

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 1. Corporate Information

During the year, the Group was involved in the following principal activities:

- (i) Trading in goods including industrial equipment, automobile parts, metal and plastic materials;
- (ii) Property investment; and
- (iii) Manufacture and sale of gift boxes, watch boxes and spectacles cases.

During the year, the interest in the Company held by Chongqing Industrial Limited, the ultimate holding company of the Company in 1999, was diluted to 37.79%. In the opinion of the directors, the Company did not have any ultimate holding company at the balance sheet date.

## 2. Summary of Significant Accounting Policies

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain equity investments, as explained below.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### Subsidiaries

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

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in value, when they are written down to values determined by the directors.

# NOTES TO FINANCIAL STATEMENTS

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## 2. Summary of Significant Accounting Policies *(continued)*

### Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting.

### Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting. Goodwill or capital reserve arising from the acquisition of associates is eliminated against or credited to reserves.

### Goodwill or capital reserve

The goodwill or capital reserve arising on the consolidation of subsidiaries and acquisition of associates represents the difference between the purchase consideration paid and the fair values ascribed to the net underlying assets acquired and is eliminated against or credited to reserves in the year of acquisition. On disposal of subsidiaries, the relevant portion of attributable goodwill or capital reserve previously eliminated against or credited to reserves is written back or released and included in the calculation of the gain or loss on disposal.

### Related parties

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

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## 2. Summary of Significant Accounting Policies *(continued)*

### Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance costs, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Depreciation of fixed assets is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Long term leasehold land	Over the terms of the lease
Buildings	2%
Leasehold improvements	20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles and yachts	20%
Plant and machinery	10%
Moulds	15%

Construction in progress represents a building under construction and is stated at cost and is not depreciated. Cost comprises direct costs of construction and interest charges on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

### Leased assets and assets under hire purchase contracts

Leases and hire purchase contracts that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease or hire purchase contract, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Such assets are included in fixed assets and are depreciated over the estimated useful lives of the assets. The finance costs of assets held under finance leases or hire purchase contracts are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

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

# NOTES TO FINANCIAL STATEMENTS

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## 2. Summary of Significant Accounting Policies *(continued)*

### Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account.

Upon the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released from the investment property revaluation reserve to the profit and loss account.

### Unlisted investments

Unlisted investments held represent club debentures, which are intended to be held for long term purpose, are stated at cost less any provisions for diminutions in values, other than those considered to be temporary in nature, considered necessary by the directors.

### Other investments

Investments in listed securities which are held for the purposes of capital gain are classified as other investments. They may be held for longer term or trading purposes.

Other investments are stated at fair value on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of such investments are credited or charged to the profit and loss account for the period in which they arise.

### Stocks

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

### Deferred tax

Provision is made for deferred tax, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### Foreign currencies

The Group's financial records are maintained and the financial statements are stated in Hong Kong dollars. Foreign currency transactions are recorded at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

# NOTES TO FINANCIAL STATEMENTS

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## 2. Summary of Significant Accounting Policies *(continued)*

### Foreign currencies *(continued)*

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

### Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash and bank balances and time deposits represent assets which are not restricted as to use.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods and properties sold;
- (b) rental income from properties, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (d) dividends, when the shareholders' right to receive payment is established; and
- (e) from the sale of listed securities, on the trade date.

### Retirement benefits scheme

The Group, other than Qualipak International Holdings Limited ("Qualipak International") and its subsidiaries which are detailed below, operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all its employees. The MPF Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Qualipak International, a subsidiary of the Company, together with its subsidiaries (the "Qualipak Group"), operates a defined contribution retirement benefits scheme for those employees who are eligible and who have elected to participate in the scheme. The assets of the scheme are held separately from those of the Qualipak Group in an independently administered fund. Contributions are made at specified rates and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. When an employee leaves the scheme prior to his/her interest in the Qualipak Group's employer contributions vesting fully, the ongoing contributions payable by the Qualipak Group may be reduced by the relevant amount of forfeited contributions.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 2. Summary of Significant Accounting Policies *(continued)*

#### Retirement benefits scheme *(continued)*

Following the introduction of the MPF Scheme, the Qualipak Group has restructured its retirement arrangements to comply with the Mandatory Provident Fund Schemes Ordinance. The Qualipak Group has secured Mandatory Provident Fund exemption status for its retirement benefits scheme and, in addition, has participated in an approved MPF Scheme with effect from 1 December 2000 to provide a choice of schemes to its existing employees. All of its new employees are required to participate in the MPF Scheme.

