u>	<u>19,984</u>	<u>24,506</u>	<u>520,371</u>
Accumulated depreciation and impairment:								
At beginning of year	499	51,455	—	2,107	89,679	15,348	18,847	177,935
Provided during the year	107	7,610	—	1,909	9,160	1,084	1,881	21,751
Impairment during the year								
recognised in the profit and loss account	—	—	—	—	5,733	—	—	5,733
Impairment during the year recognised in the leasehold land and building revaluation reserve (note 34)								
	—	2,581	—	—	—	—	—	2,581
Disposals	—	(383)	—	(45)	(778)	(1,793)	(2,794)	(5,793)
Exchange realignment	—	—	—	—	—	1	1	2
At 31 December 2003	<u>606</u>	<u>61,263</u>	<u>—</u>	<u>3,971</u>	<u>103,794</u>	<u>14,640</u>	<u>17,935</u>	<u>202,209</u>
Net book value:								
At 31 December 2003	<u><u>17,125</u></u>	<u><u>231,027</u></u>	<u><u>1,042</u></u>	<u><u>2,685</u></u>	<u><u>54,368</u></u>	<u><u>5,344</u></u>	<u><u>6,571</u></u>	<u><u>318,162</u></u>
At 31 December 2002	<u><u>17,232</u></u>	<u><u>229,100</u></u>	<u><u>11,582</u></u>	<u><u>1,306</u></u>	<u><u>51,912</u></u>	<u><u>4,844</u></u>	<u><u>4,732</u></u>	<u><u>320,708</u></u>

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

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	66,147
	<u>310,021</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	3,087	2,805	7,753
Additions	—	58	—	58
Disposals	—	—	(441)	(441)
At 31 December 2003	<u>1,861</u>	<u>3,145</u>	<u>2,364</u>	<u>7,370</u>
Accumulated depreciation:				
At beginning of year	1,861	2,743	2,625	7,229
Provided during the year	—	119	60	179
Disposals	—	—	(441)	(441)
At 31 December 2003	<u>1,861</u>	<u>2,862</u>	<u>2,244</u>	<u>6,967</u>
Net book value:				
At 31 December 2003	<u>—</u>	<u>283</u>	<u>120</u>	<u>403</u>
At 31 December 2002	<u>—</u>	<u>344</u>	<u>180</u>	<u>524</u>

13. FIXED ASSETS (continued)

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 2003 amounted to HK\$1,788,000 (2002: HK\$1,132,000).

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 (now Vigers Appraisal & Consulting 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.

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts at 31 December 2003 would have been HK\$162,966,000 (2002: HK\$169,439,000).

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

	Hong Kong	Elsewhere	Total
	HK\$'000	HK\$'000	HK\$'000
Freehold	—	17,731	17,731
Long term leases	84,141	—	84,141
Medium term leases	105,283	102,866	208,149
	189,424	120,597	310,021
	189,424	120,597	310,021

At 31 December 2003, certain of the above fixed assets with a net book value of approximately HK\$236,845,000 (2002: HK\$222,332,000) were pledged to secure general banking facilities granted to the Group (note 29).

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

14. INVESTMENT PROPERTIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Valuation:		
At beginning of year	136,436	157,830
Transfer to fixed assets	—	(4,441)
Surplus/(deficit) on revaluation	1,944	(16,953)
Impairment	(10,571)	—
	<u>127,809</u>	<u>136,436</u>

Analysis by geographical location and lease terms:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Long term leasehold land and buildings situated in Hong Kong	11,590	11,696
Medium term leasehold land and buildings situated in:		
Hong Kong	63,700	72,900
Elsewhere	52,519	51,840
	<u>116,219</u>	<u>124,740</u>
	<u>127,809</u>	<u>136,436</u>

The Group's investment properties were revalued on 31 December 2003 by Vigers Appraisal & Consulting Limited or Norton Appraisals Limited, independent professionally qualified valuers, with the exception of those investment properties that the Group disposed of subsequent to 31 December 2003. The properties were either revalued at open market value, based on their existing use, or on the basis of capitalisation of net rental income. Investment properties that the Group disposed of subsequent to 31 December 2003 were stated at their recoverable amounts, being their subsequent selling prices as, in the opinion of the directors, these approximated the open market values as at the balance sheet date.

