

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

I. ORGANISATION AND OPERATIONS

South China Industries Limited ("the Company") is incorporated in the Cayman Islands. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in the manufacturing and trading of toys, compressors, shoes, metal tooling, leather products, motors, machinery, capacitors, clothing, property development, information technology and travel related businesses (see Notes 14 and 15 for details).

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised below:

a. Basis of measurement

The financial statements have been prepared on the historical cost basis, except for land and buildings and investment properties, which are carried at revalued amounts.

b. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries ("the Group"), together with the Group's share of post-acquisition profits/losses and reserves of its associates under the equity method of accounting. The results of subsidiaries and associates acquired or disposed of during the year are recorded from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

c. Goodwill

Goodwill arising on acquisition of subsidiaries and associates represents the excess of cost of acquisition over the fair value of the Group's share of the separable net assets of the subsidiaries and associates acquired. Discount on acquisition arises where the Group's share of the fair value of the separable net assets of subsidiaries and associates acquired exceeds the cost of acquisition. Both goodwill and discount on acquisition are recognised in reserves in the year of acquisition. Upon disposal of interests in subsidiaries and associates, the underlying goodwill or discount previously recognised is reversed and included as investment cost in determining the gain or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

d. Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital as a long-term investment. In the Company's financial statements, investment in subsidiaries is stated at cost less provision for impairment in value, while income from subsidiaries is accounted for in the income statement to the extent of dividends received and receivable.

e. Associates

An associate is an enterprise in which the Group has significant influence, but not control or joint control, and thereby has the ability to participate in its financial and operating policy decisions.

In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the associates, distributions received from the associates and other necessary alterations in the Group's proportionate interest in the associates arising from changes in the equity of the associates that have not been included in the income statement.

In the company's financial statements, investment in associates is carried at cost less provision for impairment in value where considered necessary by the Directors. The results of the associates are included in the income statement to the extent of dividends declared.

f. Equity joint ventures

An equity joint venture is a joint venture in which the partners' capital contribution and profit sharing ratios are defined in the joint venture agreement. The Group's investments in equity joint ventures are accounted for as subsidiaries if the Group owns more than 50% interest thereon and governs and controls the financial and operating policies and board of directors of the joint ventures.

g. Long-term investments

Securities intended to be held on a continuing basis are stated in the balance sheet at fair values. Any change in fair values is recognised directly in the investment revaluation reserve until the securities are sold, collected, or otherwise disposed of, or until the securities are determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement.

Transfers from the investment revaluation reserve to the income statement as a result of impairment are reversed when circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

g. Long-term investments (Continued)

Upon disposal of the securities, any profit and loss, including any amount previously held in the investment revaluation reserve in respect of those investments, is accounted for in the income statement.

h. Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation. Major expenditures on modifications and betterments of fixed assets which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost or the revalued amount less estimated residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Land	2% to 4% (unexpired lease terms)
Buildings	2% to 5%
Furniture and leasehold improvements	20%
Machinery and equipment	10% to 25%
Moulds and tools	20% to 25%
Motor vehicles and vessels	20% to 25%

The carrying amount of fixed assets is assessed annually and when factors indicating an impairment are present. Expected future cash flows are not discounted in determining the recoverable amount. If an impairment is present, the fixed assets are reported at the lower of carrying amount or recoverable amount.

The Group has taken advantage of the transitional provisions set out in paragraph 72 of Statement of Standard Accounting Practice 17, "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants, and discontinued revaluing land and buildings effective from 30 September 1995.

Gains and losses on disposals of fixed assets are recognised in the income statement based on the net disposal proceeds less the carrying amount of the assets, with previously recognised revaluation surpluses transferred from the fixed assets revaluation reserve to retained profit.

Construction-in-progress represents factories under construction. It is stated at cost, which includes the original cost of land, construction expenditures incurred, and other costs attributable to the construction of the buildings. No depreciation is provided in respect of construction-in-progress until the construction work is completed.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

i. Investment properties

Investment properties are leasehold interests in land and buildings in respect of which construction and development work have been completed and which are held for their long-term investment potential. These properties are included in the balance sheet at their open market value on the basis of an annual valuation by independent qualified valuers. All changes in the value of investment properties are dealt with in the investment property revaluation reserve unless the total reserve is insufficient to cover a deficit on a portfolio basis, in which case the net deficit is charged to the income statement. When an investment property is disposed of, previously recognised revaluation surpluses are reversed and the gain or loss on disposal reported in the income statement is determined based on the net disposal proceeds less the original cost.

No depreciation is provided for investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

j. Properties under development

Properties under development include interests in land and buildings under development which are intended for sale upon completion. Properties under development are stated at the lower of cost and net realisable value. Costs include land cost, development expenditure, professional fees, interest capitalised and other expenses incurred in connection with the development, net of incidental rental income.

k. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes costs of raw materials computed using the weighted average method of costing and, in the case of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated normal selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

l. Properties held for sale

Properties held for sale are included in current assets and are stated at the lower of cost and net realisable value. Cost includes land and building cost and other expenses incurred to bring the properties to their existing state. Net realisable value is the estimated price at which a property can be realised less related expenses.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

m. Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised on the following basis:

- (i) Sales income — income from sale of merchandise is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers;
- (ii) Service income — income from provision for system integration services is recognised when the related services are rendered;
- (iii) Income from sales of properties — revenue and profit from the sale of properties are recognised when a legally binding contract of sale has been executed. If the development of the relevant properties has not been completed, revenue and profit are recognised based on the stage of completion of the properties. The stage of completion of the properties is established by reference to the percentage of the costs incurred to date as compared to the estimated total costs of completion (with due allowance for contingencies). Costs include land cost, development expenditure, professional fees, interest capitalised and other expenses incurred in connection with the development. The profits so recognised are restricted to the amount of instalments received.

If purchasers fail to pay the balance of the purchase price on completion and the Group exercises its entitlement to resell the property, sales deposits received in advance of completion are forfeited and credited to the income statement. Any profits already recognised are reversed.

- (iv) Rental income — rental income is recognised when rental becomes due and receivable.
- (v) Interest income — interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable.
- (vi) Management fee — management fee is recognised when the services are rendered.

n. Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

o. Operating leases

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

p. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("the functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, the assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; income and expense items are translated into Hong Kong dollars at the applicable average exchange rates during the year. Exchange differences arising from such translation are dealt with as movements in cumulative translation adjustments.

q. Employee retirement benefits

The costs of employee retirement benefits are recognised as an expense in the period in which they are incurred.

r. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to bring to its intended use or sale are capitalised as part of the costs of the asset at rates based on actual cost of specific borrowings. All other borrowing costs are recognised as an expense in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. RELATED PARTY TRANSACTIONS

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.

a. Significant transactions with related parties are summarised below:

	2000	1999
	\$'000	\$'000
Interest expense on amounts due to		
— an intermediate holding company	985	8,162
— a fellow subsidiary	820	8
Interest income received from		
— associates	8,116	11,729
— an intermediate holding company	—	6,218
— a fellow subsidiary	99	—
Management fees charged by an intermediate holding company	14,000	12,345
Promotion and marketing fees charged by a fellow subsidiary	5,000	—
Management fees from		
— associates	3,650	1,525
— an intermediate holding company	120	120
— fellow subsidiaries	240	240
Disposal of fixed assets at net book value to a fellow subsidiary	2,138	—
Rental income from a fellow subsidiary	255	69
Rental charged by a fellow subsidiary	1,771	1,443
Brokerage fee paid to a fellow subsidiary	1,381	594

