

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

(a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of properties and trading securities, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, apart from the Group reorganisation which took place in 1993 and is accounted for using merger accounting.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

In the Company's balance sheet the investments in associated companies are stated at cost less provision, if necessary, for any permanent diminution in value other than temporary in nature. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

(d) Goodwill

Goodwill, which represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries and associated companies acquired and is taken to reserves in the year of acquisition.

1. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(e) Property, plant and equipment

Leasehold properties are interests in land and buildings are stated at valuation less accumulated depreciation. Fair value is determined by the Directors based on independent valuations which are performed every three years. The valuations are on an open market basis related to individual properties and separate values are not attributed to land and buildings. In the intervening years, the Directors review the carrying value of the properties and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the properties revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Other tangible fixed assets are stated at cost less accumulated depreciation.

Leasehold land is depreciated over the period of the lease while other tangible fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Land	2%
Buildings	5%
Motor vehicles	20%
Furniture and fixtures	15–50%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amount of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(f) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

1. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(g) Revenue recognition

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Revenue from the sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from sale of services is recognised when the services are rendered.

Revenue from licence agreements is recognised when the underlying licenced products are sold.

Net gain or loss from sales of investment in securities is recognised upon completion of the transactions.

(h) Operating lease

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(i) Investments in securities

(i) Investment securities

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

(ii) Trading securities

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(j) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

NOTES TO THE ACCOUNTS (cont'd)

1. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(k) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transactions dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

(l) Retirement benefit costs

The Group contributes to a defined contribution retirement scheme and mandatory provident fund scheme ("MPF Scheme"), which are available to all employees. The assets of the schemes are held separately from those of the Group in an independently administered fund. The Group's contribution to these schemes are expensed as incurred.

2. TURNOVER AND REVENUE

The Group continues to engage in the promotion of the Group's brand, FORTEI, including distribution and sale of goods and merchandises. During the year, the Group has diversified its business activities into the provision of money lending, travel agency services, investment holding and trading in securities. Revenues recognised during the year are as follows:

	2000 HK\$'000	1999 HK\$'000
Turnover		
Interest income from money lending business	3,025	–
Travel agency services	337	–
Sale of goods	–	51,704
	<u>3,362</u>	<u>51,704</u>
Other revenues		
Bank interest income	1,198	187
Interest income from a short-term loan	–	2,218
Profit on sale of trading securities	429	–
Licence fee income	–	1,627
	<u>1,627</u>	<u>4,032</u>
Total revenues	<u>4,989</u>	<u>55,736</u>

NOTES TO THE ACCOUNTS (cont'd)

2. TURNOVER AND REVENUE (cont'd)

An analysis of the Group's turnover and contribution to operating profit/(loss) for the year by principal business activities is as follows:

	Turnover		Operating profit/(loss)	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Principal activities:				
Money lending	3,025	–	(4,582)	–
Travel agency services	337	–	(23)	–
Sale of goods	–	51,704	5,554	(56,041)
	<u>3,362</u>	<u>51,704</u>	<u>949</u>	<u>(56,041)</u>

No geographical analysis is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the Group are attributable to markets outside Hong Kong.

3. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after crediting and charging the following:

	2000 HK\$'000	1999 HK\$'000
Crediting		
Written back of forfeited contributions after net off retirement benefit charges	–	171
Charging		
Deficit on revaluation of leasehold properties not covered by previous surplus	1,524	1,515
Cost of inventories sold	–	47,004
Staff costs (including Directors' remuneration)	4,582	6,270
Retirement benefit costs	296	–
Depreciation	464	1,109
Loss on disposal of fixed assets	5	748
Written off of fixed assets	12	4,175
Realised losses on disposal of investment securities	154	–
Provision for diminution in value of investment securities	1,094	–
Unrealised losses on trading securities	299	–
Operating leases – land and buildings	772	6,836
Auditors' remuneration		
Current year	500	500
Underprovision in previous year	50	109
Exchange loss	–	68

NOTES TO THE ACCOUNTS (cont'd)

4. FINANCE COSTS

	2000 HK\$'000	1999 HK\$'000
Interest on bank loans and overdrafts	<u>—</u>	<u>92</u>

5. TAXATION

Hong Kong profits tax has not been provided in the accounts as the Group has available tax loss as at 31 December 2000. The amount of taxation credit in the consolidated profit and loss account for the year ended 31 December 1999 represents an over-provision of Hong Kong profits tax in previous years.