Certain investment properties are leased to third parties under operating leases, further summary details of which are included in note 37(a) to the financial statements.

At 31 December 2003, certain of the Group's investment properties with a value of HK\$76,949,000 (2002: HK\$87,576,000), were pledged to secure general banking facilities granted to the Group (note 29).

15. PROPERTIES UNDER DEVELOPMENT

	Group	
	2003	2002
	HK\$'000	HK\$'000
At beginning of year	98,003	162,003
Additions	11,938	—
Withdrawal of a minority shareholder of a subsidiary*	—	(56,000)
Impairment provided during the year	—	(8,000)
	<u>109,941</u>	<u>98,003</u>

* During the prior 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(a)(iii)).

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Long term leasehold land and buildings situated in Hong Kong	14,003	14,003
Medium term leasehold land and buildings situated in Mainland China	95,938	84,000
	<u>109,941</u>	<u>98,003</u>

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

16. GOODWILL

The amount of goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition or deemed acquisition of subsidiaries, is as follows:

Group

	HK\$'000
Cost:	
At beginning of year	2,418
Acquisition of a subsidiary (note 35 (b))	8,163
	<hr/>
At 31 December 2003	10,581
	<hr/>
Accumulated amortisation:	
At beginning of year	120
Amortisation provided during the year	1,408
	<hr/>
At 31 December 2003	1,528
	<hr/>
Net book value:	
At 31 December 2003	9,053
	<hr/> <hr/>
At 31 December 2002	2,298
	<hr/> <hr/>

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, 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\$55,873,000 (2002: 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 a subsidiary/certain associates during the year.

16. GOODWILL (continued)

The amounts of the goodwill remaining in consolidated reserves as at 31 December 2003, arising from the acquisition of subsidiaries and associates prior to the adoption of SSAP 30 in 2001, are as follows:

	Capital reserve	General reserve
	HK\$'000	HK\$'000
Cost:		
At beginning of year and at 31 December 2003	221,258	340
Accumulated impairment:		
At beginning of year	90,221	—
Impairment provided during the year	55,873	—
At 31 December 2003	146,094	—
Net amount:		
At 31 December 2003	75,164	340
At 31 December 2002	131,037	340

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

17. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	224,095	224,095
Due from subsidiaries	1,684,648	1,703,449
Due to subsidiaries	(3,576)	(2,951)
	<u>1,905,167</u>	<u>1,924,593</u>
Provision for impairment	(887,440)	(886,540)
	<u>1,017,727</u>	<u>1,038,053</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\$353,733,000 (2002: HK\$340,812,000) which bear interest at 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	
Asia Environmental Energy Limited	Hong Kong	HK\$2	—	100	Fuel manufacturing and trading
Asia Environmental Energy Japan Company Limited*	Japan	YEN10,000,000	—	100	Fuel trading
Beforward Investments Limited	British Virgin Islands	US\$1	—	100	Investment holding
C & F Container Limited	Hong Kong	HK\$2	—	100	Property development

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
China Falcon Investments Limited	Hong Kong	HK\$2	—	100	Investment holding
China Hong Kong Quarries Limited	Hong Kong	HK\$1,000	—	100	Investment holding
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
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

NOTES TO FINANCIAL STATEMENTS (continued)

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17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
CNT 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
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/ Mainland China	US\$100	—	70	Development of website contents and facilities
Elegant Stone International Ltd.	British Virgin Islands	US\$360	—	76.1	Investment holding

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Fan Ball Development Limited	Hong Kong	HK\$10,000	—	100	Property investment
Full Pool Limited	Hong Kong	HK\$2	—	100	Property investment
Gold Tower Assets Limited	British Virgin Islands	US\$1	—	100	Investment holding
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

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Poly Victory (Hong Kong) Limited	Hong Kong	HK\$2	—	100	Property investment
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
Sammas Trading Corporation	British Virgin Islands	US\$492,000	—	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	Processing and sale of marble and of granite

* 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.

18. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net liabilities	(822)	(599)
Due from the jointly-controlled entity	2,031	1,409
	<hr/>	<hr/>
	1,209	810
Provision for amount due from the jointly-controlled entity	(1,209)	—
	<hr/>	<hr/>
	—	810
	<hr/> <hr/>	<hr/> <hr/>

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 services

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

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

19. INTERESTS IN ASSOCIATES

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		
Unlisted shares, at cost	—	—	20,820	20,820
Share of net liabilities	(14,369)	(25,324)	—	—
Goodwill on acquisition	24,360	24,719	—	—
	9,991	(605)	20,820	20,820
Due from associates	102,964	140,011	6,780	6,780
	112,955	139,406	27,600	27,600
Provision for impairment	(22,429)	(20,080)	(20,820)	(20,820)
Provision for amounts due from associates	(19,050)	(15,087)	(6,780)	(6,780)
	71,476	104,239	—	—

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
		2003	2002	
Arran Investment Company, Limited	Hong Kong	50	50	Property investment
Hugewell Holdings Ltd.	British Virgin Islands	35	35	Investment holding
Liaoyang Beiyang Realestate Development Company Limited	Mainland China	50	50	Property development

19. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates (continued):

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group #		Principal activities
		2003	2002	
Shenzhen Norinco-CP Company Limited	Mainland China	21	35	Manufacture and sale of containers
Treasure Auctioneer International Limited	British Virgin Islands	45	45	Investment holding
Worldwide Education Limited	British Virgin Islands	20	20	Investment holding

None of the associates of the Group were audited by Ernst & Young Hong Kong or other Ernst & Young International member firms for the year ended 31 December 2003.

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.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

20. INVESTMENTS

	Group		Company	
	2003	2002	2003	2002
	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: Provision for impairment	(81,436)	(81,436)	(52,501)	(52,501)
	<u>167,940</u>	<u>167,940</u>	<u>—</u>	<u>—</u>
Short term investments:				
Equity investments listed in				
Hong Kong, at market value	<u>3,450</u>	<u>3,457</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. As the Regrant of the land was not completed before 12 May 2002, the Group has the right to demand repayment of the entire deposit. During the year, an extension of the planning permission validity period to 18 October 2004 was granted by the Town Planning Board. However, the Regrant had not been completed as at 31 December 2003. The Group has not demanded the repayment of the deposit with a view to holding the land for its own development or other purposes, 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 prior year.

22. INTANGIBLE ASSETS

Group

	Website	Mining rights	Total
	HK\$'000	HK\$'000	HK\$'000
Cost:			
At beginning of year	10,093	9,692	19,785
Acquisition of a subsidiary (note 35(b))	—	1,548	1,548
	10,093	11,240	21,333
At 31 December 2003	10,093	11,240	21,333
Accumulated amortisation and impairment:			
At beginning of year	1,009	6,565	7,574
Amortisation provided during the year	1,009	386	1,395
Impairment during the year	8,075	2,962	11,037
	10,093	9,913	20,006
At 31 December 2003	10,093	9,913	20,006
Net book value:			
At 31 December 2003	—	1,327	1,327
At 31 December 2002	9,084	3,127	12,211

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

23. MORTGAGE LOANS RECEIVABLE

	Group	
	2003	2002
	HK\$'000	HK\$'000
Mortgage loans receivable, secured	1,804	1,894
Portion classified as current assets	(96)	(89)
	<u>1,708</u>	<u>1,805</u>
Long term portion	<u>1,708</u>	<u>1,805</u>
Mortgage loans receivable repayable:		
Within one year	96	89
In the second year	103	96
In the third to fifth years, inclusive	354	331
Beyond five years	1,251	1,378
	<u>1,804</u>	<u>1,894</u>

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

24. PENSION SCHEME ASSET

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

	2003	2002
	HK\$'000	HK\$'000
At beginning of year	310	637
Net pension scheme cost recognised in the consolidated profit and loss account (note (c))	(372)	(338)
Contributions paid to the pension scheme	510	11
	<u>448</u>	<u>310</u>
At 31 December	<u>448</u>	<u>310</u>