In the opinion of the Directors, the above related party transactions were carried out in the usual course of business of the Group and on normal commercial terms.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. RELATED PARTY TRANSACTIONS (Continued)

b. Outstanding balances with related parties are summarised below:

	Consolidated		Company		Maximum balances outstanding during the year \$'000
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000	
Due from fellow subsidiaries:					
The Express News Limited*	—	5,617	—	—	5,617
Express News Management Limited*	—	6,501	—	—	6,501
Hiwind Holdings Limited*	—	46	—	—	46
South China Finance Company Limited*	—	1	—	—	1
Yongder Hall Limited*	—	3,201	—	—	3,201
	—	15,366	—	—	
Due to an intermediate holding company:					
Tek Lee Finance And Investment Corporation Limited**	(3,351)	(44,950)	(3,327)	(40,917)	
Due to fellow subsidiaries:					
South China Media Limited*	(4,683)	—	(5,000)	—	
South China Securities Limited*	(9,885)	—	—	—	
Express News Printing Limited*	—	(6,787)	—	—	
Success Production Limited*	—	(5,657)	—	—	
Whiz Kids Express Limited*	—	(1,543)	—	—	
ZYC Holdings Limited*	—	(469)	—	—	
	(14,568)	(14,456)	(5,000)	—	

Notes:

* These companies are indirect subsidiaries of South China Holdings Limited, the ultimate holding company.

** Tek Lee Finance And Investment Corporation Limited, is an indirect subsidiary of South China Holdings Limited, the ultimate holding company.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. RELATED PARTY TRANSACTIONS (Continued)

b. Outstanding balances with related parties are summarised below: (Continued)

The balances due from (to) fellow subsidiaries are unsecured, non-interest bearing and have no pre-determined repayment terms except for the amount due to South China Securities Limited which is secured, bears interest at 4% above the Hong Kong prime lending rate.

The balance due to the intermediate holding company is unsecured, bears interest at rate of 1% above Hong Kong prime lending rate and has no pre-determined repayment terms.

c. As at 31 December 2000, the Group had provided a guarantee of approximately \$165,989,000 (1999: 165,989,000) to secure the banking facilities granted to an associate in relation to a property development project of the associate (see Notes 15 and 30).

4. TURNOVER AND OTHER REVENUE

Analysis of turnover and other revenue by principal activity is as follows:

	2000 \$'000	1999 \$'000
Manufacturing — sale of merchandise	1,829,509	1,906,000
Information and technology related businesses	59,914	392
Trading	49,125	59,264
Proceeds from sale of properties	3,014	3,334
Property letting	3,260	2,436
Turnover	1,944,822	1,971,426
Sale of raw materials	1,714	7,678
Tooling/mould revenue	4,632	—
Management fees from associates	3,650	1,525
Interest income	13,285	24,265
Other revenue	23,281	33,468
Total revenue	1,968,103	2,004,894

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. TURNOVER AND OTHER REVENUE (Continued)

Analysis of turnover by geographical location* is as follows:

	2000 \$'000	1999 \$'000
United States of America	954,409	1,150,683
Europe	558,684	516,917
The People's Republic of China ("Mainland China")	186,871	143,458
Japan	86,203	35,168
Hong Kong	3,821	3,423
Others	154,834	121,777
Total turnover	1,944,822	1,971,426

* Turnover by geographical locations is determined on the basis of the location where merchandise is delivered and service is rendered.

5. (LOSS) PROFIT BEFORE TAXATION

(Loss) Profit before taxation in the consolidated income statement was determined after charging or crediting the following items:

	2000 \$'000	1999 \$'000
After charging		
Interest on		
— bank overdrafts and loans wholly repayable within five years	20,166	11,681
— amount due to an intermediate holding company (Note 3.a)	985	8,162
— amounts due to related companies (Note 3.a)	820	8
— finance leases	12	301
Operating lease rentals of premises		
— to third parties	13,927	12,262
— to a fellow subsidiary (Note 3.a)	1,771	1,443
Management fees charged by an intermediate holding company (Note 3.a)	14,000	12,345
Depreciation of fixed assets		
— owned assets	64,779	54,312
— assets held under finance leases	—	2,143
Provision for doubtful debts	27,855	4,623
Provision for slow-moving and obsolete inventories	14,511	18,168
Net loss on disposal of fixed assets	1,420	4,510
Staff (include directors) costs	391,203	402,709
Auditors' remuneration	1,400	1,136
Net exchange loss	250	—

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. (LOSS) PROFIT BEFORE TAXATION (Continued)

	2000	1999
	\$'000	\$'000
After crediting		
Rental income		
— charged to third parties	3,005	2,367
— charged to a fellow subsidiary	255	69
Interest income from		
— bank deposits	4,467	6,128
— advance to associates (Note 3.a)	8,116	11,729
— advance to an intermediate holding company (Note 3.a)	—	6,218
— advance to a fellow subsidiary (Note 3.a)	99	—
— trade debtors	603	190
Gain on disposal of interest in subsidiaries (Note a)	51,179	22,794
Gain on disposal/dilution of interest in an associate (Note b)	31,099	8,546
Management fees from associates	3,650	1,525
Net exchange gain	—	1,645

Notes:

- a. During the year, the Group disposed of certain interests in Wah Shing International Holdings Limited ("WSIHL") and recognised a gain on disposal of approximately \$37,230,000 (1999: \$22,794,000). In addition, South China Industries Holdings Limited, a wholly owned subsidiary of the Group disposed of its 100% interests in a subsidiary to WSIHL. In this connection, the Group recognised a gain on disposal of approximately \$9,949,000. The Group also recognised a gain of approximately \$4,000,000 in relation to the proceeds received for a subsidiary disposed in prior years.
- b. During the year, the Group disposed of certain interests in Fourseas.com Limited ("Fourseas"), an associate, and recognised a gain on disposal of approximately \$26,690,000 (1999: \$5,900,000). In addition, during the year, certain warrant holders of Fourseas exercised their rights to acquire shares in Fourseas. As a result, the Group recognised a dilution gain of approximately \$4,409,000 (1999: \$2,646,000).

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments are:

	2000 \$'000	1999 \$'000
Fees for executive directors	140	140
Fees for non-executive directors	20	20
Other emoluments for executive directors		
— Basic salaries and allowances	4,559	7,563
— Bonus*	—	6,664
— Contribution to pension scheme	187	187
	4,906	14,574

* The executive directors were entitled to a discretionary bonus.

Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	2000 Number of Directors	1999 Number of Directors
Executive directors		
— Nil-\$1,000,000	4	1
— \$1,000,001-\$1,500,000	—	2
— \$1,500,001-\$2,000,000	1	—
— \$2,500,001-\$3,000,000	—	2
— \$3,000,001-\$3,500,000	1	—
— \$7,000,001-\$7,500,000	—	1
	6	6
Non-executive directors		
— Nil to \$1,000,000	2	2

During the year, no directors waived any emoluments and no emolument of the Directors was incurred as inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

- b. During the year, the five highest-paid employees included two (1999: three) executive directors, details of whose remuneration are included in the disclosure in Note 6.a. The details of the emoluments of the remaining three (1999: two) highest-paid non-director employees are:

	2000 \$'000	1999 \$'000
Basic salaries and allowances	4,740	3,157
Bonus*	2,450	9,368
Contributions to pension scheme	112	36
	7,302	12,561

* The non-director employees were entitled to a discretionary bonus.

