

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 (discontinuing during the year - note 40)
- property investment
- property development
- strategic investments
- manufacturing and trading of fuel (discontinuing during the year - note 40)

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Company has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***Basis of preparation***

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Subsidiaries

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

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

Joint venture companies

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***Joint venture companies*** (continued)

A joint venture company is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Group 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
- (d) a long term investment, if the Group 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.

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

Prior to the adoption of Hong Kong Statement of Standard Accounting Practice ("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 and its net selling price.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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.

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%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***Fixed assets and depreciation*** (continued)

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.

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 are stated at cost less any impairment losses. Cost includes all development expenditure, capitalised interest and other direct costs attributable to such properties.

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Short term investments

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

Inventories

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

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

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

- 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.

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:

- 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;
- rental income, in the period in which the properties are let, on a straight-line basis over the lease terms;
- from the rendering of services, when the services have been rendered;
- from the sale of short term investments, on the transaction dates when the relevant contract notes are executed;
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- dividend income, when the shareholders' right to receive payment has been established.

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

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

Foreign currencies

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*Employee benefits**Paid leave carried forward*

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

Employment Ordinance long service payments

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

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

Pension schemes and other retirement benefits

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

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

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

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

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

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

The amounts of the contributions payable by the Group to the Scheme are determined by the actuary using the projected unit credit actuarial valuation 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 of the Mandatory Provident Fund retirement benefits scheme, the Group’s employer contributions vest fully with the employees when contributed into the scheme.

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

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

Cash and cash equivalents

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

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.

Particulars in respect of discontinuing operations are set out in note 40.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

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 ^a		Property investment		Fuel ^a		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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
Segment revenue:														
Sales to external customers	417,846	354,224	5,932	15,330	4,367	2,667	19,306	86,328	42,922	30,255	—	—	490,373	488,804
Intersegment sales	96	128	—	—	6,759	9,372	1,607	153	—	—	(8,462)	(9,653)	—	—
Other revenue and gains	4,623	6,748	6,217	3,949	215	159	23	656	3,988	3,971	—	—	15,066	15,483
Total	<u>422,565</u>	<u>361,100</u>	<u>12,149</u>	<u>19,279</u>	<u>11,341</u>	<u>12,198</u>	<u>20,936</u>	<u>87,137</u>	<u>46,910</u>	<u>34,226</u>	<u>(8,462)</u>	<u>(9,653)</u>	<u>505,439</u>	<u>504,287</u>
Segment results	<u>33,377</u>	<u>33,823</u>	<u>(29,309)</u>	<u>(97,106)</u>	<u>(95,553)</u>	<u>(11,886)</u>	<u>(5,106)</u>	<u>(1,836)</u>	<u>(20,308)</u>	<u>(2,702)</u>	<u>6,375</u>	<u>5,129</u>	<u>(110,524)</u>	<u>(74,578)</u>
Interest income													550	498
Unallocated expenses													(71,494)	(84,128)
Loss from operating activities													(181,468)	(158,208)
Finance costs													(7,339)	(8,917)
Share of profits and losses of:														
A jointly-controlled entity													—	(223)
Associates													(3,085)	(22,402)
Loss before tax													(191,892)	(189,750)
Tax													(3,607)	(3,775)
Loss before minority interests													(195,499)	(193,525)
Minority interests													(334)	20,196
Net loss from ordinary activities attributable to shareholders													<u>(195,833)</u>	<u>(173,329)</u>

* Represent discontinuing operations

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Paint products		Marble and granite*		Property investment		Fuel†		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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
Segment assets	246,044	224,935	30,386	72,758	373,695	490,105	5,212	11,835	15,886	33,912	(474)	(474)	670,749	833,071
Intangible assets	-	-	-	-	-	-	-	-	-	1,327	-	-	-	1,327
Interests in associates	-	-	-	-	33,160	38,357	-	-	-	-	-	-	33,160	38,357
Unallocated assets:														
Interests in associates													28,776	33,119
Long term investments													167,093	167,940
Others													72,989	71,192
Bank overdrafts included in segment assets	-	-	-	4,997	-	-	-	-	-	-	-	-	-	4,997
Total assets													972,767	1,150,003
Segment liabilities	86,806	74,818	17,462	21,855	42,382	16,662	4,628	11,187	22,640	21,269	(474)	(474)	173,444	145,317
Unallocated liabilities													144,628	184,269
Bank overdrafts included in segment assets	-	-	-	4,997	-	-	-	-	-	-	-	-	-	4,997
Total liabilities													318,072	334,583

* Represent discontinuing operations

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Paint products		Marble and granite ^a		Property investment		Fuel ^a		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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:														
Depreciation	8,072	11,186	6,413	5,991	3,279	3,754	64	19	2,084	575	—	—	19,912	21,525
Unallocated amounts													—	226
													19,912	21,751
Capital expenditure	8,317	9,458	2,005	3,734	28,185	11,940	—	190	156	182	—	—	38,663	25,504
Unallocated amounts													—	171
													38,663	25,675
Amortisation of intangible assets	—	—	—	165	—	—	—	—	1,327	1,230	—	—	1,327	1,395
Impairment of investment properties	—	—	—	—	—	10,571	—	—	—	—	—	—	—	10,571
Deficit/(surplus) on revaluation of investment properties	—	—	—	—	3,732	(1,944)	—	—	—	—	—	—	3,732	(1,944)
Impairment of a property under development	—	—	—	—	63,591	—	—	—	—	—	—	—	63,591	—
Unrealised loss/(gain) on revaluation of short term investments	—	—	—	—	—	—	—	—	(1)	7	—	—	(1)	7
Impairment of long term investments	—	—	—	—	—	—	—	—	—	—	—	—	847	—
Amortisation of goodwill	—	—	—	—	242	242	—	—	6,997	1,166	—	—	7,239	1,408
Impairment of goodwill	—	—	—	—	1,814	—	—	—	—	—	—	—	1,814	—
Impairment of goodwill remaining eliminated against capital reserve	—	—	—	31,740	—	—	—	—	—	—	—	—	—	31,740
Unallocated amounts													29,454	24,133
													29,454	55,873