24. PENSION SCHEME ASSET (continued)

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

	2003	2002
	HK\$'000	HK\$'000
Present value of defined benefit obligation	(6,913)	(6,884)
Fair value of scheme assets	7,963	6,301
	1,050	(583)
Net cumulative actuarial losses/(gains) remaining in the balance sheet	(602)	893
Net asset recognised	448	310

(c) 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:

	2003	2002
	HK\$'000	HK\$'000
Current service cost	423	425
Interest cost on defined benefit obligation	364	426
Expected return on pension scheme assets	(429)	(513)
Net cumulative actuarial loss recognised in the profit and loss account	14	—
	372	338
Actual return/(negative return) on scheme assets	1,691	(662)

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.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

24. PENSION SCHEME ASSET (continued)

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

	2003	2002
Discount rate	5.5%	6.5%
Expected rate of return on pension scheme assets	7.0%	7.5%
Future salary increases	4.5%	5.5%

- (e) 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 2003 was performed by Mr. Wilfred Lau, 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 2003, the level of funding of the pension scheme was 89%, as calculated under the projected unit credit actuarial valuation method.

25. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials and spare parts	48,087	65,301
Work in progress	4,284	4,946
Finished goods	26,036	30,676
	<u>78,407</u>	<u>100,923</u>

The carrying amount of inventories has been stated at after charging a general provision of HK\$21,040,000 (2002: HK\$6,009,000) as at the balance sheet date.

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 reviewed regularly by senior management.

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within three months	60,852	68,086
Four to six months	3,950	7,465
Over six months	23,081	26,789
	<u>87,883</u>	<u>102,340</u>
Less: Provision for doubtful debts	(16,889)	(13,679)
	<u><u>70,994</u></u>	<u><u>88,661</u></u>

27. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	48,152	42,757	822	2,290
Time deposits	20,738	6,028	—	—
	<u>68,890</u>	<u>48,785</u>	<u>822</u>	<u>2,290</u>
Less: Pledged time deposits*	(5,200)	(5,950)	—	—
Cash and cash equivalents	<u><u>63,690</u></u>	<u><u>42,835</u></u>	<u><u>822</u></u>	<u><u>2,290</u></u>

* The time deposits are pledged to secure the general banking facilities granted to a subsidiary of the Company.

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$35,995,000 (2002: HK\$30,372,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

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:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within three months	46,894	37,916
Four to six months	4,893	1,348
Over six months	15,736	12,116
	<u>67,523</u>	<u>51,380</u>

29. BANK AND OTHER BORROWINGS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Bank loans and overdrafts:		
Secured*	147,918	150,761
Unsecured	27,234	5,371
	<u>175,152</u>	<u>156,132</u>
Bank loans and overdrafts repayable:		
Within one year or on demand	101,613	75,822
In the second year	7,003	6,745
In the third to fifth years, inclusive	23,303	21,945
Beyond five years	43,233	51,620
	<u>175,152</u>	<u>156,132</u>
Portion classified as current liabilities	<u>(101,613)</u>	<u>(75,822)</u>
Long term portion	<u>73,539</u>	<u>80,310</u>

* Includes import loans of HK\$17,363,000 (2002: HK\$18,472,000) and bank overdrafts of HK\$4,997,000 (2002: HK\$7,330,000) at 31 December 2003.

29. BANK AND OTHER BORROWINGS (continued)

The Group's bank loans and overdrafts are secured by:

- (a) 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\$223,547,000 (2002: HK\$222,332,000).
- (b) The pledge of certain of the Group's plant and machinery which had an aggregate net look value at the balance sheet date of approximately HK\$13,298,000 (2002: Nil).
- (c) Mortgages over certain of the Group's investment properties which had an aggregate carrying value at the balance sheet date of approximately HK\$76,949,000 (2002: HK\$87,576,000).
- (d) The pledge of certain of the Group's time deposits amounting to HK\$5,200,000 (2002: HK\$5,950,000).