### 3. Turnover

Turnover represents the aggregate of the net invoiced value of goods sold, after allowance for returns and trade discounts, and gross rental income received and receivable from investment properties.

Revenue from the following activities has been included in the Group's turnover:

	<b>2000</b> <b>HK\$'000</b>	1999 HK\$'000
Sale of goods	<b>771,088</b>	507,397
Rental income	<b>739</b>	550
	<b><u>771,827</u></b>	<b><u>507,947</u></b>

### 4. Other Operating Income/(Expenses), Net

	<b>Group</b>	
	<b>2000</b> <b>HK\$'000</b>	1999 HK\$'000
Write-back of provision for doubtful debts, net	<b>18,700</b>	10,902
Surplus arising from revaluation of investment properties	<b>200</b>	—
Unrealised holding gains/(losses) on other investments	<b>(138,111)</b>	44,372
Provision against an amount due from an associate	—	(2,500)
Gain on disposals of other investments	<b>2,782</b>	4,248
Provision for convertible debenture	<b>(11,700)</b>	—
Others	—	(1,494)
	<b><u>(128,129)</u></b>	<b><u>55,528</u></b>

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### 5. Profit/(Loss) from Operating Activities

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting) the following:

	2000 HK\$'000	1999 HK\$'000
Cost of stocks sold	664,799	484,306
Provision against stocks	1,570	—
Depreciation:		
Owned assets	8,463	4,099
Assets held under hire purchase contracts	182	182
Rentals of land and buildings under operating leases	6,478	1,741
Auditors' remuneration	1,879	1,226
Staff costs (including those of directors):		
Wages and salaries	38,515	17,873
Pension contributions	467	—
Less: Forfeited contributions	(148)	—
Net pension contributions*	319	—
	<u>38,834</u>	<u>17,873</u>
Gross rental income	(739)	(550)
Less: Outgoings	10	—
Net rental income	<u>(729)</u>	<u>(550)</u>
Interest income	(75,504)	(45,216)
Exchange gains, net	(19)	(6,839)
Dividend income from listed investments	(1,040)	(1,097)
Gain on disposals of fixed assets	<u>(230)</u>	<u>(5)</u>

\* At 31 December 2000, forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years amounted to approximately HK\$20,000 (1999: Nil).

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### 6. Finance Costs

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	<b>2,009</b>	3,075
Interest on convertible notes	<b>3,541</b>	—
Hire purchase interest	<b>26</b>	34
	<u><b>5,576</b></u>	<u>3,109</u>

### 7. Directors' Remuneration

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	<b>1,300</b>	500
	<b>1,300</b>	500
Executive directors:		
Basic salaries, housing, other allowances and benefits in kind	<b>4,874</b>	4,180
Bonuses	<b>5,600</b>	4,200
	<u><b>11,774</b></u>	<u>8,880</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

No value is included in directors' remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted. Details of the options granted to the directors during the year are set out in the section "Directors' rights to acquire shares" in the Report of the Directors on page 19 and in note 30 to the financial statements.



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### 7. Directors' Remuneration (continued)

The remuneration of the above directors fell within the following bands:

	Number of directors	
	2000	1999
Nil to HK\$1,000,000	6	6
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	—	2
HK\$3,000,001 to HK\$3,500,000	2	—
	<u>9</u>	<u>9</u>

### 8. Five Highest Paid Employees

The five highest paid individuals included three (1999: four) directors, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining two (1999: one) non-director, highest paid employees are as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Basic salaries, bonuses, housing allowances, other allowances and benefits in kind	<u>6,050</u>	<u>1,199</u>

The remuneration of non-director, highest paid employees fell within the following bands:

	Number of employees	
	2000	1999
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$4,500,001 to HK\$5,000,000	1	—
	<u>2</u>	<u>1</u>

## NOTES TO FINANCIAL STATEMENTS

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### 9. Tax

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere in the People's Republic of China have been calculated at the applicable rates of tax prevailing in the areas in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

	2000 HK\$'000	1999 HK\$'000
Group:		
People's Republic of China:		
Hong Kong	4,607	650
Elsewhere	—	92
Over provision in prior years	(207)	—
	<u>4,400</u>	<u>742</u>
Associates	<u>179</u>	<u>374</u>
	<u><u>4,579</u></u>	<u><u>1,116</u></u>

### 10. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$1,281,000 (1999: HK\$31,265,000).

### 11. Prior Year Adjustment

Prior to 1999, the Group's other investments held on a long term basis were stated at cost less any provisions for permanent diminutions in values thereof deemed necessary by the directors. The Group adopted SSAP 24 in 1999 and all other investments since such adoption have been stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value are credited or charged to the profit and loss account in the period in which they arise.

The adoption of SSAP 24 was accounted for retrospectively and resulted in a prior year adjustment in 1999, which has the effect of decreasing the retained profits as at 1 January 1999 by HK\$63,000.

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## 12. Dividends

	Group and Company	
	2000 HK\$'000	1999 HK\$'000
Interim dividend of Nil per ordinary share (1999: HK0.5 cent)	—	12,734
Proposed final dividend of Nil per ordinary share (1999: HK0.5 cent)	—	20,351
Underprovision in prior year as a result of new shares issued subsequent to the approval of the prior year's financial statements	782	—
	<u>782</u>	<u>33,085</u>

## 13. Earnings/(Loss) Per Share

The calculation of basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$72,179,000 (1999: net profit of HK\$83,577,000) and the weighted average of 8,216,203,949 (1999: 5,093,640,320 as adjusted for the bonus issue in 2000) ordinary shares in issue during the year.

The earnings per share for the year ended 31 December 1999 had been adjusted to take into account the effect of issue of bonus share issue during the year ended 31 December 2000.

The diluted loss per share for the year ended 31 December 2000 has not been shown as the share options, warrants and convertible notes outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

The calculation of diluted earnings per share for 1999 is based on the net profit from ordinary activities attributable to shareholders for that year of HK\$83,577,000. The weighted average number (as adjusted for the issue of bonus share in 2000) of ordinary shares used in the calculation is the sum of the number of ordinary shares in issue during that year used in the basic earnings per share calculation of 5,093,640,320; the weighted average (as adjusted for the issue of bonus share in 2000) of 33,779,760 and 48,469,122 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all warrants and all share options, respectively, outstanding during that year.

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### 14. Fixed Assets

#### Group

	Leasehold land and buildings	Leasehold improve- ments	Furniture and fixtures	Office equipment	Motor vehicles and yachts	Plant and machinery	Moulds in progress	Con- struction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:									
At 1 January 2000	89,664	2,333	12,337	1,669	19,287	17,863	3,576	63,000	209,729
Additions	7,680	—	914	471	2,516	641	1,268	4,446	17,936
Disposals	—	—	—	—	(2,192)	—	—	—	(2,192)
At 31 December 2000	97,344	2,333	13,251	2,140	19,611	18,504	4,844	67,446	225,473
Accumulated depreciation:									
At 1 January 2000	6,940	883	5,184	1,550	11,928	8,014	1,309	—	35,808
Provided during the year	1,840	466	1,303	114	2,440	1,831	651	—	8,645
Disposals	—	—	—	—	(2,192)	—	—	—	(2,192)
At 31 December 2000	8,780	1,349	6,487	1,664	12,176	9,845	1,960	—	42,261
Net book value:									
At 31 December 2000	88,564	984	6,764	476	7,435	8,659	2,884	67,446	183,212
At 31 December 1999	82,724	1,450	7,153	119	7,359	9,849	2,267	63,000	173,921

The Group's leasehold land and buildings included above are held under the following lease terms:

	People's Republic of China		
	Hong Kong	Elsewhere	Total
	HK\$'000	HK\$'000	HK\$'000
At cost:			
Long term leases	81,256	4,534	85,790
Medium term leases	3,200	8,354	11,554
	84,456	12,888	97,344

The construction in progress is situated in the People's Republic of China (the "PRC") and comprises factory buildings and staff quarters for which the land use rights for a period of 50 years up to 2047 have been granted to the Group. No borrowing costs were capitalised for the construction in progress during the year as the amount qualifying for capitalisation was not significant.

