

# NOTES TO THE ACCOUNTS

## 1. GROUP RECONSTRUCTION AND BASIS OF PREPARATION

- (a) The Company was incorporated in Bermuda on 25th September 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Pursuant to a group reconstruction completed on 11th December 2000 in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the Company became the holding company of the subsidiaries listed under note 13 to the accounts. The Company's shares were listed on the Stock Exchange on 21st December 2000.
- (b) The group reconstruction is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice 2.127 "Accounting for group reconstructions". The consolidated accounts of the Group for the year ended 31st December 2000, including the comparative figures, are prepared as if the company had been the holding company of the Group from the beginning of the earliest period presented.
- (c) The accounts have been prepared under the historical cost convention in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.
- (d) No balance sheet of the Company as at 31st December 1999 is presented in the accounts, as the Company was not yet incorporated on that date.

## 2. PRINCIPAL ACCOUNTING POLICIES

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

### (A) CONSOLIDATION

The group reconstruction referred to in note 1 above has been accounted for using merger accounting by regarding the company as being the holding company of the group from the beginning of the earliest period presented.

## **2. PRINCIPAL ACCOUNTING POLICIES** *(continued)*

### **(A) CONSOLIDATION** *(continued)*

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Apart from the group reconstruction referred to in note 1 above, 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, as appropriate.

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

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

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors.

### **(B) FIXED ASSETS**

#### *(I) LEASEHOLD LAND AND BUILDINGS*

Leasehold land and buildings are stated at cost less accumulated depreciation. Depreciation of leasehold land is calculated on a straight-line basis over the unexpired periods of the leases. Depreciation of leasehold buildings is calculated on a straight-line basis over the unexpired periods of the leases or their expected useful lives of 50 years to the Group, whichever is shorter.

#### *(II) LEASEHOLD IMPROVEMENTS*

Leasehold improvements are stated at cost less accumulated depreciation. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

Depreciation of leasehold improvements is calculated to write off their carrying amounts over the unexpired periods of the leases or their expected useful lives to the Group, whichever is shorter. The principal annual rates used for this purpose ranging from 20% to 30%.

## **2. PRINCIPAL ACCOUNTING POLICIES** *(continued)*

### **(B) FIXED ASSETS** *(continued)*

#### *(III) OTHER TANGIBLE FIXED ASSETS*

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation on other tangible fixed assets is calculated to write off their cost on a straight-line basis over their expected useful lives to the Group. The principal annual rates used for this purpose ranging from 20% to 30%.

#### *(IV) RESTORING COSTS*

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.

#### *(V) RECOVERABLE AMOUNTS*

The carrying amounts 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.

#### *(VI) GAIN OR LOSS ON DISPOSAL OF FIXED ASSETS*

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.

### **(C) ASSETS UNDER OPERATING LEASES**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

### **(D) INVESTMENT**

The Company's interest in club membership is shown as investment and stated at cost less any provision made to the extent that the directors consider significant diminution in value other than temporary in nature has taken place.

## **2. PRINCIPAL ACCOUNTING POLICIES** *(continued)*

### **(E) INVENTORIES**

Inventories are stated at the lower of cost and net realisable value. Cost, representing invoiced value, is assigned to individual items on the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### **(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.

### **(G) 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.

### **(H) TRANSLATION OF FOREIGN CURRENCIES**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction 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. All exchange differences arising in these cases are dealt with in the profit and loss account.

### **(I) REVENUE RECOGNITION**

Revenue from the sales of goods, at invoiced value net of sales discounts and returns, is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when cash is received for retail sales and when the goods are delivered to customers and the title has passed for credit sales.

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

Rental income from sub-letting is recognised on an accrual basis.

## **2. PRINCIPAL ACCOUNTING POLICIES** *(continued)*

### **(J) BORROWING COSTS**

All borrowing costs are charged to the profit and loss account in the year in which they are incurred except for borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

### **(K) LONG SERVICE PAYMENTS**

Provision is made on an accrual basis for long service payments to employees which are payable upon termination of their employments, and are reduced by provisions made for employees who leave the Group and do not meet the statutory requirements.