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	Minimum	Present value	Present value
	lease payments	lease payments	of minimum	of minimum
	2003	2002	lease payments	lease payments
	HK\$'000	HK\$'000	2003	2002
			HK\$'000	HK\$'000
Amounts payable:				
Within one year	465	478	400	456
In the second year	451	25	403	22
In the third to fifth years, inclusive	1,026	24	979	21
	<hr/>	<hr/>	<hr/>	<hr/>
Total minimum finance lease payments	1,942	527	1,782	499
			<hr/> <hr/>	<hr/> <hr/>
Future finance charges	(160)	(28)		
	<hr/>	<hr/>		
Total net finance lease payables	1,782	499		
Portion classified as current liabilities	(400)	(456)		
	<hr/>	<hr/>		
Long term portion	1,382	43		
	<hr/> <hr/>	<hr/> <hr/>		

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

30. FINANCE LEASE PAYABLES (continued)

Company	Minimum		Present value	
	lease payments	lease payments	of minimum	of minimum
	2003	2002	lease payments	lease payments
	HK\$'000	HK\$'000	2003	2002
		HK\$'000	HK\$'000	
Amounts payable:				
Within one year	25	126	21	116
In the second year	11	25	9	22
In the third to fifth years, inclusive	13	24	13	21
Total minimum finance lease payments	49	175	43	159
Future finance charges	(6)	(16)		
Total net finance lease payables	43	159		
Portion classified as current liabilities	(21)	(116)		
Long term portion	22	43		

31. DEFERRED TAX

The movement in deferred tax liabilities and assets during the year is as follows:

Deferred tax liabilities

Group

	Accelerated tax		Revaluation of		Total	
	depreciation		properties			
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year:						
As previously reported	700	700	—	—	700	700
Prior year adjustment:						
SSAP 12 - restatement of						
deferred tax	—	—	6,017	5,823	6,017	5,823
As restated	700	700	6,017	5,823	6,717	6,523

31. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

Group

	Accelerated tax		Revaluation of		Total	
	depreciation		properties			
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year, as restated	700	700	6,017	5,823	6,717	6,523
Deferred tax charged to the profit and loss account during the year	51	—	—	—	51	—
Deferred tax charged to equity during the year, including a charge of HK\$82,000 (2002: Nil) due to the effect of a change in tax rates	—	—	713	194	713	194
At end of year	<u>751</u>	<u>700</u>	<u>6,730</u>	<u>6,017</u>	<u>7,481</u>	<u>6,717</u>

Deferred tax asset

Group

	Losses available for offset against future taxable profit	
	2003	2002
	HK\$'000	HK\$'000
At beginning of year:		
As previously reported	—	—
Prior year adjustment:		
SSAP 12 - restatement of deferred tax	563	645
As restated	563	645
Deferred tax charged to the profit and loss account during the year	(454)	(82)
At end of year	<u>109</u>	<u>563</u>
Net deferred tax liabilities at end of year	<u>7,372</u>	<u>6,154</u>

31. DEFERRED TAX (continued)

The Group has tax losses arising in Hong Kong of HK\$101,779,000 (2002: HK\$72,907,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's net deferred tax liability as at 31 December 2003 and 2002 by HK\$6,672,000 and HK\$5,454,000, respectively. As a consequence, the consolidated net losses attributable to shareholders for the years ended 31 December 2003 and 2002 have been increased by HK\$3,695,000 and HK\$4,153,000, respectively, and the consolidated reserves at 1 January 2003 and 2002 have been increased by HK\$9,525,000 and HK\$5,178,000, respectively, as detailed in note 34 to the financial statement.

32. SHARE CAPITAL

	2003	2002
	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:		
1,516,106,193 (2002: 1,520,530,193) ordinary shares of HK\$0.10 each	<u>151,611</u>	<u>152,053</u>

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		Total price (before expenses) HK\$'000
		per share		
		Highest price HK\$	Lowest price HK\$	
January 2003	1,010,000	0.115	0.101	114
February 2003	740,000	0.127	0.108	90
March 2003	500,000	0.109	0.098	53
June 2003	900,000	0.135	0.123	117
July 2003	1,300,000	0.138	0.135	177
	4,450,000			551

During the year, the movements in share capital were as follows:

- (a) The repurchase of 4,450,000 shares were duly cancelled during the year and the issued share capital of the Company was reduced by the par value thereof. The premium on the repurchase of the shares of HK\$106,000 has been charged to the share premium account (note 34).
- (b) The subscription rights attaching to 26,000 share options were exercised at the subscription price of HK\$0.1576 per share, resulting in the issue of 26,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of approximately HK\$4,000.