## NOTES TO FINANCIAL STATEMENTS

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### 14. Fixed Assets (continued)

Certain of the Group's land and buildings were pledged to banks to secure banking facilities granted to the Group (note 35 to the financial statements).

The net book value of assets held under hire purchase contracts at 31 December 2000 amounted to HK\$393,302 (1999: HK\$527,726).

### 15. Investment Properties

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
At beginning of year	<b>7,200</b>	6,000
Surplus on revaluation	<b>200</b>	—
Reclassified from deposit paid for the purchase of a property	<b>230,398</b>	—
Acquisition of subsidiaries	<b>—</b>	1,200
	<u><b>237,798</b></u>	<u>7,200</u>

The Group's investment properties at 31 December 2000 are situated in the People's Republic of China and are held under the following lease terms:

	<b>Hong Kong</b>	<b>Elsewhere</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
Long term leases, at valuation	6,300	—	6,300
Medium term leases, at valuation	<u>1,100</u>	<u>230,398</u>	<u>231,498</u>
	<u><b>7,400</b></u>	<u><b>230,398</b></u>	<u><b>237,798</b></u>

The investment properties situated in Hong Kong were pledged to banks to secure banking facilities granted to the Group (note 35 to the financial statements).

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### 15. Investment Properties (continued)

Details of the investment properties at the balance sheet date are as follows:

<b>Location</b>	<b>Existing use</b>
Workshop numbers 2 and 7, 4th Floor, Kodak House II, 39 Healthy Street East, North Point, Hong Kong.	Warehouse for rental

The revaluation of the above investment properties was carried out by FPD Savills (Hong Kong) Limited, an independent firm of professionally qualified valuers, on an open market, existing use basis as at 31 December 2000.

<b>Location</b>	<b>Existing use</b>
Unit K on 23rd Floor, Shield Industrial Centre, Nos 84-92 Chai Wan Kok Street, Tsuen Wan, New Territories, Hong Kong.	Industrial use for rental

The revaluation of the above investment property was carried out by Vigers Hong Kong Limited, an independent firm of professionally qualified valuers, on an open market, existing use basis as at 31 December 2000.

<b>Location</b>	<b>Existing use</b>
Gangtian Building, Junction of Zhongchong Er Road and Zhongshan Zhi Road, Yu Zhong District, Chongqing, The People's Republic of China.	Commercial and residential use for rental

- \* After the balance sheet date, the Group has disposed of a wholly-owned subsidiary, Yukon Agents Limited, which held the above investment property situated in elsewhere of the People's Republic of China for a consideration of HK\$230,398,000 (see note 38(c) to the financial statements). In the opinion of the directors, there was no material fluctuation of the market value of the investment property between the balance sheet date and the date of disposal. At the balance sheet date, the title in the investment property has not been transferred to Yukon Agents Limited.

## NOTES TO FINANCIAL STATEMENTS

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### 16. Interests In Subsidiaries

	Company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	105,759	105,759
Due from subsidiaries	1,898,092	1,007,871
Due to subsidiaries	(8,952)	—
	<u>1,994,899</u>	<u>1,113,630</u>

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

Details of the subsidiaries at the balance sheet date are as follows:

Name of company	Place of incorporation/ registration and operations	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2000	1999	
Aquatic Assets Limited	British Virgin Islands	US\$1	100	100	Not yet commenced business
Bookman Properties Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Investment in listed securities
Chase Create Investments Limited	Hong Kong	HK\$2	100	100	Property holding
Emergreen Holdings Limited	British Virgin Islands	US\$1	100	100	General trading
Faircom Limited	British Virgin Islands	US\$1	100	—	Investment holding
Funrise Limited	British Virgin Islands	US\$1	100	—	Investment holding
First River Investments Limited	British Virgin Islands	US\$1	100	—	Investment holding
Grand Island Development Limited	British Virgin Islands	US\$1	100	—	Investment holding