Analysis of emoluments paid to the aforementioned three (1999: two) non-director employees, by number of individuals and emolument ranges is as follows:

	2000 Number of Individuals	1999 Number of Individuals
\$1,000,001-\$1,500,000	1	—
\$1,500,001-\$2,000,000	1	1
\$10,500,001-\$11,000,000	1	1
	3	2

During the year, no emolument of the five highest-paid employees was incurred as inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

7. TAXATION

Taxation comprised:

	2000	1999
	\$'000	\$'000
<hr/>		
Company and subsidiaries:		
Provision for current taxation		
— Hong Kong profits tax	4,975	7,999
— Mainland China enterprise income tax	640	474
— Special rebate of Hong Kong profits tax	—	(300)
Provision for deferred taxation	565	—
	<hr/>	<hr/>
	6,180	8,173
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Associates:		
Provision for current taxation		
— Hong Kong profits tax	—	49
Write back of deferred taxation	(175)	—
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	(175)	49
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	6,005	8,222
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Hong Kong profits tax was provided at the rate of 16% (1999: 16%) on the estimated assessable profit arising in or derived from Hong Kong. The People's Republic of China ("Mainland China") enterprise income tax was provided by the subsidiaries with operations in the Mainland China at the applicable rates on their assessable profits.

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a profit of approximately \$15,704,000 (1999: \$104,536,000) dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

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9. DIVIDENDS

	2000 \$'000	1999 \$'000
Interim dividend paid of 0.2 cents (1999: 0.2 cents) per share	1,061	1,061
Final dividend (1999: 2 cents per share)	—	10,607
	1,061	11,668

10. RETAINED PROFIT

Retained profit comprised:

	2000 \$'000	1999 \$'000
Company and subsidiaries	409,465	342,686
Associates	(64,293)	(14,487)
	345,172	328,199

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of approximately \$1,870,000 (1999: \$53,783,000) and on the weighted average number of approximately 530,335,000 shares (1999: 530,337,000 shares) in issue during the year. No diluted earnings per share is presented as the effect on exercise of the outstanding options is anti-dilutive.

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12. FIXED ASSETS

a. Movements of fixed assets (consolidated) are:

	2000						1999	
	Land and buildings \$'000	Furniture and leasehold improvements \$'000	Machinery and equipment \$'000	Moulds and tools \$'000	Motor vehicles and vessels \$'000	Construction-in-progress \$'000	Total \$'000	Total \$'000
Cost or valuation								
Beginning of year	247,240	161,515	252,732	23,530	19,972	—	704,989	583,871
Additions	32,021	24,679	15,823	805	497	1,034	74,859	104,558
Attributable to acquisition of subsidiaries	—	437	—	—	—	—	437	33,375
Disposals	(4,071)	(6,697)	(3,570)	(108)	(16)	—	(14,462)	(17,135)
Transfer from construction-in-progress	—	—	914	—	—	(914)	—	—
Translation adjustments	—	—	—	—	—	—	—	320
End of year	275,190	179,934	265,899	24,227	20,453	120	765,823	704,989
Representing:								
At cost	227,681	179,934	265,899	24,227	20,453	120	718,314	657,480
At professional valuation in								
— 1988	31,112	—	—	—	—	—	31,112	31,112
— 1989	5,220	—	—	—	—	—	5,220	5,220
— 1992	204	—	—	—	—	—	204	204
— 1994	10,973	—	—	—	—	—	10,973	10,973
	275,190	179,934	265,899	24,227	20,453	120	765,823	704,989
Accumulated depreciation								
Beginning of year	36,183	107,784	161,445	18,472	14,442	—	338,326	278,292
Provision for the year	9,519	20,372	29,382	3,255	2,251	—	64,779	56,455
Attributable to acquisition of subsidiaries	—	—	—	—	—	—	—	15,268
Disposals	(4,071)	(3,462)	(3,070)	(106)	(8)	—	(10,717)	(11,768)
Translation adjustments	—	—	—	—	—	—	—	79
End of year	41,631	124,694	187,757	21,621	16,685	—	392,388	338,326
Net book value								
End of year	233,559	55,240	78,142	2,606	3,768	120	373,435	366,663
Beginning of year	211,057	53,731	91,287	5,058	5,530	—	366,663	305,579

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

12. FIXED ASSETS (Continued)

b. Details of land and buildings:

Geographical locations and tenure of title:

	2000 \$'000	1999 \$'000
Hong Kong		
— medium-term leases	80,133	63,282
Mainland China		
— medium-term leases	34,596	36,267
— others*	118,830	111,508
	233,559	211,057

* This included approximately \$21,751,000 (1999: \$11,730,000) for use of certain land in Shenzhen and Dongguan, Mainland China, of which the Group is still in the process of applying for the land use rights. The land use rights will be formally transferred to the Group after the remaining consideration of approximately \$8,242,000 (1999: \$11,591,000) disclosed in Note 29.a has been paid. The remaining balance of approximately \$97,079,000 (1999: \$99,778,000) represented construction costs of factory buildings on such land.

Certain properties, machinery and equipment with a net book value of approximately \$76,024,000 (1999: \$70,781,000) are mortgaged as collateral for the Group's banking facilities (see Note 32).

Certain land and buildings are stated at revalued amounts. Had those land and buildings been carried at cost less accumulated depreciation, the net book value of the Group's land and buildings as at 31 December 2000 would have been approximately \$205,057,000 (1999: \$182,555,000).

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13. INVESTMENT PROPERTIES

Movements of investment properties (consolidated) are:

	2000 \$'000	1999 \$'000
Beginning of year	95,528	52,746
Attributable to acquisition of subsidiaries	—	42,782
Addition	270	—
Deficit on revaluation (Notes 27 and 28.c)	(16,339)	—
End of year	79,459	95,528

Investment properties are stated at open market value as at 31 December 2000 as determined by Messrs. A.G. Wilkinson & Associates and Messrs. Sallmanns (Far East) Limited, independent qualified valuers. All of the Group's investment properties are mortgaged as collateral for the its banking facilities (see Note 32).

The geographical locations and tenure of investment properties are as follows:

	2000 \$'000	1999 \$'000
Hong Kong		
— medium-term leases	75,459	90,928
— long-term leases	4,000	4,600
	79,459	95,528

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. INVESTMENT PROPERTIES (Continued)

Details of the investment properties as at 31 December 2000 are as follows:

Location	Group's interest	Existing use
Units A, B and C on 2nd Floor, Unit A on 5th Floor, Units A, B and D on 10th Floor, The whole of 12th and 13th Floors, Carpark space Nos. 3, 4, 5, 6, 7, 13, 14, 15 and 16, Wah Shing Centre, 5 Fung Yip Street, Chaiwan, Hong Kong	52.8%	Industrial and carparking
Units J and L on 2nd Floor Private Car Parking Space Nos. G20 and G22 and Lorry Parking Space Nos. L3 and L4 on Ground Floor Kaiser Estate 2nd Phase Nos. 47-53 Man Yue Street Nos. 20-28 Man Lok Street Hungghom, Kowloon, Hong Kong	63.3%	Industrial and carparking
1st Floor of Block G Kimberley Mansion No. 15 Austin Avenue Tsimshatsui Kowloon Hong Kong	63.3%	Commercial and residential
Unit 14 on 6th Floor Nan Fung Commercial Centre No. 19 Lam Lok Street Kowloon Bay, Kowloon Hong Kong	63.3%	Commercial
Flats A, B, C and D on 1st Floor Fu Fung Building Nos. 5-7 Tsing Fung Street North Point Hong Kong	63.3%	Commercial

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. INVESTMENT PROPERTIES (Continued)

Location	Group's interest	Existing use
Unit A on Ground Floor Mai Luen Industrial Building Nos. 23-31 Kung Yip Street Kwai Chung New Territories	63.3%	Industrial

14. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries comprised:

	2000	1999
	\$'000	\$'000
Unlisted shares, at cost	234,018	234,018
Advances to subsidiaries	857,422	812,624
Advances from subsidiaries	(503,463)	(423,673)
	587,977	622,969

All of the balances with subsidiaries are unsecured, non-interest bearing and have no pre-determined repayment terms, except for approximately \$225,514,000 (1999: \$131,493,000) of advances to subsidiaries which bears interest at 1% over the Hong Kong prime lending rate.