* Represent discontinuing operations

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Paint products		Marble and granite*		Property investment		Fuel†		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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
Provision for amounts due from associates	—	—	—	—	5,200	2,639	—	—	—	—	—	—	5,200	2,639
Unallocated amounts													—	1,324
													<u>5,200</u>	<u>3,963</u>
Impairment of fixed assets	—	—	14,654	5,733	—	—	—	—	8,165	—	—	—	22,819	5,733
Impairment of intangible assets	—	—	—	2,962	—	—	—	—	—	—	—	—	—	2,962
Unallocated amounts													—	8,075
													<u>—</u>	<u>11,037</u>
Provision for inventories	744	269	2,905	15,262	—	—	—	—	—	—	—	—	3,649	15,531
Provision for deposit for purchase of a property	—	—	—	—	18,701	—	—	—	—	—	—	—	18,701	—
Provision for prepayments, deposits and other receivables	—	—	—	10,582	—	—	—	—	—	—	—	—	—	10,582
Unallocated amounts													—	9,259
													<u>—</u>	<u>19,841</u>
Provision/(write-back of provision) for bad and doubtful debts	464	1,254	(785)	10,486	—	—	—	—	—	—	—	—	(321)	11,740

* Represent discontinuing operations

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	111,844	140,312	359,207	262,148	19,306	86,328	16	16	—	—	490,373	488,804
Other segment information:												
Segment assets	335,886	456,618	614,912	659,566	3,820	11,202	18,149	17,620	—	—	972,767	1,145,006
Bank overdrafts included in segment assets	—	4,997	—	—	—	—	—	—	—	—	—	4,997
											972,767	1,150,003
Capital expenditure	434	5,234	38,229	20,251	—	190	—	—	—	—	38,663	25,675

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

5. TURNOVER, REVENUE AND GAINS

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

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

	2004	2003
	HK\$'000	HK\$'000
Turnover		
Sale of paint products	417,846	354,224
Sale of fuel	19,306	86,328
Sale of marble and granite	5,932	15,330
Sale of other goods	38,580	30,255
Gross rental income from investment properties	4,367	2,667
Proceeds from sale of short term investments	4,342	—
	490,373	488,804
Other revenue		
Interest income	550	498
Service fee income	3,211	4,073
Others	7,158	10,780
	10,919	15,351
Gains		
Gain on disposal of fixed assets	—	65
Gain on disposal of an associate	—	565
	—	630
	10,919	15,981

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

6. LOSS FROM OPERATING ACTIVITIES

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

	Notes	2004 HK\$'000	2003 HK\$'000
Cost of inventories sold*		325,262	337,481
Depreciation	13	19,912	21,751
Minimum lease payments under operating leases in respect of land and buildings		12,750	18,847
Auditors' remuneration		1,850	2,000
Staff costs (including directors' remuneration - note 8):			
Wages and salaries		79,113	78,121
Pension scheme contributions (defined contribution schemes)		1,898	1,564
Less: Forfeited contributions		—	(31)
Net pension contributions#		1,898	1,533
Pension scheme costs (defined benefit scheme)		224	372
		<u>2,122</u>	<u>1,905</u>
		<u>81,235</u>	<u>80,026</u>

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

6. LOSS FROM OPERATING ACTIVITIES (continued)

	Notes	2004 HK\$'000	2003 HK\$'000
Included in "Other operating expenses, net":			
Amortisation of intangible assets	22	1,327	1,395
Amortisation of goodwill	16	7,239	1,408
Impairment of goodwill	16	1,814	—
Loss on disposal of fixed assets		190	2,080
Loss on disposal of investment properties		638	—
Impairment of investment properties	14	—	10,571
Deficit/(surplus) on revaluation of investment properties	14	3,732	(1,944)
Impairment of a property under development	15	63,591	—
Unrealised loss/(gain) on revaluation of short term investments		(1)	7
Impairment of goodwill remaining eliminated against capital reserve	16	29,454	55,873
Provision for amounts due from associates		5,200	3,963
Impairment of fixed assets	13	22,819	5,733
Impairment of intangible assets		—	11,037
Impairment of long term investments		847	—
Provision for an amount due from a jointly-controlled entity		21	1,209
Provision for deposit for purchase of a property	21	18,701	—
Provision/(write-back of provision) for bad and doubtful debts		(321)	11,740
Provision for prepayments, deposits and other receivables		—	19,841
Foreign exchange losses, net		552	—

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

6. LOSS FROM OPERATING ACTIVITIES (continued)

	2004	2003
	HK\$'000	HK\$'000
and after crediting:		
Gross rental income from investment properties	4,367	2,667
Less: Outgoings	(22)	(14)
Net rental income from investment properties	<u>4,345</u>	<u>2,653</u>
Foreign exchange gains, net	<u>—</u>	<u>550</u>

* The provision for inventories included in cost of inventories sold amounted to HK\$3,649,000 (2003: HK\$15,531,000).