Deferred taxation for the year has not been credited to the consolidated profit and loss accounts in respect of the following:

	2000 HK\$'000	1999 HK\$'000
Accelerated depreciation allowance	15	41
Taxation loss	<u>291</u>	<u>5,402</u>
	<u>306</u>	<u>5,443</u>

6. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$1,171,000 (1999: loss of HK\$91,390,000).

7. EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on the Group's profit attributable to shareholders of HK\$587,000 for the year ended 31 December 2000 and the loss attributable to shareholders of HK\$55,771,000 for the year ended 31 December 1999.

The basic earnings/(loss) per share is based on the weighted average of 453,683,060 (1999: 400,000,000) ordinary shares in issue during the year.

8. RETIREMENT BENEFIT COSTS

The Group contributes to a defined contribution retirement scheme which is available to all permanent employees. Contributions to the scheme by the Group and the employees are calculated as a percentage of the employees' basic salaries. The Group's contributions may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Forfeited contributions totalling HK\$48,000 (1999: HK\$223,000) were utilised during the year and there was no outstanding forfeited contributions to reduce future contributions at balance sheet date.

Commencing from 1 December 2000, the above defined contribution scheme was replaced by the MPF Scheme. The Group's MPF Scheme contributions are at 5% of the employee's relevant income as defined in the Hong Kong Mandatory Provident Fund Schemes Ordinance up to a maximum of HK\$1,000 per employee per month ("MPF Contribution"), plus a corresponding amount of voluntary contribution made by the respective employee ("Voluntary Contribution") upto a maximum of HK\$4,000 per employee. The employees also contribute a corresponding amount to the MPF Scheme from 31 December 2000 if their relevant income is more than HK\$4,000 per month. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid. The Group's Voluntary Contribution may be reduced by the contribution forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

Contributions totalling HK\$22,000 (1999: HK\$31,000) were payable to the MPF Scheme at the year end and are included in accounts payable. The assets of the schemes are held separately from those of the Group in an independently administered fund.

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2000 HK\$'000	1999 HK\$'000
Fees	-	-
Other emoluments – executive directors		
Basic salaries, housing allowances, other allowances and benefits in kind	1,965	1,519
Discretionary bonuses	-	-
Inducement fees	-	-
Contributions to pensions schemes – as directors	89	28
Compensation for loss of office as director, paid by:		
the Company	-	-
the Company's subsidiaries	-	-
	<u>2,054</u>	<u>1,547</u>

NOTES TO THE ACCOUNTS (cont'd)

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2000	1999
HK\$ nil – HK\$1,000,000	5	12
HK\$1,000,001 – HK\$1,500,000	1	–
	<u>6</u>	<u>12</u>

No remuneration was paid to the Independent Non-Executive Directors during the years ended 31 December 2000 and 1999.

None of the Directors waived any emoluments in respect of the year ended 31 December 2000 and 1999.