32. SHARE CAPITAL (continued)

A summary of the transactions during the year with reference to the above movements 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 2002	1,528,188,193	152,819	700,428	853,247
Repurchase of shares	(7,658,000)	(766)	28	(738)
	1,520,530,193	152,053	700,456	852,509
Share repurchase expenses	—	—	(4)	(4)
At 31 December 2002 and 1 January 2003	1,520,530,193	152,053	700,452	852,505
Repurchase of shares (note (a))	(4,450,000)	(445)	(106)	(551)
Exercise of share options (note (b))	26,000	3	1	4
	1,516,106,193	151,611	700,347	851,958
Share repurchase expenses	—	—	(2)	(2)
At 31 December 2003	1,516,106,193	151,611	700,345	851,956

33. SHARE OPTION SCHEMES

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 shares and 80% of the average of the closing prices 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 under the 1991 Scheme but which remain unexercised shall continue to be valid and exercisable in accordance with their terms of issue and the rules of the 1991 Scheme.

33. SHARE OPTION SCHEMES (continued)

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

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 8,000,000 additional ordinary shares of the Company of HK\$0.10 each and additional share capital and share premium of approximately HK\$800,000 and HK\$922,000 (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 2003	Lapsed during the year	Balance at 31 December 2003
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	(14,000,000)	8,000,000
Other employees, in aggregate	23 August 2000	23 August 2000 to 22 August 2003	0.224	2,000,000	(2,000,000)	—
				24,000,000	(16,000,000)	8,000,000

(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 shares and 80% of the average of the closing prices of the Company’s shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the option.

26,000 shares options were exercised during the year which resulted in the issue of 26,000 ordinary shares of the Company and new share capital of approximately HK\$3,000 and share premium of approximately HK\$1,000 (before issue expenses), as detailed in note 32 to the financial statements.

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 under the 2001 Scheme but which remain unexercised shall continue to be valid and exercisable in accordance with their terms of issue and the rules of the 2001 Scheme.

33. SHARE OPTION SCHEMES (continued)

(b) Share option scheme adopted in 2001 (continued)

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 150,430,000 additional ordinary shares of the Company of HK\$0.10 each and additional share capital and share premium of approximately HK\$15,043,000 and HK\$8,665,000 (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 2003	Exercised during the year	Lapsed during the year	Balance at 31 December 2003
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	14,382,000	(26,000)	(676,000)	13,680,000
				<u>151,132,000</u>	<u>(26,000)</u>	<u>(676,000)</u>	<u>150,430,000</u>

(c) Share option scheme adopted in 2002

In order to comply with the amended Listing Rules with effect from 1 September 2001, the Company adopted a new 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 quotation 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 quotation sheet for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company’s shares.

At 31 December 2003, no share options had been granted under the 2002 Scheme.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