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

	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	7,274	8,850
Interest on finance leases	65	67
	<u>7,339</u>	<u>8,917</u>

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	
	2004	2003
	HK\$'000	HK\$'000
Fees:		
Executive	2,660	2,650
Non-executive	340	200
	<u>3,000</u>	<u>2,850</u>
Other emoluments:		
Salaries, allowances and benefits in kind	15,097	16,027
Pension scheme contributions	561	572
	<u>15,658</u>	<u>16,599</u>
	<u><u>18,658</u></u>	<u><u>19,449</u></u>

The independent non-executive directors of the Company were entitled to a total sum of HK\$290,000 (2003: HK\$150,000) as directors' fees for the year ended 31 December 2004. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

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

	Number of directors	
	2004	2003
Nil - HK\$1,000,000	6	5
HK\$1,500,001 - HK\$2,000,000	1	—
HK\$2,000,001 - HK\$2,500,000	2	3
HK\$11,000,001 - HK\$11,500,000	1	1
	<u>10</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 directors were granted share options in respect of their services to the Group under the share option schemes of the Company (2003: Nil), further details of which are set out in note 34 to the financial statements.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2003: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2003: one) non-director, highest paid employee for the year are as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	1,067	1,055
Pension scheme contributions	66	66
	<u>1,133</u>	<u>1,121</u>

During the year, no share options were granted to the non-director, highest paid employee in respect of his services to the Group (2003: Nil), further details of which are set out in note 34 to the financial statements.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2004	2003
	HK\$'000	HK\$'000
Group:		
Current - Hong Kong		
Charge for the year	195	—
Underprovision in prior year	17	—
Current - Elsewhere		
Charge for the year	3,495	5,614
Deferred (note 31)	(50)	505
	<u>3,657</u>	<u>6,119</u>
Share of tax attributable to associates:		
Hong Kong	(401)	(536)
Elsewhere	351	(1,808)
	<u>(50)</u>	<u>(2,344)</u>
Total tax charge for the year	<u><u>3,607</u></u>	<u><u>3,775</u></u>

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

10. TAX (continued)

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company, its jointly-controlled entity, and the majority of its subsidiaries 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			
	2004		2003	
	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(191,892)</u>		<u>(189,750)</u>	
Tax at the statutory tax rate	(33,581)	17.5	(33,206)	17.5
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")	(3,547)	1.8	(699)	0.4
Adjustments in respect of current tax of previous periods	17	(0.0)	—	—
Depreciation adjustments	191	(0.1)	160	(0.1)
Income not subject to tax	(1,068)	0.6	(186)	0.1
Expenses not deductible for tax	27,958	(14.6)	20,591	(10.9)
Tax losses utilised from previous periods	(141)	0.1	(1,028)	0.5
Tax losses not recognised	<u>13,778</u>	<u>(7.2)</u>	<u>18,061</u>	<u>(9.5)</u>
Tax charge at the Group's effective rate	<u>3,607</u>	<u>(1.9)</u>	<u>3,775</u>	<u>(2.0)</u>

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was HK\$136,281,000 (2003: HK\$19,953,000) (note 35).

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\$195,833,000 (2003: HK\$173,329,000) and the weighted average of 1,524,657,000 (2003: 1,517,406,000) ordinary shares in issue during the year.

Diluted loss per share amount for the year ended 31 December 2004 has not been disclosed, as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

No diluted loss per share amount was presented for the year ended 31 December 2003, as the potential ordinary shares outstanding during that year had no dilutive effect on the basic loss per share for that year.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

13. FIXED ASSETS

Group

	Freehold land and buildings HK\$'000	Leasehold land and buildings HK\$'000	Construction in progress HK\$'000	Leasehold improvements 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	292,290	1,042	6,656	158,162	19,984	24,506	520,371
Additions	—	—	2,368	1,715	2,955	2,155	1,440	10,633
Disposals	—	(24,413)	—	(299)	(963)	(302)	(1,316)	(27,293)
Transfers	—	1,330	(2,218)	—	888	—	—	—
Transfer to investment properties (note 14)	—	(4,441)	—	—	—	—	—	(4,441)
Exchange realignment	755	—	4	29	—	15	—	803
At 31 December 2004	<u>18,486</u>	<u>264,766</u>	<u>1,196</u>	<u>8,101</u>	<u>161,042</u>	<u>21,852</u>	<u>24,630</u>	<u>500,073</u>
Accumulated depreciation and impairment:								
At beginning of year	606	61,263	—	3,971	103,794	14,640	17,935	202,209
Provided during the year	107	7,967	—	1,536	6,968	1,468	1,866	19,912
Impairment during the year recognised in the profit and loss account	—	357	—	126	22,038	86	212	22,819
Disposals	—	(5,510)	—	(184)	(822)	(108)	(1,190)	(7,814)
Transfer to investment properties (note 14)	—	(89)	—	—	—	—	—	(89)
Exchange realignment	50	—	—	10	—	11	—	71
At 31 December 2004	<u>763</u>	<u>63,988</u>	<u>—</u>	<u>5,459</u>	<u>131,978</u>	<u>16,097</u>	<u>18,823</u>	<u>237,108</u>
Net book value:								
At 31 December 2004	<u>17,723</u>	<u>200,778</u>	<u>1,196</u>	<u>2,642</u>	<u>29,064</u>	<u>5,755</u>	<u>5,807</u>	<u>262,965</u>
At 31 December 2003	<u>17,125</u>	<u>231,027</u>	<u>1,042</u>	<u>2,685</u>	<u>54,368</u>	<u>5,344</u>	<u>6,571</u>	<u>318,162</u>

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

	HK\$'000
Professional valuation in 1994	203,000
Professional valuation in 1998 (transferred from investment properties)	22,700
Cost	<u>57,552</u>
	<u>283,252</u>

13. FIXED ASSETS (continued)

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	3,145	2,364	7,370
Additions	—	89	—	89
Disposals	—	(250)	(495)	(745)
At 31 December 2004	<u>1,861</u>	<u>2,984</u>	<u>1,869</u>	<u>6,714</u>
Accumulated depreciation:				
At beginning of year	1,861	2,862	2,244	6,967
Provided during the year	—	94	60	154
Disposals	—	(248)	(495)	(743)
At 31 December 2004	<u>1,861</u>	<u>2,708</u>	<u>1,809</u>	<u>6,378</u>
Net book value:				
At 31 December 2004	<u><u>—</u></u>	<u><u>276</u></u>	<u><u>60</u></u>	<u><u>336</u></u>
At 31 December 2003	<u><u>—</u></u>	<u><u>283</u></u>	<u><u>120</u></u>	<u><u>403</u></u>

The net book value of the Group's fixed assets held under finance leases included in the total amount of furniture, fixtures and equipment and motor vehicles at 31 December 2004 amounted to HK\$1,339,000 (2003: HK\$1,788,000).