- (b) The five individuals whose emoluments were the highest in the Group for the year include two directors (1999: three) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (1999: two) individuals during the year are as follows:

	2000 HK\$'000	1999 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	840	496
Bonuses	75	59
Pensions	41	6
Compensation for loss of office	–	–
	<u>956</u>	<u>561</u>

NOTES TO THE ACCOUNTS (cont'd)

10. FIXED ASSETS – GROUP

	Leasehold properties in Hong Kong HK\$'000	Motor vehicles HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
Cost or valuation				
At 1 January 2000	8,400	160	318	8,878
Additions	–	251	115	366
Devaluation	(2,100)	–	–	(2,100)
Written off	–	–	(111)	(111)
Disposals	–	(160)	–	(160)
At 31 December 2000	6,300	251	322	6,873
Accumulated depreciation				
At 1 January 2000	192	135	110	437
Charge for the year	384	29	51	464
Devaluation	(576)	–	–	(576)
Written off	–	–	(99)	(99)
Disposals	–	(135)	–	(135)
At 31 December 2000	–	29	62	91
Net book value				
At 31 December 2000	6,300	222	260	6,782
At 31 December 1999	8,208	25	208	8,441

The analysis of the cost or valuation at 31 December 2000 of the above assets is as follows:

At cost	–	251	322	573
At 2000 valuation	6,300	–	–	6,300
	6,300	251	322	6,873

The analysis of the cost or valuation at 31 December 1999 of the above assets is as follows:

At cost	–	160	318	478
At 1999 valuation	8,400	–	–	8,400
	8,400	160	318	8,878

- (a) As at 31 December 2000, the leasehold properties are held for own use. They are located in Hong Kong and the remaining terms of the leases were between ten to fifty years.
- (b) Leasehold properties in Hong Kong were revalued at 31 December 2000 on the basis of open market value by DTZ Debenham Tie Leung Limited, an independent firm of chartered surveyors. The carrying amount of the leasehold properties would have been HK\$10,286,000 (1999: HK\$10,759,000) had they been stated at cost less accumulated depreciation.

NOTES TO THE ACCOUNTS (cont'd)

11. INVESTMENT IN SUBSIDIARIES

	Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	86,218	85,218
Amount due from subsidiaries	107,633	91,044
Amount due to subsidiaries	(4)	(15,836)
	<u>193,847</u>	<u>160,426</u>
Less: provision for diminution in value	(118,907)	(118,907)
	<u>74,940</u>	<u>41,519</u>

The amount due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.

The following is a list of the subsidiaries at 31 December 2000:

<u>Name of company</u>	<u>Place of incorporation</u>	<u>Principal activity and place of operation</u>	<u>Particulars of issued share capital</u>	<u>Interest held</u>
Anluck Limited	Hong Kong	Dormant	100 ordinary shares of HK\$1 each	60%
Century Legend Finance Limited (formerly known as Fortei Far East Limited)	Hong Kong	Provision of commercial and personal loan in Hong Kong	10,000,000 ordinary shares of HK\$1 each	100%
Century Legend Investments Limited (formerly known as Fortei (B.V.I.) Limited)	British Virgin Islands	Investment holding in Hong Kong	63,000 ordinary shares of US\$0.01 each	*100%
Century Legend Strategic Investments Limited (formerly known as Onpower Company Limited)	Hong Kong	General trading and provision of commercial and personal loan in Hong Kong	10,000,000 ordinary shares of HK\$1 each 5,000,000 non-voting deferred shares of HK\$1 each	100%
Fortei International Limited	Hong Kong	Provision of properties management services in Hong Kong	1,000,000 ordinary shares of HK\$1 each	*100%

NOTES TO THE ACCOUNTS (cont'd)

11. INVESTMENT IN SUBSIDIARIES (cont'd)

<u>Name of company</u>	<u>Place of incorporation</u>	<u>Principal activity and place of operation</u>	<u>Particulars of issued share capital</u>	<u>Interest held</u>
Fortei Licensing Limited	British Virgin Islands	Holding of trademarks and licensing in Hong Kong	1 ordinary share of US\$0.01 each	100%
Fortei Limited	Hong Kong	Property holding in Hong Kong	10,000 ordinary shares of HK\$1 each	100%
Hong Kong Macau Trading Limited (formerly known as Everluck Enterprise Limited)	Hong Kong	Trading and general merchandise in Hong Kong	100 ordinary shares of HK\$1 each	100%
Hong Kong Macau Travel and Entertainment Limited (formerly known as Golden Cavalier Limited)	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1 each	*100%
Hong Kong Macau Travel Limited# (formerly known as Sun Air Tours Limited)	Hong Kong	Travel agency services in Hong Kong	500,000 ordinary shares of HK\$1 each	100%

* Directly held by the Company

Company not audited by PricewaterhouseCoopers and has a financial accounting period of 30 November which is not coterminous with the Group and the financial impact is not material to the Group.