The underlying value of investment in subsidiaries is, in the opinion of the Directors, not less than the Company's carrying value as at 31 December 2000.

As at 31 December 2000, the Company had given corporate guarantees of approximately \$43,900,000 (1999: \$29,900,000) to secure banking facilities of certain subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT IN SUBSIDIARIES (Continued)

Details of the principal subsidiaries as at 31 December 2000, all held indirectly by the Company, are as follows:

Name of company	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Wah Shing International Holdings Group:				
Buji Soft Toys Company Limited	Hong Kong	\$20 ordinary \$6,000,000 non-voting deferred shares (a)	52.8%	Trading in toys
Buji Soft Toys Company (BVI) Limited	British Virgin Islands/ Mainland China	US\$1,000	52.8%	Manufacturing of toys
Cophthorne Holdings Corporation	Republic of Panama/Hong Kong	US\$200	52.8%	Property investment
Everwin Toys (Dongguan) Company Limited (c)	Mainland China	\$22,500,000	52.8%	Manufacturing of toys
Grandwood Trading Limited	Hong Kong	\$2	52.8%	Investment in securities
Man Wah Trading Limited	Hong Kong	\$10,000	52.8%	Investment in securities
Shenzhen Wah Chung Toys Company Limited (d)	Mainland China	\$4,000,000	42.2% (e)	Manufacturing of toys
Smart Kids Industries Limited	Hong Kong	\$100	52.8%	Trading of toys

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Wah Shing International Holdings Group: (Continued)				
Triple Success Industrial Limited	Hong Kong	\$1,402,806	26.4% (e)	Manufacturing of moulds
Triple Success Industrial (BVI) Limited	British Virgin Islands/ Mainland China	US\$1,000	26.4% (e)	Manufacturing of moulds
Polecat Industries Limited	British Virgin Islands/ Hong Kong	US\$1	52.8%	Investment holding
Wah Bo Limited	British Virgin Islands/ Mainland China	US\$1,000	52.8%	Manufacturing of toys
Wah Do Plastic Manufactory (BVI) Limited	British Virgin Islands/ Mainland China	US\$1,000	52.8%	Manufacturing of toys
Wah Heng Toys (Shenzhen) Company Limited (c)	Mainland China	US\$6,900,000	52.8%	Manufacturing of toys
Wah Shing Toys Company Limited	Hong Kong	\$2 ordinary \$3,020,002 non-voting deferred shares (b)	52.8%	Trading of toys and investment holding
Creata International Limited	Hong Kong	\$4,400,000	52.8%	Manufacturing and trading of toys

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Wah Shing International Holdings Group: (Continued)				
Man Wah Plastics Company Limited	Hong Kong	\$2 Ordinary \$4,500,000 Non-voting deferred shares (a)	52.8%	Trading of toys and investment holding
Tandem Holdings Limited	British Virgin Islands	\$15,077,070	52.8%	Investment holding
Tandem Toys Limited	Hong Kong	\$20,000	52.8%	Investment holding
Wan Ngai Investments Limited	Hong Kong	\$10,000	52.8%	Investment in securities
WS Chemical Engineering Services Limited	Hong Kong/ Mainland China	\$2	52.8%	Manufacturing of chemicals
Wah Shing International Holdings Limited (listed on The Singapore Exchange Securities Trading Limited)	Bermuda/ Hong Kong	\$226,800,000	52.8%	Investment holding
Wah Shing Toys International (BVI) Limited	British Virgin Islands/Hong Kong	US\$1	52.8%	Investment holding
Wah Shing (BVI) Limited	British Virgin Islands/ Mainland China	US\$1,000	52.8%	Investment holding
Walter Toy (BVI) Limited	British Virgin Islands/ Mainland China	US\$1,000	52.8%	Manufacturing of toys

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
South China Information and Technology Group:				
Canada Oily Investment Limited	Hong Kong	\$10,000	32.3% (e)	Investment holding
Dongguan Taihe Garden Construction Co Ltd. (d)	Mainland China	Rmb59,955,699	33.8% (e)	Property development
Eastand Investments Limited	Hong Kong	\$2	63.3%	Investment holding
Free Speed Limited	Hong Kong	\$2	63.3%	Investment holding
Lion City Real Estate Limited	Hong Kong	\$10,000	38% (e)	Investment holding
Mount Properties Limited	Hong Kong	\$2	35.8% (e)	Property holding
Newbase Investments Limited	Hong Kong	\$2	35.8% (e)	Property holding
Qing Dao Dong Jian Real Estate Co. Ltd. (d)	Mainland China	Rmb5,046,880	38% (e)	Property development
Qing Dao Mandarin Dragon Real Estate Development Co. Ltd. (d)	Mainland China	Rmb11,336,835	35.8% (e)	Property development
Sino Leader Technology Limited	Hong Kong	\$100	63.3%	Investment holding
South China Information and Technology Limited (listed on The Stock Exchange of Hong Kong Limited)	Cayman Islands/ Mainland China	\$68,053,000	63.3%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
South China Information and Technology Group: (Continued)				
South China Strategic Limited	Hong Kong	\$308,593,789	63.3%	Investment holding
South China Strategic Property Development Limited	Hong Kong	\$5,000,000	63.3%	Investment holding
Super Bellax Limited	British Virgin Islands	US\$1	63.3%	Investment holding
Swell Sounds Investments Limited	British Virgin Islands	US\$1	63.3%	Investment holding
Tsuen Wan Shing On Estate Company Limited	Hong Kong	\$400,000	63.3%	Property holding
Wellscope Investments Limited	Hong Kong	\$10,000	38% (e)	Investment holding
Universal Yield Limited	British Virgin Islands	US\$1	63.3%	Investment holding
Beijing JTP Software Technology Co. Ltd. (d)	Mainland China	Rmb2,000,000	44.3% (e)	Information and technology related business
Beijing Galaxy Information System Co. Ltd. (d)	Mainland China	Rmb2,000,000	44.3% (e)	Information and technology related business
Shanghai Zhongteng Information Network Co. Ltd. (d)	Mainland China	Rmb4,600,000	38% (e)	Information and technology related business

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
South China Information and Technology Group: (Continued)				
Shanghai Hitti Information Technology Co. Ltd. (d)	Mainland China	Rmb3,100,000	38% (e)	Information and technology related business
South China Skytech Co. Ltd. (d)	Mainland China	Rmb6,000,000	42.3% (e)	Information and technology related business
Chongqing Incyber Opt. Inf. Sci. & Tech. Co. Ltd. (d)	Mainland China	Rmb3,500,000	41.2% (e)	Information and technology related business
South China Zenith Information Technology Co. Ltd. (d)	Mainland China	Rmb7,000,000	38% (e)	Information and technology related business
Chongqing Fortuna Information Technology Co. Ltd. (d)	Mainland China	Rmb3,300,000	44.3% (e)	Information and technology related business
LCT Ltd. (d)	Mainland China	Rmb6,000,000	38% (e)	Information and technology related business
Shenyang Shenglian Electronics Science & Technology Ltd. (d)	Mainland China	Rmb4,000,000	44.3% (e)	Information and technology related business
Shengyang Ruixin Information Technology Co. Ltd. (d)	Mainland China	Rmb600,000	42.4% (e)	Information and technology related business