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.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

13. FIXED ASSETS (continued)

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts at 31 December 2004 would have been HK\$149,655,000 (2003: HK\$162,966,000).

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	—	18,486	18,486
Long term leases	79,700	—	79,700
Medium term leases	80,870	104,196	185,066
	<u>160,570</u>	<u>122,682</u>	<u>283,252</u>

At 31 December 2004, certain of the above fixed assets with a net book value of approximately HK\$187,323,000 (2003: HK\$236,845,000) were pledged to secure general banking facilities granted to the Group (note 29).

14. INVESTMENT PROPERTIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Valuation:		
At beginning of year	127,809	136,436
Transfer from fixed assets (note 13)	4,352	—
Disposals	(46,269)	—
Surplus/(deficit) on revaluation	(3,732)	1,944
Impairment provided during the year	—	(10,571)
At end of year	<u>82,160</u>	<u>127,809</u>

14. INVESTMENT PROPERTIES (continued)

Analysis by geographical location and lease terms:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Long term leasehold land and buildings situated in Hong Kong	23,350	11,590
Medium term leasehold land and buildings situated in:		
Hong Kong	23,810	63,700
Elsewhere	35,000	52,519
	<u>58,810</u>	<u>116,219</u>
	<u>82,160</u>	<u>127,809</u>

The Group's investment properties were revalued on 31 December 2004 by Vigers Appraisal & Consulting Limited or BMI Appraisals Limited, independent professionally qualified valuers. The properties were either revalued at open market value, based on their existing use, or on the basis of capitalisation of net rental income.

Certain investment properties are leased to third parties under operating leases, further summary details of which are included in note 38(a) to the financial statements.

At 31 December 2004, certain of the Group's investment properties with a value of HK\$46,160,000 (2003: HK\$76,949,000), were pledged to secure general banking facilities granted to the Group (note 29).

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

15. PROPERTIES UNDER DEVELOPMENT

	Group	
	2004	2003
	HK\$'000	HK\$'000
At beginning of year	109,941	98,003
Additions	28,030	11,938
Impairment provided during the year	(63,591)	—
At end of year	<u>74,380</u>	<u>109,941</u>

The Group's properties under development are held under the following lease terms:

	Group	
	2004	2003
	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 elsewhere	<u>60,377</u>	<u>95,938</u>
	<u>74,380</u>	<u>109,941</u>

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 and at 31 December 2004	10,581
Accumulated amortisation and impairment:	
At beginning of year	1,528
Amortisation provided during the year	7,239
Impairment provided during the year	1,814
At 31 December 2004	10,581
Net book value:	
At 31 December 2004	—
At 31 December 2003	9,053

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\$29,454,000 (2003: HK\$55,873,000). The impairment arose primarily due to changes in the business and development plans of an associate during the year.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

16. GOODWILL (continued)

The amounts of the goodwill remaining in consolidated reserves as at 31 December 2004, 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 2004	221,258	340
Accumulated impairment:		
At beginning of year	146,094	—
Impairment provided during the year	29,454	—
At 31 December 2004	175,548	—
Net amount:		
At 31 December 2004	45,710	340
At 31 December 2003	75,164	340

17. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	224,095	224,095
Due from subsidiaries	1,669,721	1,684,648
Due to subsidiaries	(741)	(3,576)
	<u>1,893,075</u>	<u>1,905,167</u>
Provision for impairment	(1,007,260)	(887,440)
	<u>885,815</u>	<u>1,017,727</u>

17. INTERESTS IN SUBSIDIARIES (continued)

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\$373,724,000 (2003: HK\$353,733,000) 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
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

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

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	
The China Paint Manufacturing (Shenzhen) Co., Ltd. #	Mainland China	HK\$50,000,000	—	100	Manufacture and sale of paint products
China Paint Property Limited	Hong Kong	HK\$100,000	—	100	Property investment
China Utilities Limited	British Virgin Islands	US\$1	—	100	Investment holding
CNT Dalian Company Limited	Hong Kong	HK\$2	—	100	Investment holding
CNT Finance Company Limited	Hong Kong	HK\$2	100	—	Fund management
CNT Industries (BVI) Limited	British Virgin Islands	US\$1,635,512	100	—	Investment holding
CNT Investments (BVI) Limited	British Virgin Islands	US\$159,705	100	—	Investment holding
CNT Iron And Steel Limited	British Virgin Islands	US\$1,566,804	—	100	Investment holding
CNT Iron And Steel Trading Company Limited	Hong Kong	HK\$2	—	100	Trading of steel products
CNT-Jialing Investments Limited	Hong Kong	HK\$10,000,000	100	—	Property investment

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

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 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
Fan Ball Development Limited	Hong Kong	HK\$10,000	—	100	Property investment

