

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2000

31. RESERVES

Group

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Leasehold land and buildings Capital reserve HK\$'000	Investment property revaluation reserve HK\$'000	General reserve HK\$'000	Exchange reserve HK\$'000	Reserve fund** HK\$'000	Retained profits/ (Accum- ulated losses) HK\$'000	Total HK\$'000	
At 1 January 1999	680,508	5,405	134,778	148,706	-	1,748	(18,369)	20,652	(291,178)	682,250
Goodwill eliminated against capital reserve released on disposal of interest in an associate	-	-	113,390	-	-	-	-	-	-	113,390
Release on disposal of leasehold properties	-	-	-	(108,885)	-	-	-	-	108,885	-
Transfer to investment property revaluation reserve	-	-	-	(13,557)	13,557	-	-	-	-	-
Exchange adjustment on translation of overseas subsidiaries and associates	-	-	-	-	-	-	587	-	-	587
Transfer from profit and loss account	-	-	-	-	-	-	-	6,052	(6,052)	-
Net profit for the year	-	-	-	-	-	-	-	-	226,612	226,612
At 31 December 1999 and 1 January 2000	680,508	5,405	248,168	26,264	13,557	1,748	(17,782)	26,704	38,267	1,022,839
Placing of shares	21,250	-	-	-	-	-	-	-	-	21,250
Share issue expenses	(1,330)	-	-	-	-	-	-	-	-	(1,330)
Goodwill on consolidation arising from the acquisition of associates	-	-	(193,924)	-	-	-	-	-	-	(193,924)
Capital reserve arising from acquisition of additional interest in an associate	-	-	2,221	-	-	-	-	-	-	2,221
Release on disposal of leasehold properties	-	-	-	(15,279)	-	-	-	-	15,279	-
Goodwill eliminated against reserve released on disposal of a subsidiary	-	-	-	387	-	-	-	-	-	387
Exchange adjustment on translation of overseas subsidiaries and associates	-	-	-	-	-	-	(21)	-	-	(21)
Net profit for the year	-	-	-	-	-	-	-	-	23,879	23,879
At 31 December 2000	700,428	5,405	56,465	11,372	13,557	1,748	(17,803)	26,704	77,425	875,301

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2000

31. RESERVES (continued)

Group

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Leasehold land and Investment buildings property		General reserve HK\$'000	Exchange reserve HK\$'000	Retained profits/ (Accum- ulated losses) Reserve fund** HK\$'000	Total HK\$'000		
			Capital reserve HK\$'000	revaluation reserve HK\$'000					revaluation reserve* HK\$'000	
Reserves retained by/ (accumulated in):										
Company and subsidiaries	700,428	5,405	56,465	11,372	13,557	1,748	(16,603)	26,704	161,649	960,725
Associates	-	-	-	-	-	-	(1,200)	-	(84,224)	(85,424)
At 31 December 2000	700,428	5,405	56,465	11,372	13,557	1,748	(17,803)	26,704	77,425	875,301
Company and subsidiaries	680,508	5,405	248,168	26,264	13,557	1,748	(16,603)	26,704	133,005	1,118,756
Associates	-	-	-	-	-	-	(1,179)	-	(94,738)	(95,917)
At 31 December 1999	680,508	5,405	248,168	26,264	13,557	1,748	(17,782)	26,704	38,267	1,022,839

* The investment property revaluation reserve represents the attributable revaluation surplus in respect of the leasehold land and buildings, which were classified as investment properties in the prior year. Such portion of revaluation reserve is frozen until the retirement or disposal of the relevant assets.

** In accordance with the articles of association of a subsidiary of the Group, the subsidiary is required, as a foreign investment enterprise in Mainland China, to transfer a percentage of its profit after tax, calculated in accordance with accounting principles of The People's Republic of China, to a reserve fund. The subsidiary shall not be required to effect any further transfer when the amount of reserve fund reaches 50% of the subsidiary's registered capital. The reserve fund can be used to make good future losses or to increase the capital of the subsidiary.