34. RESERVES

Group

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Leasehold land and building revaluation reserve HK\$'000	Investment property revaluation reserve* HK\$'000	General reserve HK\$'000	Exchange reserve HK\$'000	Reserve fund** HK\$'000	Retained profits/ (Accum- ulated losses) HK\$'000	Total HK\$'000
At 1 January 2002:										
As previously reported	700,428	5,405	56,465	52,378	13,557	10,144	(16,889)	26,704	35,423	883,615
Prior year adjustment:										
SSAP 12 - restatement of deferred tax	—	—	—	(5,823)	—	—	—	—	645	(5,178)
As restated	700,428	5,405	56,465	46,555	13,557	10,144	(16,889)	26,704	36,068	878,437
Repurchase of shares (note 32)	28	766	—	—	—	—	—	—	(766)	28
Share repurchase expenses (note 32)	(4)	—	—	—	—	—	—	—	—	(4)
Deferred tax debited to equity	—	—	—	(194)	—	—	—	—	—	(194)
Exchange adjustment on translation of overseas subsidiaries and associates	—	—	—	—	—	—	(926)	—	—	(926)
Impairment of goodwill remaining eliminated against the capital reserve	—	—	90,221	—	—	—	—	—	—	90,221
Adjustment to the consideration for the acquisition of subsidiaries	—	—	16,155	—	—	—	—	—	—	16,155
Net loss for the year (as restated)	—	—	—	—	—	—	—	—	(202,211)	(202,211)
At 31 December 2002	700,452	6,171	162,841	46,361	13,557	10,144	(17,815)	26,704	(166,909)	781,506
At 1 January 2003:										
As previously reported	700,452	6,171	162,841	52,378	13,557	10,144	(17,815)	26,704	(163,401)	791,031
Prior year adjustment:										
SSAP 12 - restatement of deferred tax	—	—	—	(6,017)	—	—	—	—	(3,508)	(9,525)
As restated	700,452	6,171	162,841	46,361	13,557	10,144	(17,815)	26,704	(166,909)	781,506
Issue of shares (note 32)	1	—	—	—	—	—	—	—	—	1
Repurchase of shares (note 32)	(106)	—	—	—	—	—	—	—	—	(106)
Share repurchase expenses (note 32)	(2)	—	—	—	—	—	—	—	—	(2)
Deferred tax debited to equity	—	—	—	(713)	—	—	—	—	—	(713)
Exchange adjustment on translation of overseas subsidiaries and associates	—	—	—	—	—	—	(373)	—	—	(373)
Impairment of goodwill remaining eliminated against the capital reserve (note 16)	—	—	55,873	—	—	—	—	—	—	55,873
Impairment of fixed assets (note 13)	—	—	—	(2,581)	—	—	—	—	—	(2,581)
Net loss for the year	—	—	—	—	—	—	—	—	(173,329)	(173,329)
At 31 December 2003	700,345	6,171	218,714	43,067	13,557	10,144	(18,188)	26,704	(340,238)	660,276
Reserves retained by/ (accumulated in):										
Company and subsidiaries	700,345	6,171	218,714	43,067	13,557	10,144	(17,009)	26,704	(251,182)	750,511
A jointly-controlled entity	—	—	—	—	—	—	—	—	(822)	(822)
Associates	—	—	—	—	—	—	(1,179)	—	(88,234)	(89,413)
At 31 December 2003	700,345	6,171	218,714	43,067	13,557	10,144	(18,188)	26,704	(340,238)	660,276
Company and subsidiaries	700,452	6,171	162,841	46,361	13,557	10,144	(16,636)	26,704	(72,161)	877,433
A jointly-controlled entity	—	—	—	—	—	—	—	—	(599)	(599)
Associates	—	—	—	—	—	—	(1,179)	—	(94,149)	(95,328)
At 31 December 2002	700,452	6,171	162,841	46,361	13,557	10,144	(17,815)	26,704	(166,909)	781,506

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

34. RESERVES (continued)

* The investment property revaluation reserve represents the attributable revaluation surplus in respect of the leasehold land and buildings, which were reclassified as investment properties in prior years. This revaluation reserve arose while the properties were classified as land and buildings, therefore is not available to offset subsequent 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 the 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 note 16 to the financial statements.

Company

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	700,428	5,405	288,473	(36,225)	958,081
Repurchase of shares (note 32)	28	766	—	(766)	28
Shares repurchase expenses (note 32)	(4)	—	—	—	(4)
Net loss for the year	—	—	—	(70,015)	(70,015)
At 31 December 2002					
and 1 January 2003	700,452	6,171	288,473	(107,006)	888,090
Issue of shares (note 32)	1	—	—	—	1
Repurchase of shares (note 32)	(106)	—	—	—	(106)
Share repurchase expenses (note 32)	(2)	—	—	—	(2)
Net loss for the year	—	—	—	(19,953)	(19,953)
At 31 December 2003	700,345	6,171	288,473	(126,959)	868,030

34. RESERVES (continued)

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) Major non-cash transactions

- (i) During the year, deposits for an investment in the amount of HK\$13,190,000 was reclassified as interests in subsidiaries upon the completion of the acquisition of a subsidiary, further details of which are included in note 35(b) to the financial statements.
- (ii) 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\$1,956,000 (2002: HK\$37,000).
- (iii) During the prior 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 an other payable owed by the Group to the minority shareholder, of HK\$5,647,000 and HK\$5,927,000, respectively.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