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

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	
Full Pool Limited	Hong Kong	HK\$2	—	100	Property investment
Golden Premium Limited	Hong Kong	HK\$2	—	100	Property development
Honour Rich Development Limited	Hong Kong	HK\$2	—	100	Investment holding
Hua Xia International Development Co. Ltd. *	Taiwan	NTD25,000,000	100	—	Property holding
Hubei Zhonghe Paint Mfg Co., Ltd. ##	Mainland China	RMB40,000,000	—	90.5	Manufacture and sale of paint products
Majority Faith Corporation	British Virgin Islands	US\$1	—	100	Investment holding
Multibest Resources Limited	British Virgin Islands	US\$1	—	100	Investment holding
Ocean Wide Assets Limited	British Virgin Islands	US\$1	—	100	Investment holding
Opulent Profits Limited	British Virgin Islands	US\$1	—	100	Investment holding
Poly Victory (Hong Kong) Limited	Hong Kong	HK\$2	—	100	Property investment

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Profit Source Limited	Hong Kong	HK\$2	—	100	Securities investment
Rainbow Path Enterprises Limited	Hong Kong	HK\$1,000	—	100	Investment holding
R, J & Thomas Secretaries Limited	Hong Kong	HK\$30,000	—	100	Investment holding
Smmas Trading Corporation	British Virgin Islands	US\$492,000	—	100	Investment holding
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	
	2004	2003
	HK\$'000	HK\$'000
Share of net liabilities	(822)	(822)
Due from the jointly-controlled entity	2,052	2,031
	<u>1,230</u>	<u>1,209</u>
Provision for amount due from the jointly-controlled entity	(1,230)	(1,209)
	<u>—</u>	<u>—</u>

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

Particulars of the jointly-controlled entity are as follows:

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

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

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

19. INTERESTS IN ASSOCIATES

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	—	—	—	20,820
Share of net assets/(liabilities)	28,030	(14,369)	—	—
Goodwill on acquisition	22,429	24,360	—	—
	<u>50,459</u>	<u>9,991</u>	<u>—</u>	<u>20,820</u>
Due from associates	42,583	102,964	—	6,780
	<u>93,042</u>	<u>112,955</u>	<u>—</u>	<u>27,600</u>
Provision for impairment	(22,429)	(22,429)	—	(20,820)
Provision for amounts due from associates	(8,677)	(19,050)	—	(6,780)
	<u>61,936</u>	<u>71,476</u>	<u>—</u>	<u>—</u>

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment, except for amounts due from an associate of HK\$1,312,000 which bear interest at Hong Kong dollar prime rate plus 3% per annum or 8% per annum, whichever is higher, and repayable in three years after the relevant date of each advance, being 3 January 2003 and 29 January 2003.

19. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates are as follows:

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group #		Principal activities
		2004	2003	
Arran Investment Company, Limited	Hong Kong	50	50	Property investment
Liaoyang Beiyang Realestate Development Company Limited	Mainland China	50	50	Property development
Shenzhen Norinco-CP Company Limited	Mainland China	21	21	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 2004.

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.

20. INVESTMENTS

	Group		Company	
	2004	2003	2004	2003
	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	(82,283)	(81,436)	(52,501)	(52,501)
	<u>167,093</u>	<u>167,940</u>	<u>—</u>	<u>—</u>
Short term investments:				
Equity investments listed in				
Hong Kong, at market value	<u>33</u>	<u>3,450</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 April 2006 was granted by the Town Planning Board. However, the Regrant had not been completed as at 31 December 2004. 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\$18,701,000 was made against the carrying amount of the deposit in the current year by reference to an independent valuation performed by BMI Appraisals Limited, independent professionally qualified valuers.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

22. INTANGIBLE ASSETS

Group

	Website HK\$'000	Mining rights HK\$'000	Total HK\$'000
Cost:			
At beginning of year and at 31 December 2004	10,093	11,240	21,333
Accumulated amortisation and impairment:			
At beginning of year	10,093	9,913	20,006
Amortisation provided during the year	—	1,327	1,327
At 31 December 2004	10,093	11,240	21,333
Net book value:			
At 31 December 2004	—	—	—
At 31 December 2003	—	1,327	1,327

23. MORTGAGE LOANS RECEIVABLE

	Group	
	2004 HK\$'000	2003 HK\$'000
Mortgage loans receivable, secured	859	1,804
Portion classified as current assets	(51)	(96)
Long term portion	808	1,708
Mortgage loans receivable repayable:		
Within one year	51	96
In the second year	55	103
In the third to fifth years, inclusive	189	354
Beyond five years	564	1,251
	859	1,804

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:

	2004 HK\$'000	2003 HK\$'000
At beginning of year	448	310
Net pension scheme cost recognised in the consolidated profit and loss account (note (c))	(224)	(372)
Contributions paid to the pension scheme	395	510
	<u>619</u>	<u>448</u>
At 31 December	<u><u>619</u></u>	<u><u>448</u></u>

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

	2004 HK\$'000	2003 HK\$'000
Present value of defined benefit obligation	(7,295)	(6,913)
Fair value of scheme assets	9,246	7,963
	<u>1,951</u>	<u>1,050</u>
Net cumulative actuarial gains remaining in the balance sheet	(1,332)	(602)
Net asset recognised	<u><u>619</u></u>	<u><u>448</u></u>

24. PENSION SCHEME ASSET (continued)

- (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:

	2004	2003
	HK\$'000	HK\$'000
Current service cost	403	423
Interest cost on defined benefit obligation	375	364
Expected return on pension scheme assets	(565)	(429)
Net cumulative actuarial loss recognised in the profit and loss account	<u>11</u>	<u>14</u>
	<u>224</u>	<u>372</u>
Actual return on scheme assets	<u>1,077</u>	<u>1,691</u>