The non-voting deferred shares practically carry no rights to dividends or to participate in any distribution in winding up. They carry no rights to receive notice of or to attend or vote at any general meeting.

NOTES TO THE ACCOUNTS (cont'd)

12. INVESTMENT IN ASSOCIATED COMPANIES

	2000 HK\$'000	Group 1999 HK\$'000
Share of net liabilities, other than goodwill	(1,183)	-
Advance to an associated company	2,137	-
	<u>954</u>	<u>-</u>

The advance to an associated company is unsecured, interest free and have no fixed terms of repayment.

The following is a list of the associated companies at 31 December 2000:

<u>Name of company</u>	<u>Place of incorporation</u>	<u>Principal activity and place of operation</u>	<u>Particulars of issued share capital</u>	<u>Interest held indirectly</u>
Integrated Solutions (Holdings) Limited	Cayman Islands	Investment holding in Hong Kong	100 ordinary shares of HK\$0.10 each	40%
Integrated Solutions Limited	Hong Kong	Software development, hardware trading and provision of maintenance services in Hong Kong and The People's Republic of China	20,000 ordinary shares of HK\$10 each	40%
ISL Technologies Limited (formerly known as Internal Systems International Limited)	British Virgin Islands	Investment holding in Hong Kong	10,000 ordinary shares of US\$1 each	40%

All associated companies have a financial accounting period of 31 March which is not coterminous with the Group.

NOTES TO THE ACCOUNTS (cont'd)

13. INVESTMENT SECURITIES

	2000 HK\$'000	Group 1999 HK\$'000
Equity securities, at cost		
Listed in Hong Kong	7,945	–
Less: Provision for permanent diminution in value	(1,094)	–
	<hr/>	<hr/>
Total	6,851	–
	<hr/>	<hr/>
Market value of listed securities at 31 December	7,513	–
	<hr/>	<hr/>

At 31 December 2000, the carrying amount of the following company exceeded 10% of total assets of the Group.

<u>Name of company</u>	<u>Place of incorporation</u>	<u>Principal activity</u>	<u>Particulars of issued share held</u>	<u>Interest held</u>
AcrossAsia Multimedia Limited	Cayman Islands	Investment holding in Hong Kong	2,404,000 ordinary shares of HK\$0.10 each	0.05%

14. LOAN RECEIVABLES

	2000 HK\$'000	Group 1999 HK\$'000
Provision of personal and commercial loans		
Loan receivables – secured	20,000	–
Loan receivables – unsecured	1,650	–
	<hr/>	<hr/>
Gross loan receivables (<i>note a</i>)	21,650	–
Provision for doubtful loans	(500)	–
	<hr/>	<hr/>
Less: amount due within one year	(20,984)	–
	<hr/>	<hr/>
Amount due after one year	166	–
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS (cont'd)

14. LOAN RECEIVABLES (cont'd)

- (a) The repayment terms of the loans are negotiated on an individual basis. The maturity profile of loan receivables at the balance sheet date is analysed by the remaining periods to their contractual maturity dates are as follows:

	2000 HK\$'000	Group 1999 HK\$'000
On demand	14	–
Three months or less	21,015	–
Below one year but over three months	455	–
One to three years	166	–
	<u>21,650</u>	<u>–</u>

15. TRADING SECURITIES

	2000 HK\$'000	Group 1999 HK\$'000
Listed securities in Hong Kong, at market value	<u>2,020</u>	<u>–</u>

16. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Trade receivables (<i>note a</i>)	–	9,800	–	–
Interest receivable	17	–	–	–
Other receivables, prepayments and deposits	<u>1,605</u>	<u>659</u>	<u>149</u>	<u>145</u>
	<u>1,622</u>	<u>10,459</u>	<u>149</u>	<u>145</u>

- (a) At 31 December 1999, the ageing of the trade receivables was between one to two years.