### **(L) RETIREMENT BENEFIT COSTS**

The Group's contributions to the Mandatory Provident Fund scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the trading and distribution of construction materials, mainly water pipes and fittings. Revenue recognised during the year are as follows:

	<b>2000</b> <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Turnover		
Sales of water pipes and fittings	<b>433,244</b>	393,256
Sub-letting of warehouse	<b>2,257</b>	2,762
	<u><b>435,501</b></u>	<u>396,018</u>
Other revenue		
Interest income	<b>836</b>	1,395
Rental income	<b>230</b>	276
	<u><b>1,066</b></u>	<u>1,671</u>
Total revenue	<u><b>436,567</b></u>	<u>397,689</u>

Geographical segment information is not shown as the Group's turnover and operating profit are all derived from Hong Kong.

No analysis of operating profit by segment is presented as the amount attributable to the segment other than the sales of water pipes and fittings is not significant.

#### 4. OPERATING PROFIT

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Operating profit is stated after charging:		
Auditors' remuneration	442	151
Depreciation	3,655	3,238
Staff costs	41,872	40,083
Long service payment provision (included in staff costs)	2,141	831
Write-off of bad debts	214	38
Operating leases on land and buildings	<u>11,359</u>	<u>12,452</u>
And crediting:		
Net exchange gains	1,716	55
Recovery of bad debts previously written-off	–	54
Net gains on disposal of fixed assets	<u>430</u>	<u>192</u>

#### 5. FINANCE COSTS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Interest on bank loans	5,363	2,304
Interest expenses on other advances	–	165
Others	<u>2</u>	<u>17</u>
	<u>5,365</u>	<u>2,486</u>

## 6. TAXATION

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profit for the year.

	<b>2000</b>	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax	<b>8,548</b>	8,950
Over provisions in previous years	<b>(978)</b>	(264)
10% rebate for 1997/98 profits tax	–	(1,110)
	<u><b>7,570</b></u>	<u>7,576</u>

## 7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$49,000.

## 8. DIVIDENDS

The Directors do not recommend the payment of a final dividend.

Dividends in 1999 and prior to the incorporation of the Company represented dividends paid/proposed by the subsidiaries to the then shareholders prior to the group reconstruction. The dividend rates and the number of shares ranking for the dividends are not presented as this would be hypothetical due to the group reconstruction.



## 9. DIRECTORS' EMOLUMENTS

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

	<b>2000</b>	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, other allowances and benefits in kind	<b>6,803</b>	6,411
Performance/discretionary bonus	<b>5,044</b>	5,109
Commission	<b>1,731</b>	–
Retirement scheme contribution	<b>6</b>	–
	<u><b>13,584</b></u>	<u>11,520</u>

The emoluments of the directors fell within the following bands:

	<b>Number of directors</b>	
	<b>2000</b>	1999
Emoluments bands		
Nil to HK\$1,000,000	<b>3</b>	3
HK\$1,000,001 to HK\$1,500,000	–	2
HK\$1,500,001 to HK\$2,000,000	<b>1</b>	1
HK\$2,000,001 to HK\$2,500,000	<b>1</b>	–
Over HK\$2,500,000	<b>3</b>	2
	<u><b>8</b></u>	<u>8</u>

- (b) The five individuals whose emoluments were the highest in the Group during the year are the directors of the Company. Details of their emoluments are reflected in the analysis presented above.
- (c) During the year, no directors waived any emoluments and no emoluments had been paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## **10. RETIREMENT BENEFIT COSTS**

In November 2000, the Group entered into an agreement with a Mandatory Provident Fund provider in relation to the Mandatory Provident Fund scheme (the “MPF Scheme”) of the Group. Under the MPF Scheme, contributions of 5% of the employee’s monthly salary are made by the employer and the employee.

Prior to the participation of the MPF Scheme, the Group did not have any formal pension scheme for either its employees or its directors. Full provision has been made in respect of the obligations for long service payment to its employees who are eligible for long service payment on termination of their employment pursuant to the Employment Ordinance (Chapter 57) of the laws of Hong Kong. The provision for long service payments as at 31st December 2000 was HK\$9,155,000 (1999: HK\$7,014,000).

## **11. EARNINGS PER SHARE**

The calculation of earnings per share is based on the Group’s profit attributable to shareholders of HK\$45,739,000 (1999: HK\$41,287,000) and the weighted average of 181,808,219 shares (1999: 180,000,000 shares) deemed to be in issue during the year. In determining the weighted average number of shares deemed to be in issue in the current year, the 1,800,000 shares issued as consideration of the acquisition by the Company of the entire issued share capital of World Trade (BVI) and the capitalisation issue of 178,200,000 shares pursuant to the group reconstruction were deemed to have been in issue on 1st January 2000.