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Others — non-Mainland China:				
Micon Limited	Hong Kong	\$2	100%	Investment holding
South China Industries (BVI) Limited	British Virgin Islands/Hong Kong	US\$10,000	100%	Investment holding
Trimwell Limited	Hong Kong	\$2	100%	Investment holding
South China Industries Investments Limited	Hong Kong	\$92,531,436	100%	Investment holding
South China Industries Holdings Limited	Hong Kong	\$2	100%	Investment holding
Wah Shing Electronics Company Limited	Hong Kong/ Mainland China	\$571,500	59%	Manufacturing of toys
Others — Mainland China:				
South China (Tianjin) Garment Co. Ltd. (d)	Mainland China	Rmb49,132,182	60%	Manufacturing of clothing
Tianjin South China Leather Products Co. Ltd. (d)	Mainland China	Rmb9,882,115	70%	Manufacturing of leather products
Tianjin South China Shoes Products Co. Ltd. (d)	Mainland China	Rmb36,100,200	80%	Manufacturing of leather footwear products
Tianjin South China Li Sheng Sports Wears Co. Ltd. (d)	Mainland China	Rmb9,940,167	80%	Manufacturing of sports products

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Others — Mainland China: (Continued)				
Tianjin South China Leather Chemical Products Co. Ltd. (d)	Mainland China	Rmb19,681,600	80%	Manufacturing of leather products
Tianjin South China Leather Products For Safety Co. Ltd. (d)	Mainland China	Rmb3,009,400	80%	Manufacturing of leather products

- a. The non-voting deferred shares have no voting rights, are only entitled to dividends when the net profit of the company exceeds \$5,000,000,000 and are not entitled to any distribution upon winding up unless a sum of \$100,000,000,000 has been distributed to the holders of ordinary shares of the company.
- b. The non-voting deferred shares have no voting rights, are only entitled to dividends when the net profit of the company exceeds \$100,000,000,000 and are not entitled to any distribution upon winding up unless a sum of \$100,000,000,000 has been distributed to the holders of ordinary shares of the company.
- c. Everwin Toys (Dongguan) Company Limited and Wah Heng Toys (Shenzhen) Company Limited are wholly foreign owned subsidiaries established in Mainland China.
- d. The Company's subsidiaries in Mainland China are sino-foreign equity joint ventures established for periods of 10 to 50 years expiring from 2004 to 2050.
- e. These are subsidiaries as the Group's interests in these companies are held through subsidiaries which in turn hold more than 50% of the issued voting share capital in these companies.

The above summary lists only the principal subsidiaries of the Company which, in the opinion of the Company's directors, principally affected the results 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.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2000.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENT IN ASSOCIATES

- a. Investment in associates comprised:

	Consolidated		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Unlisted shares, at cost	162,486	162,486	—	—
Shares listed in Hong Kong, at cost	106,433	80,019	—	—
Goodwill on acquisition, eliminated against reserves	(7,609)	(6,324)	—	—
Share of undistributed post-acquisition losses	261,310	236,181	—	—
	(64,293)	(14,487)	—	—
Advances to associates	197,017	221,694	—	—
Advances from associates	301,129	286,399	6,740	6,740
	(9,700)	(22,984)	—	—
	488,446	485,109	6,740	6,740
Quoted market value of shares listed in Hong Kong	117,757	374,604	N/A	N/A

The underlying value of investment in associates is, in the opinion of the Company's directors, not less than the carrying value as at 31 December 2000.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENT IN ASSOCIATES (Continued)

b. Details of the principal associates as at 31 December 2000, all held indirectly by the Company, are:

Name of company	Place of incorporation and operations	Percentage of equity interest held	Principal activities
Firm Wise Investment Limited	Hong Kong	19% (i)	Property development
Fourseas.com Limited (listed on The Stock Exchange of Hong Kong Limited)	Bermuda/Hong Kong	28.2%	Sale of air tickets and provision of travel-related services
Giant Riches Limited	Hong Kong	25%	Property development
Naning Huaguan Zeks Air Purification Co., Ltd. (iii)	Mainland China	25%	Manufacturing of compressors
Nanjing Sanda Machinery Co. Ltd. (iii)	Mainland China	38%	Manufacturing of compressors
Nanjing South China Dafang Electric Co. Ltd. (iii)	Mainland China	51% (ii)	Manufacturing of electrical motors
Nanjing South China Hua Guan Compressor Ltd. (iii)	Mainland China	51% (ii)	Manufacturing of compressors
Nanjing South China Power Capacitor Co. Ltd. (iii)	Mainland China	51% (ii)	Manufacturing of capacitors
Nanjing South China Sanda Motor Co. Ltd. (iii)	Mainland China	51% (ii)	Manufacturing of electrical motors

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENT IN ASSOCIATES (Continued)

- b. Details of the principal associates as at 31 December 2000, all held indirectly by the Company, are:
(Continued)

Name of company	Place of incorporation and operations	Percentage of equity interest held	Principal activities
Nanjing South China Santa Machinery Co. Ltd. (iii)	Mainland China	51% (ii)	Manufacturing of machinery
Nority International Group Limited (listed on The Stock Exchange of Hong Kong Limited)	Cayman Islands/ Mainland China	42.6%	Manufacturing of shoes and footwear products
Shanghai Qiao Ning Real Estate Development Co. Limited (iii)	Mainland China	12.9% (i)	Property development
Tianjin South China Tools (Holdings) Co. Ltd. (iii)	Mainland China	51% (ii)	Manufacturing of tools

- i. These are associates as the Group's interests in these companies are held through subsidiaries which in turn hold more than 20% of the issued voting share capital in these companies.

- ii. Prior to 1 January 1998, these companies were regarded as subsidiaries of the Group, as the Company's Directors considered they could exercise control over them. During the year ended 31 December 1998, the Group started discussions with its joint venture partners with the objective of rationalising its investments in Mainland China, and as a result, the Company's Directors considered they can now only exercise significant influence over these companies and hence they have been classified as associates since that time.

During the year, the Group continued its negotiation process with its joint venture partners. In addition, legal proceedings were taken against certain joint venture partners for breach of the joint venture agreements. In the opinion of the Company's Directors and their legal counsel, the outcome of such negotiation and legal proceedings is likely to be favourable to the Group and the Group will be able to recover at least the carrying value of its investments in these companies.

- iii. These associates are equity joint ventures established in Mainland China for periods of 10 to 50 years expiring in 2003 to 2046.

The above summary lists only the principal associates of the Company which, in the opinion of the Directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENT IN ASSOCIATES (Continued)

c. Details of advances to associates as at 31 December 2000 are as follows:

	Consolidated	
	2000	1999
	\$'000	\$'000
Firm Wise Investment Limited (i)	235,694	222,800
Fourseas.com Limited and its subsidiaries (ii)	51,797	49,959
Nanjing Hua Guan Compressor Ltd.	19	19
Nanjing South China Power Capacitor Co. Ltd.	2,912	2,912
Nanjing Sanda Motor Co. Ltd	93	93
Nanjing South China Santa Machinery Co. Ltd.	1,669	1,669
Nanjing South China Xin Long Machinery Co. Ltd	5	5
Nority International Group Limited and its subsidiaries	174	174
Shanghai Qiao Ning Real Estate Development Co. Limited (iii)	6,894	6,896
Tianjin South China Tools (Holdings) Co. Ltd	1,872	1,872
	301,129	286,399

Notes:

(i) Firm Wise Investment Limited ("FWIL") is principally engaged in development of a commercial building complex ("the Property") in Central, Hong Kong. The Property is expected to be completed in June 2001. As at 31 December 2000, the total cost of the Property, as reflected in its unaudited accounts, amounted to approximately \$1,281,000,000 (see Note 30). The Directors have assessed the realisable value of the Property, by reference to market price of comparable buildings and advice from independent qualified valuers, and consider that the net realisable value of the Property should not be less than its cost. As a result, no provision for the investment and advances in the associate is considered necessary.