17. SHORT-TERM LOAN

The amount at 31 Decemabr 1999 represents a short-term loan granted by the Company to a third party. During the year, the loan was assigned to Tasmanian Treasure Limited, the former ultimate holding company of the Company and has been fully repaid.

NOTES TO THE ACCOUNTS (cont'd)

18. TRADE AND OTHER PAYABLES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Trade payables (<i>note a</i>)	265	–	–	–
Other account payables	707	88	9	26
Accruals	1,467	1,634	608	1,197
	<u>2,439</u>	<u>1,722</u>	<u>617</u>	<u>1,223</u>

(a) At 31 December 2000, the ageing of the trade payables was within one month.

19. SHARE CAPITAL

	Authorised ordinary shares of HK\$0.10 each	
	No of shares	HK\$'000
At 1 January 1999, 31 December 1999 and 2000	<u>600,000,000</u>	<u>60,000</u>
	Issued and fully paid ordinary shares of HK\$0.10 each	
	No of shares	HK\$'000
At 1 January 1999 and 31 December 1999	400,000,000	40,000
Issue upon a placement (<i>note a</i>)	70,000,000	7,000
Issue for acquisition of associated companies (<i>note b</i>)	<u>8,000,000</u>	<u>800</u>
At 31 December 2000	<u>478,000,000</u>	<u>47,800</u>

- a) On 20 April 2000 the issued share capital of the Company was increased to HK\$47,000,000 by a placement of 70,000,000 new ordinary shares of HK\$0.20 each for the purpose of the Company's working capital. These shares rank *pari passu* with the existing shares.
- b) In addition, 8,000,000 ordinary shares were issued on 30 May 2000 at HK\$0.50 per share as part of the consideration for the acquisition of associated companies.
- c) Under the Company's share option scheme, the Directors may at their discretion grant options to Executive Directors and full time employees of the Company and its subsidiaries to subscribe for shares in the Company. There was no option outstanding at any time during the year.

NOTES TO THE ACCOUNTS (cont'd)

20. RESERVES

	Group				
	Share premium HK\$'000	Properties revaluation reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 1999	72,131	2,307	17,314	(26,449)	65,303
Loss for the year	-	-	-	(55,771)	(55,771)
Revaluation deficit	-	(2,307)	-	-	(2,307)
At 31 December 1999	72,131	-	17,314	(82,220)	7,225
At 1 January 2000	72,131	-	17,314	(82,220)	7,225
Profit for the year	-	-	-	587	587
Premium on issue of shares (notes 19(a) and (b))	10,200	-	-	-	10,200
Goodwill arising from the acquisition of a subsidiary and associated companies	-	-	(9,006)	-	(9,006)
At 31 December 2000	82,331	-	8,308	(81,633)	9,006
Company and subsidiaries	82,331	-	8,308	(81,271)	9,368
Associated companies	-	-	-	(362)	(362)
At 31 December 2000	82,331	-	8,308	(81,633)	9,006

	Company			
	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 1999	72,131	84,918	(35,262)	121,787
Loss for the year	-	-	(91,390)	(91,390)
At 31 December 1999	72,131	84,918	(126,652)	30,397
At 1 January 2000	72,131	84,918	(126,652)	30,397
Loss for the year	-	-	(1,171)	(1,171)
Premium on issue of shares (notes 19(a) and (b))	10,200	-	-	10,200
At 31 December 2000	82,331	84,918	(127,823)	39,426

The capital reserve of the Group represents the difference between the nominal value of share capital issued by the Company and the nominal value of the share capital and the share premium accounts of those companies forming the Group pursuant to a group reorganisation in 1993.