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### 16. Interests In Subsidiaries *(continued)*

Name of company	Place of incorporation/ registration and operations	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2000	1999	
Honfame Trading Limited	Hong Kong	HK\$2	100	100	Dormant
Kent Smart Investments Limited	Hong Kong	HK\$2	100	100	Property holding
Maxking Industries Limited	Hong Kong	HK\$2	100	100	Not yet commenced business
Maxlord Enterprises Limited	Hong Kong	HK\$2	100	100	Money lending
Real Glory Limited	British Virgin Islands	US\$1	100	100	Dormant
Regulator Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
Silver Glory Group Limited	British Virgin Islands	US\$1	100	100	Investment holding
Sinorex Development Limited	Hong Kong	HK\$2	100	100	Not yet commenced business
Time Lander Limited	British Virgin Islands	US\$1	100	—	Property holding
Top Eagle Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
Unity Concord International Limited	Hong Kong	HK\$2	100	100	Dormant
Vigorous Assets Limited	British Virgin Islands	US\$1	100	—	Investment holding
Yugang Enterprises Limited	Hong Kong	HK\$2	100	100	General trading and property holding
Yugang International (B.V.I.) Limited	British Virgin Islands	US\$5	100	100	Investment holding



## NOTES TO FINANCIAL STATEMENTS

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### 16. Interests In Subsidiaries (continued)

Name of company	Place of incorporation/ registration and operations	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2000	1999	
Yugang International Enterprises Limited	British Virgin Islands	US\$1	100	100	Dormant
Yukon Agents Limited	British Virgin Islands	US\$2	100	100	Property investment
iChoice Limited	British Virgin Islands	US\$10	60	—	Investment holding
iFortune Limited	British Virgin Islands	US\$1	60	—	Investment holding
iNoble Inc.	British Virgin Islands	US\$1	60	—	Investment holding
Gainwin Packaging Limited*	Hong Kong	HK\$2	52.13	51.46	Dormant
Permate Production Inc.*	British Virgin Islands/People's Republic of China	US\$20	52.13	51.46	Manufacture of gift boxes and spectacles cases
Qualipak Development Limited*	British Virgin Islands	US\$10,000	52.13	51.46	Investment holding
Qualipak Enterprises Limited*	Republic of Mauritius	US\$1,000	52.13	51.46	Dormant
Qualipak Finance Limited*	Hong Kong	HK\$2	52.13	—	Dormant
Qualipak Fortune Inc.*	British Virgin Islands/People's Republic of China	US\$10,000	52.13	—	Dormant
Qualipak Manufacturing (China) Limited*	British Virgin Islands	US\$1	52.13	51.46	Investment holding
Qualipak International Holdings Limited*	Bermuda	HK\$20,708,000	52.13	51.46	Investment holding

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 16. Interests In Subsidiaries (continued)

Name of company	Place of incorporation/ registration and operations	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2000	1999	
Qualipak Manufacturing Limited*	Hong Kong	Ordinary HK\$100 non-voting deferred# HK\$22,303,857	52.13	51.46	Trading of watch boxes, gift boxes, spectacles cases and stationery
Qualipak Manufacturing Packaging (Zhongshan) Co., Ltd.*	People's Republic of China	HK\$16,000,000	52.13	51.46	Dormant
Qualipak Nominees Limited*	British Virgin Islands	US\$1	52.13	—	Provision of nominee services
Qualipak Production Inc.*	British Virgin Islands/People's Republic of China	US\$10,000	52.13	51.46	Manufacture of watch boxes and gift boxes
Qualipak Vision Inc.*	British Virgin Islands/People's Republic of China	US\$10,000	52.13	51.46	Manufacture of watch boxes, gift boxes and spectacles cases
Qualipak Wonder Inc.*	British Virgin Islands/People's Republic of China	US\$10,000	52.13	51.46	Manufacture of watch boxes, gift boxes and spectacles cases
Winning Hand Management Limited*	British Virgin Islands/People's Republic of China	US\$1	52.13	51.46	Property holding
Wisdom Way Limited*	Hong Kong	HK\$2	52.13	51.46	Property holding

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 16. Interests In Subsidiaries (continued)

Name of company	Place of incorporation/ registration and operations	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2000	1999	
Worthwell Investments Limited*	British Virgin Islands	US\$50,000	52.13	—	Dormant

Except for Yugang International (B.V.I.) Limited, all of the subsidiaries are indirectly held by the Company.