For comparison purposes, both the 1,800,000 shares issued as consideration of the acquisition by the Company of the entire issued share capital of World Trade (BVI) and the capitalisation issue of 178,200,000 shares mentioned above were also deemed to have been in issue on 1st January 1999 for the purpose of the calculation of earnings per share.

The Company has no potential dilutive ordinary shares that were outstanding during the two years ended 31st December 2000.

## 12. FIXED ASSETS

	Leasehold land and buildings	Leasehold improvements	Office furniture, fixtures and fittings	Office equipment	Machinery & equipment	Computer equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost								
At 1st January 2000	410	3,128	729	96	1,638	4,368	11,403	21,772
Additions	-	-	-	-	18	28	1,398	1,444
Disposals	(410)	-	(213)	(31)	(148)	-	(356)	(1,158)
At 31st December 2000	-	3,128	516	65	1,508	4,396	12,445	22,058
Accumulated depreciation								
At 1st January 2000	51	819	657	50	1,300	3,989	6,716	13,582
Charge for the year	-	626	18	18	207	154	2,632	3,655
Disposals	(51)	-	(204)	(23)	(148)	-	(356)	(782)
At 31st December 2000	-	1,445	471	45	1,359	4,143	8,992	16,455
<b>Net book value</b>								
At 31st December 2000	-	<b>1,683</b>	<b>45</b>	<b>20</b>	<b>149</b>	<b>253</b>	<b>3,453</b>	<b>5,603</b>
Net book value								
At 31st December 1999	359	2,309	72	46	338	379	4,687	8,190

The land and buildings of the Group are all situated in Hong Kong and are held under long leases of over 50 years.

### 13. INVESTMENTS IN SUBSIDIARIES

	<b>2000</b> <b>HK\$'000</b>
Unlisted shares, at cost	<b>86,938</b>
Due from subsidiaries	<b>7,404</b>
	<hr/> <b>94,342</b> <hr/>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Company	Place of incorporation	Issued and fully paid-up share capital	Percentage of attributable equity	Principal activities
Held directly:				
World Trade Bun Kee (BVI) Ltd.	British Virgin Islands	Ordinary US\$10,000	100%	Investment holding
Held indirectly:				
Bun Kee (International) Limited	Hong Kong	Non-voting deferred shares HK\$3,000,000 Ordinary shares HK\$100	100%	Trading of construction materials, mainly pipes and fittings
Hamerwind Building Materials Company Limited	Hong Kong	Ordinary shares HK\$80,000	100%	Provision of warehousing and goods handling services
Hing's Godown & Transportation Company Limited	Hong Kong	Ordinary shares HK\$100,000	100%	Provision of warehousing services

### 13. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company	Place of incorporation	Issued and fully paid-up share capital	Percentage of attributable equity	Principal activities
National Link Investments Limited	Hong Kong	Ordinary shares HK\$600,000	100%	Trading of construction materials and provision of agency services
Patterson Engineering Company Limited	Hong Kong	Ordinary shares HK\$100,000	100%	Trading of construction materials and provision of agency services

All subsidiaries carry out their business operations in Hong Kong.

### 14. INVENTORIES

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Merchandises	<u>113,616</u>	<u>112,749</u>

At 31st December 2000, provision for slow-moving inventories amounted to HK\$3,734,000 (1999: 3,267,000).

## 15. TRADE RECEIVABLES

Details of the ageing analysis are as follows:

	<b>2000</b>	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current to 30 days	<b>27,140</b>	29,978
31 days to 60 days	<b>32,108</b>	29,681
61 days to 90 days	<b>24,733</b>	17,467
91 days to 150 days	<b>17,957</b>	11,805
	<hr/> <b>101,938</b> <hr/>	<hr/> 88,931 <hr/>

Customers are generally granted with credit terms of 30 days to 120 days.

## 16. LOANS TO OFFICERS

Name	Terms of the loan (interest rate, security, duration and payment terms)		<b>2000</b>	1999
			<i>HK\$'000</i>	<i>HK\$'000</i>
Ms. Lo Wai Yin (Retail shop manager)	8.25% p.a., unsecured, advanced on 16th February 1996 and repayable by monthly instalments up to 15th February 2001	Balance at the beginning of the year	<b>37</b>	69
		Balance at the end of the year	<b>2</b>	37
		Maximum amount outstanding during the year	<b>37</b>	69

This represents staff housing loans. At 31st December 1999 and 2000, there was no interest due and outstanding and no provision has been made for non-repayment of the loans or interest.