NOTES TO THE ACCOUNTS (cont'd)

20. RESERVES (cont'd)

The contributed surplus of the Company represents the differences between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal value of the shares issued by the Company at the time of the group reorganisation referred to above. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus shall not be distributed to the shareholders if there are reasonable grounds for believing that:

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

At 31 December 2000 and 1999, the Company has no reserves available for distribution.

21. DEFERRED TAXATION

	Group	
	2000	1999
	HK\$'000	HK\$'000
The potential deferred taxation assets not provided for in the accounts amounting to:		
Accelerated depreciation allowances	15	–
Tax loss	22,863	22,572
	22,878	22,572

The revaluation deficit of leasehold properties does not constitute a timing difference for deferred taxation purposes as any profit on disposal of the properties would not be subject to taxation.

22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2000 HK\$'000	1999 HK\$'000
Operating profit/(loss)	949	(56,041)
Depreciation charges	464	1,109
Written off of fixed assets	12	4,175
Deficit on revaluation of leasehold properties not covered by previous surplus	1,524	1,515
Provision for doubtful debts	500	30,027
Recovery of bad debts previously written off	(9,649)	-
Loss on disposal of fixed assets	5	748
Realised loss on disposal of investment securities	154	-
Provision for diminution in value of investment securities	1,094	-
Realised profit on sales of trading securities	(429)	-
Unrealised losses of trading securities	299	-
Decrease in inventories	-	28,771
Increase in loan receivables	(21,650)	-
Decrease/(increase) in trade and other receivables	18,488	(1,634)
Increase/(decrease) in trade and other payables, including amount due to the former ultimate holding company	717	(3,349)
Bank and short-term loan interest income	(1,198)	(2,405)
	<u>(8,720)</u>	<u>2,916</u>
Net cash (outflow)/inflow from operating activities	<u>(8,720)</u>	<u>2,916</u>

(b) Analysis of changes in financing during the year

	Share capital including premium 2000 HK\$'000	1999 HK\$'000
At 1 January	112,131	112,131
Issuance of shares for cash	14,000	-
Shares issued for non-cash consideration (note 22(c))	4,000	-
	<u>130,131</u>	<u>112,131</u>
At 31 December	<u>130,131</u>	<u>112,131</u>

(c) Major non-cash transactions

Part of the consideration paid by the Group for the acquisition of associated companies during the year comprised an issuance of 8,000,000 ordinary shares in the Company of HK\$0.50 each and the remaining consideration of HK\$4,000,000 was paid by cash. A goodwill of HK\$8,821,000 was arising from the acquisition and the amount was transferred to the capital reserve.

NOTES TO THE ACCOUNTS (cont'd)

22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(d) Purchase of a subsidiary

	2000 HK\$'000	1999 HK\$'000
Net assets acquired	487	–
Goodwill	185	–
	<u>672</u>	<u>–</u>
Satisfied by		
Assumed the amount due from previous shareholders	485	–
Cash	187	–
	<u>672</u>	<u>–</u>

23. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2000 the Group had commitments to make payments in the next twelve months under operating leases in respect of land and buildings which expire as follows:

	2000 HK\$'000	1999 HK\$'000
In the second to fifth year inclusive	<u>2,219</u>	<u>–</u>

24. SUBSEQUENT EVENT

On 18 January 2001, the Group has entered into a licence agreement with an independent third party to grant an exclusive licence to a third party for the use of trademark of "FORTEI" in Hong Kong, Macau, Taiwan and Mainland China at an aggregate consideration of RMB24,500,000 (HK\$23,113,208) payable by way of licence fee for a period of eight years.

25. ULTIMATE HOLDING COMPANY

The Directors regard, Century Legend Limited, a company incorporated in the British Virgin Islands, being the ultimate holding company of the Company.

26. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 9 April 2001.