Company

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
Profit for the year	-	-	-	310,347	310,347
At 31 December 1999 and 1 January 2000	680,508	5,405	288,473	39,945	1,014,331
Placing of shares	21,250	-	-	-	21,250
Share issue expenses	(1,330)	-	-	-	(1,330)
Loss for the year	-	-	-	(11,928)	(11,928)
At 31 December 2000	700,428	5,405	288,473	28,017	1,022,323

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2000

31. RESERVES (continued)

A portion of the contributed surplus arose as a result of the transfer from the share premium account pursuant to a court approval obtained in 1992 for the purpose of writing off goodwill arising on 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 2000

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) from operating activities to net cash inflow/(outflow) from operating activities

	2000 HK\$'000	1999 HK\$'000
Profit/(Loss) from operating activities	32,897	(63,361)
Interest income	(5,563)	(12,892)
Depreciation	18,016	19,237
Provisions for impairments in values of short term investments	373	340
Provisions for diminutions in values of properties held for sale	–	38,611
Deficit on revaluation of investment properties	3,242	6,974
Write-off of deferred pre-operating expenses	–	543
Loss on disposal of interest in a subsidiary	382	2,054
Loss/(Gain) on disposal of fixed assets	(8,731)	15,988
Loss on disposal of investment properties	4,377	7,120
Loss on disposal of a property under development	–	1,939
Gain on disposal of short term investments	(368)	(1,423)
Provisions for diminutions in values of properties under development	3,104	27,000
Provisions for impairments in values of long term investments	–	4,270
Write-back of provisions for bank guarantees given to associates	–	(6,011)
Decrease/(Increase) in inventories	(7,522)	398
Increase in trade receivables	(1,704)	(1,998)
Increase in prepayments, deposits and other receivables	(23,870)	(1,235)
Decrease/(Increase) in properties held for sale	61,782	(77,187)
Increase/(Decrease) in trade payables	2,497	(6,038)
Decrease in other payables and accruals	(14,327)	(17,939)
Decrease in bills payable and import loans	(2,088)	(19,868)
Net cash inflow/(outflow) from operating activities	<u>62,497</u>	<u>(83,478)</u>

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2000

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

(b) Analysis of changes in financing during the year

	Share capital and premium HK\$'000	Bank loans, other loans and finance lease obligations HK\$'000	Minority interests HK\$'000
Balance at 1 January 1999	812,077	447,446	204,068
Net cash outflow from financing	-	(310,963)	-
Arising from disposal of interest in an associate	-	-	(84,072)
Dividends paid to minority shareholders of subsidiaries	-	-	(305,901)
Share of profit for the year	-	-	233,498
Effect of foreign exchange translation	-	1,092	-
	<hr/>	<hr/>	<hr/>
Balance at 31 December 1999 and 1 January 2000	812,077	137,575	47,593
Net cash inflow/(outflow) from financing	41,170	(10,406)	-
Arising from disposal of interest in a subsidiary	-	-	(106)
Share of loss for the year	-	-	(1,167)
Inception of finance lease contracts	-	628	-
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2000	<u>853,247</u>	<u>127,797</u>	<u>46,320</u>

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2000

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

(c) Disposal of a subsidiary

	2000 HK\$'000	1999 HK\$'000
Net assets/(liabilities) disposed:		
Interests in associates	-	2,559
Other receivable	390	-
Other payables and accruals	(289)	(7)
Minority interest	(106)	-
	<u>(5)</u>	<u>2,552</u>
Goodwill released upon disposal	387	-
Loss on disposal of interest in a subsidiary	(382)	(2,054)
	<u>-</u>	<u>498</u>
Satisfied by:		
Cash received	<u>-</u>	<u>498</u>

The subsidiary disposed of made no significant contribution to the Group in respect of the cash flows, turnover, contribution to the consolidated profit after tax and before minority interests for the year.

(d) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$628,000 (1999: Nil).