The amounts advanced to FWIL are unsecured, bear interest at 0.5% per annum and have no pre-determined repayment terms.

(ii) Balances with Fourseas.com Limited and its subsidiaries are unsecured, bear interest at rates ranging from Hong Kong prime lending rate to Hong Kong prime lending rate plus 2% and have no pre-determined repayment terms.

(iii) Shanghai Qiao Ning Real Estate Development Co. Limited ("SQNREDCL") is an equity joint venture incorporated in Mainland China for a period of 10 years expiring in 2003. As at 31 December 2000, the sole asset of SQNREDCL comprised a property under development located in Shanghai, Mainland China, on which the construction work has ceased and yet to be resumed, pending the resolution of certain disputes between the joint venture partners. The Directors have assessed the realisability of the property under development by reference to advice from independent qualified valuers, and consider that the net realisable value of the property under development should not be less than its cost. As a result, no provision for such investment in associate is considered necessary.

All other balances with associates are unsecured, non-interest bearing and have no pre-determined repayment terms.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. LONG-TERM INVESTMENTS

Long-term investments (consolidated) comprised:

	2000 \$'000	1999 \$'000
Investments in shares listed in Hong Kong, at market value	32,859	52,828
Unlisted investments, at cost	9,553	9,023
Provision for impairment in value	(5,000)	(1,000)
	4,553	8,023
	37,412	60,851

The underlying value of long-term investments is, in the opinion of the Directors, not less than the carrying value as at 31 December 2000.

17. PROPERTIES UNDER DEVELOPMENT

The geographical locations and tenure of properties under development (consolidated) are:

	2000 \$'000	1999 \$'000
Hong Kong — medium-term leases	17,874	17,887
Mainland China	59,826	69,606
	77,700	87,493

Properties under development located in Mainland China are held under land use rights with periods from 50 to 70 years expiring in 2043 to 2063.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. PROPERTIES UNDER DEVELOPMENT (Continued)

Details of properties under development as at 31 December 2000 are as follows:

Location	Group's interest	Stage of construction	Expected completion date	Expected use	Approximate gross floor area
Nos. 18–20 Ming Fung Street, Wong Tai Sin, Kowloon, Hong Kong	63.3%	Planning	N/A	Residential/ commercial	Site area is 1,800 sq.ft.
Qingdao National Shilaoren Tourist Area (known as Land Plot No. 1–3–3) Qingdao, Shangdong Province, Mainland China	38% (a)	Site formation	N/A	Residential/ commercial	Site area is 537,973 sq.ft.
South of Zhanjiangan Lu and west of Xujiamaidao Hotel Qingdao, Shangdong Province, Mainland China	63.3%	Bare site	N/A	Residential/ commercial	Site area is 124,007 sq.ft.
Dongguan Lion City, Liaobu Zhen, Dongguan, Guangdong Province, Mainland China	38% (a)	Bare site	N/A	Residential/ commercial	2,123,351 sq.ft.

- a. These properties under development are held by subsidiaries, the Group's interests in which are held through other subsidiaries which in turn hold more than 50% of the issued voting share capital in these subsidiaries.

The properties under development in Hong Kong are mortgaged as collateral for the Group's banking facilities (see Note 32).

NOTES TO THE FINANCIAL STATEMENTS*(Amounts expressed in Hong Kong dollars unless otherwise stated)***18. INVENTORIES**

Inventories (consolidated) comprised:

	2000	1999
	\$'000	\$'000
Raw materials	123,943	113,890
Work-in-progress	78,076	87,451
Finished goods	54,837	75,921
	256,856	277,262

Certain inventories were held under import trust receipts bank loans (see Note 32).

19. TRADE RECEIVABLES

The Group normally grants a credit period of 30 days to 90 days to its customers who have good payment records and a well-established relationship with the Group.

As at 31 December 2000, an aging analysis of trade receivables (consolidated), net of provision for bad and doubtful debt, is as follows:

	2000	1999
	\$'000	\$'000
One month to six months	236,177	160,305
Seven months to one year	438	1,527
	236,615	161,832

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

20. PROPERTIES HELD FOR SALE

Properties held for sale located in Mainland China are held under land use rights of 70 years expiring in 2063. Details of properties held for sale as at 31 December 2000 are as follows:

Location	Group's effective interest	Classification
Developed portion of Dongguan Lion City, Liaobu Zhen, Dongguan, Guangdong Province, Mainland China	38% (a)	Residential/commercial

- a. These properties held for sale are held by a subsidiary, of which the Group's interest in this subsidiary is held through another subsidiary which in turn hold more than 50% of the issued voting share capital in this subsidiary.

21. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings comprised:

	Consolidated		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Overdrafts	15,002	5,608	7,862	—
Short-term bank loans	34,085	15,042	—	—
Import trust receipts bank loans	94,133	24,528	—	—
	143,220	45,178	7,862	—
Representing:				
Secured	117,586	37,565	7,862	—
Unsecured	25,634	7,613	—	—
	143,220	45,178	7,862	—

Short-term bank borrowings bear interest at 0.75% above the Hong Kong Interbank Offered Rate to 1% above the Hong Kong prime lending rate. Refer to Note 32 for details of the Group's banking facilities.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

22. TRADE PAYABLES

As at 31 December 2000, an aging analysis of trade payables (consolidated) is as follows:

	2000 \$'000	1999 \$'000
Current to six months	229,449	130,144
Seven months to one year	1,761	16,775
One year to two years	3,240	2,730
Over two years	935	591
	235,385	150,240

23. LONG-TERM BANK LOANS

Details of long-term bank loans (secured) are:

	Consolidated		Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Amounts repayable with a period				
— not exceeding one year	19,679	33,775	—	12,000
— more than one year but not exceeding two years	16,281	19,967	—	—
— more than two years but not exceeding five years	22,172	17,668	—	—
— over five years	2,100	—	—	—
	60,232	71,410	—	12,000
Less: Amounts repayable within one year included under current liabilities	(19,679)	(33,775)	—	(12,000)
	40,553	37,635	—	—

Long-term bank loans bear interest at rates of 1.5% above the Hong Kong Interbank Offered Rate to 0.75% above the Hong Kong prime lending rate. Refer to Note 32 for details of the Group's banking facilities.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

24. DEFERRED TAXATION

Deferred taxation represented the taxation effect of accelerated depreciation for taxation purposes.

Movements of deferred taxation (consolidated) are:

	2000 \$'000	1999 \$'000
Beginning of year	765	765
Provision for net timing difference	565	—
End of year	1,330	765

No deferred taxation on revaluation surpluses of investment properties (see Note 27) is provided because the revaluations do not constitute a timing difference. There was no significant unprovided deferred taxation as at 31 December 2000.

25. SHARE CAPITAL

	2000		1999	
	Number of shares '000	Nominal value \$'000	Number of shares '000	Nominal value \$'000
Authorised (Ordinary shares of \$0.1 each)	1,000,000	100,000	1,000,000	100,000
Issued and fully paid (Ordinary shares of \$0.1 each)				
Beginning of year	530,335	53,033	530,351	53,035
Repurchases of the Company's own shares	—	—	(16)	(2)
End of year	530,335	53,033	530,335	53,033

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. SHARE OPTIONS

The Company has a share option scheme under which it may grant options to executive directors and employees of the Group to subscribe for shares in the Company on or before 28 July 2002, subject to a maximum of 10% of the issued share capital of the Company from time to time excluding for this purpose shares issued on exercise of options. The subscription price will be determined by the Company's directors, and will not be less than the higher of the nominal value of the shares and 80% of the average closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of granting of the options.