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

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

	2004	2003
Discount rate	5.0%	5.5%
Expected rate of return on pension scheme assets	7.0%	7.0%
Future salary increases	<u>4.0%</u>	<u>4.5%</u>

- (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 2004 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 2004, the level of funding of the pension scheme was 115%, as calculated under the projected unit credit actuarial valuation method.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

25. INVENTORIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Raw materials and spare parts	47,656	48,087
Work in progress	4,488	4,284
Finished goods	23,421	26,036
	<u>75,565</u>	<u>78,407</u>

The carrying amount of inventories has been stated at after charging a general provision of HK\$11,604,000 (2003: HK\$21,040,000) 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	
	2004	2003
	HK\$'000	HK\$'000
Within three months	68,195	60,852
Four to six months	5,788	3,950
Over six months	18,711	23,081
	<u>92,694</u>	<u>87,883</u>
Less: Provision for doubtful debts	(12,675)	(16,889)
	<u>80,019</u>	<u>70,994</u>

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

27. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	67,014	48,152	887	822
Time deposits	—	20,738	—	—
	<u>67,014</u>	<u>68,890</u>	<u>887</u>	<u>822</u>
Less: Pledged time deposits*	—	(5,200)	—	—
Cash and cash equivalents	<u>67,014</u>	<u>63,690</u>	<u>887</u>	<u>822</u>

* The time deposits were 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\$54,108,000 (2003: HK\$35,995,000). 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.

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	
	2004	2003
	HK\$'000	HK\$'000
Within three months	51,204	46,894
Four to six months	1,767	4,893
Over six months	11,381	15,736
	<u>64,352</u>	<u>67,523</u>

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

29. BANK AND OTHER BORROWINGS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Bank loans and overdrafts:		
Secured*	88,208	147,918
Unsecured	44,022	27,234
	<u>132,230</u>	<u>175,152</u>
Bank loans and overdrafts repayable:		
Within one year or on demand	103,588	101,613
In the second year	4,549	7,003
In the third to fifth years, inclusive	13,890	23,303
Beyond five years	10,203	43,233
	<u>132,230</u>	<u>175,152</u>
Portion classified as current liabilities	<u>(103,588)</u>	<u>(101,613)</u>
Long term portion	<u>28,642</u>	<u>73,539</u>

* Includes import loans of HK\$12,165,000 (2003: HK\$17,363,000) and bank overdrafts of nil amount (2003: HK\$4,997,000) at 31 December 2004.

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\$187,323,000 (2003: HK\$223,547,000).
- (b) The pledge of certain of the Group's plant and machinery which had an aggregate net book value at the balance sheet date of nil amount (2003: approximately HK\$13,298,000).
- (c) Mortgages over certain of the Group's investment properties which had an aggregate carrying value at the balance sheet date of approximately HK\$46,160,000 (2003: HK\$76,949,000).
- (d) The pledge of certain of the Group's time deposits of nil amount (2003: HK\$5,200,000).

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 four 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
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	450	465	403	400
In the second year	449	451	418	403
In the third to fifth years, inclusive	576	1,026	559	979
Total minimum finance lease payments	1,475	1,942	1,380	1,782
Future finance charges	(95)	(160)		
Total net finance lease payables	1,380	1,782		
Portion classified as current liabilities	(403)	(400)		
Long term portion	977	1,382		

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

30. FINANCE LEASE PAYABLES (continued)

Company	Minimum lease payments 2004 HK\$'000	Minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2004 HK\$'000	Present value of minimum lease payments 2003 HK\$'000
Amounts payable:				
Within one year	11	25	9	21
In the second year	9	11	9	9
In the third to fifth years, inclusive	3	13	3	13
Total minimum finance lease payments	23	49	21	43
Future finance charges	(2)	(6)		
Total net finance lease payables	21	43		
Portion classified as current liabilities	(9)	(21)		
Long term portion	12	22		

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

31. DEFERRED TAX

The movements in deferred tax liabilities and asset during the year are as follows:

Deferred tax liabilities**Group**

	Accelerated tax		Revaluation of		Total	
	depreciation		properties			
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year	751	700	6,730	6,017	7,481	6,717
Deferred tax charged/(credited) to the profit and loss account during the year	(153)	51	—	—	(153)	51
Deferred tax charged/(credited) to equity during the year (note 35)	—	—	(987)	713	(987)	713
At end of year	<u>598</u>	<u>751</u>	<u>5,743</u>	<u>6,730</u>	<u>6,341</u>	<u>7,481</u>

31. DEFERRED TAX (continued)

Deferred tax asset

Group

	Losses available for offset against future taxable profit	
	2004	2003
	HK\$'000	HK\$'000
At beginning of year	109	563
Deferred tax charged to the profit and loss account during the year	<u>(103)</u>	<u>(454)</u>
At end of year	<u>6</u>	<u>109</u>
Net deferred tax liabilities at end of year	<u>6,335</u>	<u>7,372</u>

The Group has tax losses arising in Hong Kong of HK\$632,329,000 (2003: HK\$101,779,000) 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 2004, there is no significant unrecognised deferred tax liability (2003: 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.

32. OTHER PAYABLES

The other payables comprised the followings:

- (i) Fund of HK\$24,628,000 contributed by a co-developer of a property development project of the Group. The fund will be settled by delivery of certain units of the property upon completion of construction of the respective units, which are expected to be completed in year 2006 pursuant to the terms of the co-development agreements. The amount is unsecured and interest-free;
- (ii) Long term deposit of HK\$4,700,000 received from a main construction contractor of a property development project of the Group. The deposit will be refunded upon completion of construction of the whole development project which is expected to be completed in year 2007; and
- (iii) Payable of HK\$3,268,000 to a trading partner due in August 2006.