33. CONTINGENT LIABILITIES

Contingent liabilities not provided for in the financial statements at the balance sheet date were as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
General banking facilities guaranteed on behalf of associates	<u>91,129</u>	<u>90,094</u>

Guarantees were given by the Company in respect of various subsidiaries' banking and credit facilities. The amounts drawn against these facilities at the year end amounted to HK\$89,661,000 (1999: HK\$103,462,000).

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2000

34. COMMITMENTS

(a) Capital commitments

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Other capital commitments:				
Authorised and contracted for	15,480	-	-	-
Authorised but not contracted for	23,400	-	-	-
	<u>38,880</u>	<u>-</u>	<u>-</u>	<u>-</u>

(b) Commitments under operating leases

At 31 December 2000, the Group and the Company had commitments under non-cancellable operating leases to make payments in the following year as follows:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Land and buildings expiring:				
Within one year	1,428	1,476	232	1,131
In the second to fifth years, inclusive	2,946	5,895	204	634
After five years	125	113	-	-
	<u>4,499</u>	<u>7,484</u>	<u>436</u>	<u>1,765</u>

(c) Pension scheme

The Group operates a defined benefit pension scheme. The assets of the scheme are held separately from those of the Group in an administered fund.

The contributions to the scheme are determined with the advice of independent qualified actuaries on the basis of annual valuations using the individual entry age normal cost method. Based on the most recent valuation carried out on 31 December 1999 by Mrs. Teresa Chan and Mr. Wilson Tang, Fellow and Associate of the Society of Actuaries respectively, the level of funding was 165%. On the basis of the actuaries' recommendations, the assets would be sufficient to cover the aggregate vested liabilities. Accordingly, the Group has not made any provision for further contributions to the scheme.

The principal assumptions of the actuarial valuation are as follows:

- (1) The assets of the defined benefit pension scheme will earn a return of 9% per annum; and
- (2) Participant basic salary increments will be 8% per annum.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2000

35. PLEDGE OF ASSETS

Details of the Group's bank loans and other loans secured by the assets of the Group are included in note 27 to the financial statements.

36. RELATED PARTY TRANSACTIONS

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

		Group	
	Notes	2000	1999
		HK\$'000	HK\$'000
Purchases of raw materials and work-in-progress			
from an associate	(i)	16,160	18,618
Sales of finished goods to an associate	(ii)	41,426	6,161
Management fees received from Citybus			
Group Limited and its subsidiaries	(iii)	—	409

Notes:

- (i) The directors consider that the purchases of raw materials and work-in-progress were made according to the prices and conditions similar to those offered to other customers of the suppliers. The balance owing to the associate at 31 December 2000 was HK\$3,110,000 (1999: HK\$2,502,000).
- (ii) The directors consider that the sales of finished goods was made according to the terms and conditions as set out in their agreement. The balance due from the associate at 31 December 2000 was HK\$10,400,000 (1999: HK\$6,511,000).
- (iii) The management fees related to the provision of legal, secretarial and administrative services by the Group to Citybus Group Limited and its subsidiaries. The fees were determined based on an agreement entered into between the Group and a wholly-owned subsidiary of Citybus Group Limited on 8 November 1996. The management fees were calculated based on the costs incurred by the Group plus a margin of 15% for management overheads. The agreement was terminated subsequent to the Group's disposal of Citybus in February 1999.

37. CONNECTED TRANSACTIONS

- (i) The Company advanced loans to Shinfull Development Limited, a non-wholly owned subsidiary for the development of the properties at Nos. 18-20A and 24 Tin Hau Temple Road, Hong Kong. The outstanding balance at the balance sheet date amounted to HK\$3,375,000 (1999: HK\$3,340,000). The loans are unsecured, interest-free and have no fixed terms of repayment.
- (ii) Certain wholly-owned subsidiaries of the Company have advanced loans amounting to HK\$26,533,000 (1999: HK\$26,533,000) to Dalian Qinggang Hotel, a non-wholly owned subsidiary, for the development of properties at Dalian Qing Gang Centre in The People's Republic of China. The loans are unsecured, interest-free and have no fixed terms of repayment.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 9 April 2001.