## 17. TRADE PAYABLES

Details of the ageing analysis are as follows:

	<b>2000</b>	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current to 30 days	<b>2,929</b>	2,870
31 days to 60 days	<b>2,066</b>	2,415
61 days to 90 days	<b>9</b>	485
Over 90 days	<b>142</b>	1,379
	<u><b>5,146</b></u>	<u>7,149</u>

## 18. SHARE CAPITAL

### (A) SHARE CAPITAL

	<b>2000</b>
	<i>HK\$'000</i>
Authorised	
500,000,000 ordinary shares of HK\$0.10 each	<u><b>50,000</b></u>
Issued and fully paid	
240,000,000 ordinary shares of HK\$0.10 each	<u><b>24,000</b></u>

- (i) The Company was incorporated on 25th September 2000 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each, all of which were allotted and issued nil paid on 26th September 2000.
- (ii) In preparation for the listing of Company's shares on the Stock Exchange, the following changes in the Company's authorised and issued share capital were effective:
- On 22nd November 2000, the authorised share capital of the Company was increased from HK\$100,000 to HK\$180,000 by the creation of an additional 800,000 shares of HK\$0.10 each.

## **18. SHARE CAPITAL** *(continued)*

### **(A) SHARE CAPITAL** *(continued)*

- On 22nd November 2000, the Company (a) allotted and issued an aggregate of 800,000 new shares of HK\$0.10 each credited as fully paid at par and (b) credited as fully paid at par an aggregate of the 1,000,000 share allotted and issued nil paid as set out in (i) above, in consideration and in exchange for the acquisition of the entire issued share capital of World Trade (BVI).
  
  - On 27th November 2000, the authorised share capital of the Company was increased from HK\$180,000 to HK\$50,000,000 by the creation of an additional 498,200,000 shares of HK\$0.10 each.
  
  - On 27th November 2000, a total of 178,200,000 shares of HK\$0.10 each were all allotted as fully paid at par to the holders of the shares on the register of members of the Company in proportion to their respective shareholdings at the close of business on that date by way of capitalisation of the sum of HK\$17,820,000 standing to the credit of the share premium account of the Company conditional on the share premium account of the Company being credited as a result of the new issue of shares referred to in (iii) below.
- (iii) On 21st December 2000, 60,000,000 shares of HK\$0.10 each were issued to the public at HK\$1 each for a total cash consideration, before expenses, of HK\$60,000,000.
- (iv) The share capital presented in the consolidated balance sheet as at 31st December 1999 represents the share capital of the Company, arising on incorporation and from the exchanges of shares as mentioned in (ii) above, which is deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the basis of preparation referred to in note 1(a) and (b). The difference between the nominal value of these shares and the nominal value of the shares of the subsidiaries acquired pursuant to the group reconstruction is accounted for as merger reserve as at 31st December 1999 (note 19(a)).



## **18. SHARE CAPITAL** *(continued)*

### **(B) SHARE OPTIONS**

- (i) Under the terms of the share option scheme (the “Scheme”) adopted by the Company on 27th November 2000, the directors of the Company are authorised at their absolute discretion, to invite any full-time employee of the Company or any of its subsidiaries, including any executive director of the Company or any such subsidiary, to take up options to subscribe for shares in the Company. The Subscription price will be determined by the directors, but shall not be less than the higher of 80% of the average of the closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of the grant of the option or the nominal value of the shares. A consideration of HK\$10 is payable on acceptance of the grant of an option. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 10% of the issued share capital of the Company from time to time which has been duly allotted and issued. The Scheme became effective for a period of ten years commencing upon the listing of the Company’s shares on the Stock Exchange.
  
- (ii) Up to the balance sheet date, no share options had been granted under the Scheme.
  
- (iii) On 16th March 2001, a total of 10,028,000 options with an exercise price of HK\$0.96 per share were granted under the Scheme which are exercisable over a period of four years commencing on 19th March 2002.