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

(b) Acquisition of subsidiaries

	Notes	2003 HK\$'000	2002 HK\$'000
Net assets acquired:			
Fixed assets	13	16,093	65,986
Intangible assets	22	1,548	10,093
Inventories		457	42,981
Trade receivables		710	12,254
Prepayments, deposits and other receivables		3,369	41,399
Cash and bank balances		5	110
Trade and bills payables		(4,316)	(13,769)
Other payables and accruals		(4,659)	(28,304)
Bank overdrafts		—	(3,960)
Bank loans		—	(8,735)
Due to shareholders		(4,170)	(18,205)
Minority interests		—	(24,320)
		<u>9,037</u>	<u>75,530</u>
Goodwill on acquisition	16	8,163	—
Adjustment to the consideration for the acquisition of subsidiaries		—	(16,155)
Assignment of the amount due to shareholder		—	1,715
		<u>—</u>	<u>1,715</u>
Consideration		<u>17,200</u>	<u>61,090</u>
Satisfied by:			
Cash		4,010	7,065
Reclassification to interests in subsidiaries from interests in associates		—	54,025
Deposits for an investment		13,190	—
		<u>17,200</u>	<u>61,090</u>

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

(b) 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:

	2003	2002
	HK\$'000	HK\$'000
Cash consideration	(4,010)	(7,065)
Bank overdrafts acquired	—	(3,960)
Cash and bank balances acquired	5	110
Net outflow of cash and cash equivalents		
in respect of the acquisition of subsidiaries	(4,005)	(10,915)

On 27 September 2003, a wholly-owned subsidiary of the Group acquired 100% of an entity in the PRC from an independent third party. The purchase consideration for the acquisition was settled in the form of deposits of HK\$13,190,000 paid for this investment in previous year, with the remaining HK\$4,010,000 being paid in the form of cash at the acquisition date.

Since its acquisition, the subsidiary contributed HK\$2,954,000 to the Group's consolidated turnover and accounted for HK\$1,236,000 of the consolidated loss after tax and before minority interests for the year ended 31 December 2003.

The subsidiaries acquired in the prior year contributed HK\$44,903,000 to the Group's consolidated turnover and accounted for HK\$21,142,000 of 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 excluded the former associates' contribution to the results prior to their becoming subsidiaries.

36. CONTINGENT LIABILITIES

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

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	—	—	111,346	105,050
Associates	25,166	37,748	—	—
	<u>25,166</u>	<u>37,748</u>	<u>111,346</u>	<u>105,050</u>
	<u>25,166</u>	<u>37,748</u>	<u>111,346</u>	<u>105,050</u>

- (b) At 31 December 2003, 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\$1,872,000 (2002: HK\$1,726,000) and HK\$186,000 (2002: HK\$234,000), respectively, as further explained under the heading "Employee benefits" in note 3 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved 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 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.

37. OPERATING LEASE ARRANGEMENTS (continued)

(a) As lessor (continued)

At 31 December 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	1,871	1,632
In the second to fifth years, inclusive	2,032	2,939
	<u>3,903</u>	<u>4,571</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 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	7,330	14,993	153	204
In the second to fifth years, inclusive	7,742	10,747	—	153
After five years	—	186	—	—
	<u>15,072</u>	<u>25,926</u>	<u>153</u>	<u>357</u>

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2003

38. CAPITAL COMMITMENTS

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

	Note	2003 HK\$'000	Group 2002 HK\$'000
Contracted, but not provided for:			
Acquisition of a joint venture company	(i)	21,450	21,450
Construction of a property under development		6,439	8,338
		<u>27,889</u>	<u>29,788</u>

The Company had no material capital commitments at the balance sheet date.

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 terminating 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:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Purchases of raw materials and work		
in progress from associates	<u>42,087</u>	<u>29,005</u>

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 as at 31 December 2003 was HK\$8,151,000 (2002: HK\$6,654,000).

40. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP 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 20 April 2004.