33. SHARE CAPITAL

	2004	2003
	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:		
1,532,970,193 (2003: 1,516,106,193) ordinary shares of HK\$0.10 each	<u>153,297</u>	<u>151,611</u>

During the year, the subscription rights attaching to 16,864,000 share options were exercised at the subscription price of HK\$0.1576 per share, resulting in the issue of 16,864,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of approximately HK\$2,657,000.

33. 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 2003	1,520,530,193	152,053	700,452	852,505
Repurchase of shares	(4,450,000)	(445)	(106)	(551)
Exercise of share options	26,000	3	1	4
Share repurchase expenses	—	—	(2)	(2)
At 31 December 2003 and 1 January 2004	1,516,106,193	151,611	700,345	851,956
Exercise of share options	16,864,000	1,686	971	2,657
At 31 December 2004	1,532,970,193	153,297	701,316	854,613

34. 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 34(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.

34. 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 2004	Lapsed during the year	Balance at 31 December 2004
Directors and their associates	26 April 2001	26 April 2001 to 25 April 2006	0.2152	8,000,000	—	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.

16,864,000 shares options were exercised during the year which resulted in the issue of 16,864,000 ordinary shares of the Company and new share capital of approximately HK\$1,686,000 and share premium of approximately HK\$971,000, as detailed in note 33 to the financial statements.

34. SHARE OPTION SCHEMES (continued)

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

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 34(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.

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 122,516,000 additional ordinary shares of the Company of HK\$0.10 each and additional share capital and share premium of approximately HK\$12,252,000 and HK\$7,057,000 (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 2004	Exercised during the year	Lapsed during the year	Balance at 31 December 2004
Directors and their associates	27 September 2001	27 September 2001 to 26 September 2006	0.1576	136,750,000	(10,000,000)	(11,000,000)	115,750,000
Other employees, in aggregate	27 September 2001	27 September 2001 to 26 September 2006	0.1576	13,680,000	(6,864,000)	(50,000)	6,766,000
				<u>150,430,000</u>	<u>(16,864,000)</u>	<u>(11,050,000)</u>	<u>122,516,000</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 2004, no share options had been granted under the 2002 Scheme.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

35. 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	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	700,452	6,171	162,841	46,361	13,557	10,144	(17,815)	26,704	(166,909)	781,506
Issue of shares (note 33)	1	—	—	—	—	—	—	—	—	1
Repurchase of shares (note 33)	(106)	—	—	—	—	—	—	—	—	(106)
Share repurchase expenses (note 33)	(2)	—	—	—	—	—	—	—	—	(2)
Deferred tax debited to equity (note 31)	—	—	—	(713)	—	—	—	—	—	(713)
Exchange adjustment on translation of overseas subsidiaries and associates	—	—	—	—	—	—	(373)	—	—	(373)
Impairment of goodwill remaining eliminated against the capital reserve	—	—	55,873	—	—	—	—	—	—	55,873
Impairment of fixed assets	—	—	—	(2,581)	—	—	—	—	—	(2,581)
Net loss for the year	—	—	—	—	—	—	—	—	(173,329)	(173,329)
At 31 December 2003 and at 1 January 2004	700,345	6,171	218,714	43,067	13,557	10,144	(18,188)	26,704	(340,238)	660,276
Issue of shares (note 33)	971	—	—	—	—	—	—	—	—	971
Deferred tax credited to equity (note 31)	—	—	—	987	—	—	—	—	—	987
Exchange adjustment on translation of overseas subsidiaries and associates	—	—	—	—	—	—	241	—	—	241
Revaluation reserve released on disposal	—	—	—	(1,819)	—	—	—	—	1,819	—
Impairment of goodwill remaining eliminated against the capital reserve (note 16)	—	—	29,454	—	—	—	—	—	—	29,454
Net loss for the year	—	—	—	—	—	—	—	—	(195,833)	(195,833)
At 31 December 2004	701,316	6,171	248,168	42,235	13,557	10,144	(17,947)	26,704	(534,252)	496,096
Reserves retained by/(accumulated in):										
Company and subsidiaries	701,316	6,171	248,168	42,235	13,557	10,144	(16,768)	26,704	(508,515)	523,012
A jointly-controlled entity	—	—	—	—	—	—	—	—	(822)	(822)
Associates	—	—	—	—	—	—	(1,179)	—	(24,915)	(26,094)
At 31 December 2004	701,316	6,171	248,168	42,235	13,557	10,144	(17,947)	26,704	(534,252)	496,096
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

* 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.

35. RESERVES (continued)

** 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 2003	700,452	6,171	288,473	(107,006)	888,090
Issue of shares (note 33)	1	—	—	—	1
Repurchase of shares (note 33)	(106)	—	—	—	(106)
Share repurchase expenses (note 33)	(2)	—	—	—	(2)
Net loss for the year	—	—	—	(19,953)	(19,953)
At 31 December 2003 and 1 January 2004	700,345	6,171	288,473	(126,959)	868,030
Issue of shares (note 33)	971	—	—	—	971
Net loss for the year	—	—	—	(136,281)	(136,281)
At 31 December 2004	701,316	6,171	288,473	(263,240)	732,720

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.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of a subsidiary

	2004	2003
	HK\$'000	HK\$'000
Net assets acquired:		
Fixed assets	—	16,093
Intangible assets	—	1,548
Inventories	—	457
Trade receivables	—	710
Prepayments, deposits and other receivables	—	3,369
Cash and bank balances	—	5
Trade and bills payables	—	(4,316)
Other payables and accruals	—	(4,659)
Due to shareholders	—	(4,170)
	<u>—</u>	<u>9,037</u>
Goodwill on acquisition	—	8,163
	<u>—</u>	<u>17,200</u>
Consideration	—	17,200
	<u>—</u>	<u>17,200</u>
Satisfied by:		
Cash	—	4,010
Deposits for an investment	—	13,190
	<u>—</u>	<u>17,200</u>
	<u>—</u>	<u>17,200</u>

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

Acquisition of a subsidiary (continued)

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

	2004	2003
	HK\$'000	HK\$'000
Cash consideration	—	(4,010)
Cash and bank balances acquired	—	5
	<hr/>	<hr/>
Net outflow of cash and cash equivalents		
in respect of the acquisition of a subsidiary	—	(4,005)
	<hr/> <hr/>	<hr/> <hr/>

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.