## 19. RESERVES

### (A) GROUP

	Share premium	Capital reserve	Merger reserve <i>(note i)</i>	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January 1999	–	–	3,700	91,930	95,630
Acquisition of remaining interests in a subsidiary <i>(note ii)</i>	–	34,115	–	–	34,115
Profit attributable to shareholders	–	–	–	41,287	41,287
Dividends <i>(note 8)</i>	–	–	–	(57,700)	(57,700)
At 31st December 1999	–	34,115	3,700	75,517	113,332
At 1st January 2000	–	34,115	3,700	75,517	113,332
Premium on issue of new shares <i>(note 18(a)(iii))</i>	54,000	–	–	–	54,000
Capitalisation issue <i>(note 18(a)(ii))</i>	(17,820)	–	–	–	(17,820)
Listing expenses	(8,422)	–	–	–	(8,422)
Profit attributable to shareholders	–	–	–	45,739	45,739
Dividends <i>(note 8)</i>	–	–	–	(58,480)	(58,480)
At 31st December 2000	27,758	34,115	3,700	62,776	128,349

**19. RESERVES** *(continued)***(B) COMPANY**

	<b>Contributed surplus</b> <i>(note iii)</i> <i>HK\$'000</i>	<b>Share premium</b> <i>HK\$'000</i>	<b>Retained profits</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1st January 2000	–	–	–	–
Shares issued for the acquisition of subsidiaries <i>(note 18(a)(ii))</i>	86,759	–	–	86,759
Premium on issue of new shares <i>(note 18(a)(iii))</i>	–	54,000	–	54,000
Capitalisation issue <i>(note 18(a)(ii))</i>	–	(17,820)	–	(17,820)
Listing expenses	–	(8,422)	–	(8,422)
Profit attributable to shareholders	–	–	49	49
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2000	<u>86,759</u>	<u>27,758</u>	<u>49</u>	<u>114,566</u>

- (i) The merger reserve of the Group arising from the group reconstruction as mentioned in note 1, is determined by the difference between the nominal value of shares of the subsidiaries acquired pursuant to the group reconstruction and the nominal value of the Company's shares deemed to have been issued.
- (ii) This comprises the consideration of HK\$30,000,000 paid by the then shareholders in connection with the acquisition of the remaining 35% interests in Bun Kee (International) Limited in October 1999, and the surplus of approximately HK\$4,115,000, representing the excess of the fair value attributable to the said 35% over the consideration paid, which has been credited to capital reserve.

## 19. RESERVES *(continued)*

### (B) COMPANY *(continued)*

- (iii) The contributed surplus of the Company represents the difference between the nominal value of the shares issued by the Company in exchange for all the issued ordinary shares of World Trade (BVI) and the value of net assets of the underlying subsidiaries acquired by the Company on 22nd November 2000. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders, provided that the Company is, after the payment of dividends out of the contributed surplus, able to pay its liabilities as they became due; or the realisable value of the Company's assets would thereby not be less than the aggregate of its liabilities, its issued share capital and its share premium. At the group level, the contributed surplus is reclassified into its component of reserves of the underlying subsidiaries.
- (iv) At 31st December 2000, reserves of the Company available for distribution, including the contributed surplus, amounted to HK\$86,808,000.

## 20. DEFERRED TAXATION

There were no significant deferred taxation liability at 31st December 2000. The potential deferred taxation liabilities/(assets) not provided for/recognised in the accounts are analysed as follows:

	<b>2000</b>	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accelerated depreciation allowances	<b>221</b>	415
Other timing differences	<b>54</b>	(938)
	<hr/>	<hr/>
Deferred taxation liabilities/(assets)	<b>275</b>	(523)
	<hr/> <hr/>	<hr/> <hr/>

## 21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	<b>53,309</b>	57,383
Depreciation	<b>3,655</b>	3,238
Interest income	<b>(836)</b>	(1,395)
Interest expense	<b>5,365</b>	2,486
Net gains on disposal of fixed assets	<b>(430)</b>	(192)
(Increase)/decrease in trade and other receivables, deposits and prepayments	<b>(10,317)</b>	4,515
Decrease in loans to officers	<b>35</b>	50
Decrease in amount due from a related company	<b>1,000</b>	–
Increase in inventories	<b>(867)</b>	(16,780)
(Decrease)/increase in trade and other payables and accrued charges	<b>(8,996)</b>	5,382
Net cash inflow from operating activities	<b><u>41,918</u></b>	<b><u>54,687</u></b>

## 21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(continued)

(b) Analysis of changes in financing during the year:

	Share capital and share premium		Term loans and trust receipt loans	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At the beginning of the year	180	180	66,299	44,015
Issue of shares (note 18(a)(iii))	60,000	–	–	–
Listing expenses	(8,422)	–	–	–
Net increase of loans with maturity less than three months from date of advance	–	–	27,461	1,565
Net (decrease)/increase of loans with maturity over three months from date of advance	–	–	(1,621)	20,719
At the end of the year	<u>51,758</u>	<u>180</u>	<u>92,139</u>	<u>66,299</u>