Movements of share options (at the respective initial subscription prices of \$0.78 and \$1.18 per share subject to adjustment) during the year were as follows:

	Number of share options '000
Beginning of year	43,180
Cancelled during the year	(240)
End of year	42,940

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

27. RESERVES

Movements of reserves were:

	Share premium \$'000	Capital redemption reserve \$'000	Special reserve \$'000	Fixed assets revaluation reserve \$'000	2000 Investment properties revaluation reserve \$'000	Long-term investment revaluation reserve \$'000	Statutory reserves \$'000	Cumulative translation adjustments \$'000	Total \$'000	1999 Total \$'000
Consolidated										
Beginning of year	193,410	223	186,078	40,513	34,525	(15,435)	3,484	1,498	444,296	453,969
Cancellation of shares	—	—	—	—	—	—	—	—	—	2
Elimination of goodwill from acquisition of additional interests in subsidiaries	—	—	(34,644)	—	—	—	—	—	(34,644)	—
Discount arising from acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	—	—	7,590
Elimination of goodwill from acquisition of additional interest in an associate	—	—	(3,363)	—	—	—	—	—	(3,363)	—
Discount arising from acquisition of additional interest in associates	—	—	1,727	—	—	—	—	—	1,727	378
Discount written back on disposal of certain interest in a subsidiary	—	—	(660)	—	—	—	—	—	(660)	—
Discount written back on disposal of certain interest in an associate	—	—	1,672	—	—	—	—	—	1,672	—
Transfer from special reserve to retained profit (a)	—	—	(16,704)	—	—	—	—	—	(16,704)	(3,480)
Transfer from retained profit to statutory reserves	—	—	—	—	—	—	540	—	540	1,044
Deficit on revaluation of long-term investment	—	—	—	—	—	(8,916)	—	—	(8,916)	(15,435)
Realisation of long-term investment reserve upon disposal	—	—	—	—	—	6,072	—	—	6,072	—
Impairment in value of long-term investment	—	—	—	—	—	18,279	—	—	18,279	—
Deficit on revaluation of investment properties	—	—	—	—	(10,441)	—	—	—	(10,441)	—
Translation adjustments	—	—	—	—	—	—	—	88	88	228
End of year	193,410	223	134,106	40,513	24,084	—	4,024	1,586	397,946	444,296
Company										
Beginning of year	193,410	223	195,775	—	—	—	—	—	389,408	389,406
Cancellation of shares	—	—	—	—	—	—	—	—	—	2
End of year	193,410	223	195,775	—	—	—	—	—	389,408	389,408

Note:

- a During the year, the Group disposed of approximately 19.9% (1999: 4.1%) of its equity interest in Wah Shing International Holdings Limited ("WSIH"). A portion of the unrealised dilution gain recognised upon WSIH's initial public offering of shares in 1995, amounting to approximately \$16,704,000 (1999: \$3,480,000), was transferred from special reserve to retained profit.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

27. RESERVES (Continued)

b. Statutory reserves

The subsidiaries established in Mainland China are required to make appropriation from their respective retained profits to certain statutory reserve funds in accordance with PRC laws and regulations. Movements of the statutory reserve funds were:

	2000		Total \$'000	1999
	General fund \$'000	Development fund \$'000		Total \$'000
Beginning of year	929	2,555	3,484	2,440
Transfer from retained profit	270	270	540	1,044
End of year	1,199	2,825	4,024	3,484

Each of the group companies established in Mainland China is required by Mainland China Company Law to appropriate 10% of its statutory after-tax profit to a general fund until the balance of the fund reaches 50% of the share capital and thereafter any further appropriation is optional. The general fund can be utilised to offset prior years' losses or to increase share capital on the condition that the general fund shall be maintained at a minimum of 25% of the share capital after such issuance.

In addition, each of the group companies established in Mainland China as a sino-foreign equity joint venture is required by Mainland China Company law to appropriate a portion of its statutory after-tax profit to a development fund. The percentage of the appropriation is optional. The development fund is to be utilised for the betterment of business operations.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. NOTES TO THE STATEMENT OF CASH FLOWS

- a. Reconciliation of (loss) profit before taxation to net cash flows from operating activities:

	2000	1999
	\$'000	\$'000
(Loss) Profit before taxation	(18,807)	86,536
Interest income	(13,285)	(24,265)
Interest expense	21,983	20,152
Gain on disposal of interest in subsidiaries	(51,179)	(22,794)
Gain on disposal/dilution of interest in an associate	(31,099)	(8,546)
Gain on disposal of long-term investment	(3,073)	—
Provision for impairment in value of interest in an associate	3,341	19,700
Provision for impairment in value of properties under development	462	4,000
Provision for impairment in value of long-term investments	22,279	1,000
Share of loss of associates	39,514	40,311
Depreciation of fixed assets	64,779	56,455
Net loss on disposal of fixed assets	1,420	4,510
Decrease (Increase) in inventories	21,096	(70,217)
(Increase) Decrease in trade receivables	(72,940)	15,084
Decrease in properties under development	9,331	2,187
Increase in properties held for sale	(5,537)	—
Increase in prepayments and deposits	(19,471)	(2,944)
Decrease in amounts due from fellow subsidiaries	15,366	15,303
Increase in trade payables	84,219	29,632
(Decrease) Increase in accruals	(72,805)	25,008
Increase (Decrease) in amounts due to fellow subsidiaries	112	(158,789)
	(4,294)	32,323

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

b. Details of net assets of subsidiaries acquired are as follows:

	2000	1999
	\$'000	\$'000
Fixed assets	437	18,107
Investment properties	—	42,782
Investment in associates	—	36,010
Advances to associates	—	222,796
Long-term investments	—	9,023
Inventories	690	5,682
Trade receivables	1,843	441
Properties under development	—	93,680
Properties held for sale	—	23,068
Prepayments and deposits	1,187	2,154
Due from related companies	—	23,916
Cash and bank deposits	2,251	12,131
Short-term bank borrowings	—	(6,174)
Trade payables	(926)	(2,011)
Accruals	(1,658)	(35,233)
Due to related companies	—	(152,643)
Taxation payable	—	(175)
Long-term bank loans	—	(12,417)
	3,824	281,137
Less: minority interests	(1,147)	(154,775)
Group's share of net assets acquired	2,677	126,362
Interest originally held by the Group as associates	—	(103,199)
	2,677	23,163
Goodwill (Discount) on acquisition	10,150	(7,590)
Consideration paid	12,827	15,573

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

- b. Details of net assets of subsidiaries acquired are as follows: (Continued)

Net cash outflow from acquisition of subsidiaries are as follows:

	2000 \$'000	1999 \$'000
Cash and bank deposits acquired	2,251	12,131
Short-term bank borrowings	—	(6,174)
Cash consideration	(12,827)	(15,573)
Net cash outflow from acquisition of subsidiaries	(10,576)	(9,616)

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

c. Analysis of changes in financing:

	Share capital (include share premium) \$'000	Long-term bank loans \$'000	Obligations under finance lease (included in accruals) \$'000	Minority interests \$'000	Advance from an intermediate holding company \$'000	Advance from associated companies \$'000	Total \$'000
1 January 1999	246,445	64,000	6,964	148,909	—	2,742	469,060
Increase in advances from associates	—	—	—	—	—	20,242	20,242
Increase in amount due to an intermediate holding company	—	—	—	—	44,950	—	44,950
Dividends paid to minority shareholders of subsidiaries	—	—	—	(34,233)	—	—	(34,233)
Share of profit for the year Attributable to acquisition of subsidiaries	—	—	—	24,531	—	—	24,531
New long-term bank loans	—	12,417	—	154,775	—	—	167,192
Repayment of capital element of finance lease obligations	—	16,993	—	—	—	—	16,993
Repayment of long-term bank loans	—	—	(5,769)	—	—	—	(5,769)
Repurchase of shares Attributable to disposal of interest in a subsidiary	(2)	(22,000)	—	—	—	—	(22,000)
Translation adjustments	—	—	—	1,346	—	—	1,346
1 January 2000	246,443	71,410	1,195	314,738	44,950	22,984	701,720
Decrease in advance from associates	—	—	—	—	—	(13,284)	(13,284)
Decrease in amount due to intermediate holding company	—	—	—	—	(41,599)	—	(41,599)
Dividends paid to minority shareholders of subsidiaries	—	—	—	(22,014)	—	—	(22,014)
Share of loss for the year Attributable to acquisition of subsidiaries	—	—	—	(26,682)	—	—	(26,682)
Acquisition of additional interest in a subsidiary	—	—	—	1,147	—	—	1,147
Repayment of capital element of finance lease obligations	—	—	(1,195)	—	—	—	(1,195)
Repayment of long-term bank loans	—	(11,178)	—	—	—	—	(11,178)
Deficit on revaluation of investment properties	—	—	—	(5,898)	—	—	(5,898)
Share of goodwill from acquisition of additional interest in an associate	—	—	—	(1,796)	—	—	(1,796)
Share of discount written back on disposal of interest in an associate	—	—	—	892	—	—	892
Attributable to disposal of interest in subsidiaries	—	—	—	53,918	—	—	53,918
Capital contribution from minority shareholders of subsidiaries	—	—	—	8,207	—	—	8,207
31 December 2000	246,443	60,232	—	305,430	3,351	9,700	625,156

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

d. Analysis of cash and cash equivalents:

	2000	1999
	\$'000	\$'000
Cash and bank deposits	118,243	158,642
Overdrafts	(15,002)	(5,608)
Short-term bank loans	(34,085)	(15,042)
Import trust receipts bank loans	(94,133)	(24,528)
	(24,977)	113,464

29. COMMITMENTS

a. Capital commitments (consolidated) are:

As at 31 December 2000, the Group has capital commitments in Hong Kong and Mainland China as follows:

	2000	1999
	\$'000	\$'000
Contracted but not provided for		
— Purchase of machinery and equipment	3,802	11,502
— Construction of factory buildings	2,616	5,986
— Acquisition of land use rights	8,242	11,591
	14,660	29,079
Authorised by the Directors but not contracted for		
— Property development	76,519	75,947
	91,179	105,026

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

29. COMMITMENTS (Continued)

b. Operating lease commitments (consolidated) are:

Lease commitments in respect of rented premises under various non-cancellable operating lease agreements payable within the next twelve months are analysed as follows:

	2000 \$'000	1999 \$'000
Leases expiring		
— within one year	1,280	1,438
— within two to five years	7,665	7,124
— over five years	2,300	4,783
	11,245	13,345

30. CONTINGENT LIABILITIES

Contingent liabilities not provided for in the financial statements comprised:

	Consolidated		Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Guarantees given to banks for banking facilities granted to				
— Firm Wise Investments Limited ("FWIL"), an associate	165,989	165,989	89,161	89,161
— subsidiaries	—	—	43,900	29,900
	165,989	165,989	133,061	119,061

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. CONTINGENT LIABILITIES (Continued)

A summary of the balance sheet as at 31 December 2000 of FWIL based on its unaudited account and the Group's attributable interests in FWIL are as follows:

	Balance sheet	Group's attributable interests
	\$'000	\$'000
Property under development	1,281,548	384,464
Current assets	724	217
Current liabilities	(442,984)	(132,895)
Due to shareholders	(251,232)	(75,369)
Due to a fellow subsidiary	(588,110)	(176,433)
	(54)	(16)

31. PENSION SCHEMES

Following the introduction of the Mandatory Provident Fund legislation in Hong Kong, the Group companies participate in two pension schemes, one registered under the Occupational Retirement Scheme Ordinance ("the ORSO Scheme") and one registered under the Mandatory Provident Fund legislation ("the MPF Scheme").

Under the ORSO Scheme, the Group has arranged for its employees (including certain executive directors) provident funds under several defined contribution schemes managed by independent trustees. The employees make monthly contributions to the schemes at 5% of their basic salaries, while the Group makes monthly contributions to these schemes at 5% to 7.5% of the employees' basic salaries. The employees are entitled to receive their entire contribution and the accrued interest thereon, and 100% of the employer's contribution and the accrued interest thereon upon retirement or leaving the Group after completing 10 years of service or at a reduced scale of between 20% to 90% after completing 2 to 9 years of service. The forfeited contributions made by the Group and related accrued interest are used to reduce the employer's contribution. This scheme is not available to new employees after 1 December 2000.

The MPF Scheme was set up on 1 December 2000 and is a defined contribution scheme managed by independent trustees. Members of the ORSO Scheme were given an one-time option to choose to transfer to the MPF Scheme or remain in the ORSO Scheme. Under the MPF Scheme, each of the Group and its employees makes monthly contribution to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from employees and employer are subject to a cap of monthly earnings of \$20,000.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. PENSION SCHEMES (Continued)

As stipulated by Mainland China regulations, all retired employees of the Group's Mainland China subsidiaries are entitled to an annual pension equal to their basic annual salary upon retirement. The Group's Mainland China subsidiaries contribute to a State-sponsored retirement plan approximately 12% to 30% of the basic salary of their employees, and have no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. The State-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

During the year, the aggregate employer's contributions made by the Group was approximately \$8,383,000 (1999: \$7,399,000) after deduction of forfeited contributions of approximately \$864,000 (1999: \$775,000).

32. BANKING FACILITIES AND PLEDGES OF ASSETS

As at 31 December 2000, the Group's banking facilities for overdrafts, loans and trade financing were secured by:

- a. mortgages over the Group's land and buildings, machinery and equipment and investment properties and properties under development with an aggregate net book value of approximately \$173,357,000 (1999: \$166,309,000) (see Notes 12, 13 and 17);
- b. pledges of the Group's investment in Wah Shing International Holdings Limited, with a carrying value of approximately \$38,432,000 (1999: \$45,561,000);
- c. the Group's inventories released under import trust receipts bank loans (see Note 18); and
- d. pledges of the Group's bank deposit of \$27,500,000 (1999: \$7,500,000).

33. ULTIMATE HOLDING COMPANY

The Company's Directors consider South China Holdings Limited, a company incorporated in the Cayman Islands and whose shares are listed on The Stock Exchange of Hong Kong Limited, to be the ultimate holding company.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

34. SUBSEQUENT EVENT

On 31 March 2001, the Group received notices of assessment from the Hong Kong Inland Revenue Department ("IRD") indicating additional Hong Kong profits tax payable of approximately \$49,986,000 in relation to the Group's estimated assessable profits for the year ended 31 December 1994. The Directors and the tax representative of the Group are not aware of the exact basis of arriving at the amount of additional tax as assessed based on the estimated profits and have requested details of such basis from the IRD. They consider that such significant amount of additional assessments is unreasonable and will lodge an objection to the IRD in due course. Accordingly, no provision for Hong Kong profits tax has been made in the consolidated financial statements of the Group as at 31 December 2000 in respect of the additional assessments.

35. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.