The subsidiary acquired in the prior year 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.

37. CONTINGENT LIABILITIES

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

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	—	—	70,615	111,346
Associates	12,583	25,166	—	—
	<u>12,583</u>	<u>25,166</u>	<u>70,615</u>	<u>111,346</u>

- (b) At 31 December 2004, 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\$1,636,000 (2003: HK\$1,872,000) and HK\$106,000 (2003: HK\$186,000), 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.

38. OPERATING LEASE ARRANGEMENTS

(a) *As lessor*

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

At 31 December 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	6,376	1,871
In the second to fifth years, inclusive	6,554	2,032
	12,930	3,903
	12,930	3,903

(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 2004, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	6,290	7,330	204	153
In the second to fifth years, inclusive	4,930	7,742	153	—
After five years	200	—	—	—
	11,420	15,072	357	153
	11,420	15,072	357	153

39. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 38(b) above, the Group had the following capital commitments at the balance sheet date:

	Note	2004 HK\$'000	Group 2003 HK\$'000
Contracted, but not provided for:			
Acquisition of a joint venture company	(i)	21,450	21,450
Construction of a property under development		4,086	6,439
		25,536	27,889

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.

40. DISCONTINUING OPERATIONS

On 20 April 2005, the board of directors of the Group approved the discontinuance of the marble and granite business and the fuel business, which form separate reporting segments of the Group. The decision to discontinue these businesses is to align with the Group's long term strategy to redirect its resources to focus on its more profitable core paint operations.

In connection with the decision to discontinue the marble and granite business, during the year, the Group ceased its marble and granite production in Mainland China and leased out the factory and certain plant and machineries to an independent third party. The Group recorded restructuring expense of approximately HK\$508,000 for employee severance relating to the employee terminations and impairment loss of fixed assets of approximately HK\$14,654,000. Furthermore, certain properties of the marble and granite business situated in Hong Kong were disposed of during the year, resulting in a total gain on disposal of approximately HK\$4,697,000 recognised in the profit and loss account in the year.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

40. DISCONTINUING OPERATIONS (continued)

No significant loss was incurred during the year in connection with the decision to discontinue the fuel business.

The turnover, expenses and results from the discontinuing operations for the years ended 31 December 2004 and 2003, are as follows:

	Marble and granite		Fuel		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	5,932	15,330	19,306	86,328	25,238	101,658
Cost of sales	(15,573)	(37,566)	(14,038)	(61,268)	(29,611)	(98,834)
Gross profit/(loss)	(9,641)	(22,236)	5,268	25,060	(4,373)	2,824
Other revenue and gains	6,217	3,949	23	656	6,240	4,605
Selling and distribution costs	(570)	(1,382)	(4,429)	(21,136)	(4,999)	(22,518)
Administrative expenses	(10,485)	(14,101)	(5,391)	(5,993)	(15,876)	(20,094)
Other operating expenses, net	(14,830)	(63,336)	(577)	(423)	(15,407)	(63,759)
LOSS FROM OPERATING ACTIVITIES	(29,309)	(97,106)	(5,106)	(1,836)	(34,415)	(98,942)
Finance costs	(602)	(1,115)	(115)	(200)	(717)	(1,315)
LOSS BEFORE MINORITY INTERESTS	(29,911)	(98,221)	(5,221)	(2,036)	(35,132)	(100,257)
Minority interests	—	18,015	—	—	—	18,015
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(29,911)	(80,206)	(5,221)	(2,036)	(35,132)	(82,242)

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2004

40. DISCONTINUING OPERATIONS (continued)

The net cash flows attributable to the discontinuing operations are as follows:

	Marble and granite		Fuel		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating	(746)	(13,334)	(5,248)	18,719	(5,994)	5,385
Investing	14,662	(3,869)	—	(190)	14,662	(4,059)
Financing	(11,147)	(565)	—	—	(11,147)	(565)
Net cash inflows/(outflows)	<u>2,769</u>	<u>(17,768)</u>	<u>(5,248)</u>	<u>18,529</u>	<u>(2,479)</u>	<u>761</u>

The carrying amounts of the total assets and liabilities relating to the discontinuing operations at 31 December 2004 and 2003, are as follows:

	Marble and granite		Fuel		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	30,386	72,758	5,212	11,835	35,598	84,593
Total liabilities	(17,462)	(21,855)	(4,628)	(11,187)	(22,090)	(33,042)
Net assets	<u>12,924</u>	<u>50,903</u>	<u>584</u>	<u>648</u>	<u>13,508</u>	<u>51,551</u>

The gain on disposal of assets attributable to the discontinuing operations of approximately HK\$4,697,000 relates to certain leasehold land and buildings of the marble and granite business which were sold during the year for a total selling price of HK\$15,000,000. There was no tax arising from the disposal.

41. 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	
	2004	2003
	HK\$'000	HK\$'000
Purchases of raw materials and work in progress from associates	<u>53,633</u>	<u>42,087</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 2004 was HK\$9,960,000 (2003: HK\$8,151,000).

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2005.