## 22. OPERATING LEASES

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

	2000	1999
	HK\$'000	HK\$'000
Within one year	525	2,454
In the second to fifth year inclusive	<u>12,876</u>	<u>7,080</u>
	<u>13,401</u>	<u>9,534</u>

## 23. CONTINGENT LIABILITIES

	<b>Group</b>	
	<b>2000</b>	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Outstanding letters of credit	<b>8,971</b>	25,738
Indemnities in respect of shipping guarantees given by banks	<b>3,728</b>	3,249
	<b>12,699</b>	28,987

## 24. PENDING LITIGATION

Bun Kee (International) Limited was cited as a defendant in an action brought by a customer. The Group has filed a statement of defence. The sum included in the claim amounted to approximately HK\$645,000 plus other related costs. No further action has been taken by the customer since November 1999. The directors are of the opinion that the Group is unlikely to suffer any losses from the claim and no provision is considered necessary.

## 25. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

### (A) RECURRING TRANSACTIONS

		<b>2000</b>	1999
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental expenses paid to:			
Bun Kee (H.K.) Limited	(i)	<b>4,800</b>	5,734
Bun Kee (China) Limited	(i)	<b>2,516</b>	3,846
Yin On Investment Company Limited	(i)	<b>1,246</b>	1,706
Powerful Agents Limited	(ii)	<b>975</b>	–

## 25. RELATED PARTY TRANSACTIONS *(continued)*

### (A) RECURRING TRANSACTIONS *(continued)*

- (i) These companies are beneficially owned and controlled by certain directors of the Company. Rentals were paid to these companies for leasing office premises, retail outlets and warehouses of the Group. Up to 30th October, 2000 except for rental expenses in respect of a warehouse and an office premises rented from Yin On Investment Company Limited (“Yin On”) and Bun Kee (China) Limited, which were respectively charged at approximately 9% to 15% and 161% to 178% of the market rates as set out in the report of an independent professional property valuer, all other rental expenses paid to the related parties were at approximately 86% to 99% of the market rates.
- (ii) On 27th September 2000, the properties held by Yin On had been transferred to Powerful Agents Limited, a company beneficially owned and controlled by certain directors of the Company.
- (iii) Effective from 31st October 2000, new rental agreements were entered into between the Group and Bun Kee (H.K.) Limited, Bun Kee (China) Limited and Powerful Agents Limited under which these properties were rented to the Group based on market rates as determined by a firm of independent property valuers.

### (B) NON-RECURRING TRANSACTIONS

	<i>Note</i>	<b>2000</b> <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Management and consultancy fees			
paid to Bun Kee (China) Limited	(i)	–	1,416
Disposal of staff quarters			
to Bun Kee (China) Limited	(i)	<u><b>800</b></u>	<u>–</u>
Rental expenses paid to:			
Hamerwind Company Limited	(ii)	–	182
Crown Pacific Investments Limited	(ii)	<u>–</u>	<u>328</u>



## **25. RELATED PARTY TRANSACTIONS** *(continued)*

### **(B) NON-RECURRING TRANSACTIONS** *(continued)*

- (i) Bun Kee (China) Limited was the former ultimate holding company of Bun Kee (International) Limited and is beneficially owned by certain directors of the Company. Management and consultancy fees were based on terms as agreed between the companies. The consideration in respect of the staff quarters sold to Bun Kee (China) Limited was determined with reference to an independent professional valuation.
  
- (ii) These companies are beneficially owned and controlled by certain directors of the Company. Rentals were paid to these companies for leasing office premises and retail outlets of the Group based on monthly rates determined with reference to market rates less a discount of approximately 10%.

(C) Apart from the above, there were no other material related party transactions entered into by the Group during the year.

## **26. BANKING FACILITIES**

The Group had aggregate banking facilities of approximately HK\$178,855,000 as at 31st December 2000 (1999: HK\$150,555,000), for overdrafts, term loans and other trade finance facilities.

Banking facilities utilised as at 31st December 2000 amounted to approximately HK\$104,838,000 (1999: HK\$95,286,000).

These facilities were secured by guarantee given by the Company.

## **27. ULTIMATE HOLDING COMPANY**

The Directors regard On Top Industrial Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

## **28. APPROVAL OF ACCOUNTS**

The accounts were approved by the board of directors on 11th April 2001.