# The non-voting deferred shares have restricted rights as to the distribution of profits, capital and voting.

\* These subsidiaries were not audited by Ernst & Young.

### 17. Interest in a Jointly-Controlled Entity

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	<u>9,867</u>	<u>—</u>

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
«Cfiqfi «H+n¥ " ¥ f † > > /%¥Q	Corporate	People's Republic of China	35%	40%	35%	Trading and manufacturing of software products

The above jointly-controlled entity was not audited by Ernst & Young and is held through a subsidiary.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 18. Interests in Associates

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets:		
Listed investment	609,943	—
Unlisted investment	—	—
	<u>609,943</u>	<u>—</u>
Amounts due from associates	8,082	2,500
	<u>618,025</u>	2,500
Provision against an amount due from an associate	(2,500)	(2,500)
	<u>615,525</u>	<u>—</u>
Market value of listed shares of an associate	<u>136,500</u>	<u>—</u>

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

The Group's share of the aggregate profit retained by the associates for the year amounted to HK\$5,472,000 (1999: loss of HK\$381,000).

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of equity attributable to the Group		Principal activities
			2000	1999	
Achiever Assets Limited	Corporate	Hong Kong	34.25	—	Property development in Hong Kong
Benefit Plus Company Limited	Corporate	Hong Kong	34.25	—	Property investment in Hong Kong
Harson Investment Limited	Corporate	Hong Kong	34.25	—	Property investment in Hong Kong
Luckleen Development Limited	Corporate	Hong Kong	34.25	—	Property trading in Hong Kong

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 18. Interests in Associates *(continued)*

Name	Business structure	Place of incorporation and operations	Percentage of equity attributable to the Group		Principal activities
			2000	1999	
Picom Properties Limited	Corporate	Hong Kong	34.25	—	Property trading in The People's Republic of China
Prestige (China) Limited	Corporate	Hong Kong	34.25	—	Investment holding in The People's Republic of China
Prestige Finance Limited	Corporate	Hong Kong	34.25	—	Finance vehicle in Hong Kong
Prestige Group Management Limited	Corporate	Hong Kong	34.25	—	Provision of business management services in Hong Kong
Prestige Investment Holdings Limited	Corporate	British Virgin Islands	34.25	—	Investment holding in Asia
Prestige Investment Management Limited	Corporate	British Virgin Islands	34.25	—	Securities investment in The People's Republic of China
Prestige Properties International Limited	Corporate	British Virgin Islands	34.25	—	Investment holding in Hong Kong
Prestige Property Services Limited	Corporate	Hong Kong	34.25	—	Property management in Hong Kong

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 18. Interests in Associates (continued)

Name	Business structure	Place of incorporation and operations	Percentage of equity attributable to the Group		Principal activities
			2000	1999	
Pretty Star Limited	Corporate	Hong Kong	34.25	—	Property investment in Hong Kong
Rosy Star Company Limited	Corporate	Hong Kong	34.25	—	Property investment in Hong Kong
Rosy View Company Limited	Corporate	Hong Kong	34.25	—	Property trading in The People's Republic of China
Rosy Way Company Limited	Corporate	Hong Kong	34.25	—	Property investment in Hong Kong
Score Goal Investment Limited	Corporate	Hong Kong	34.25	—	Property investment in Hong Kong
Score Target Investment Limited	Corporate	Hong Kong	34.25	—	Property trading in Hong Kong
Chang Yuang Group Company Limited	Corporate	Hong Kong	30	30	Not yet commenced business
Chang Yuang Resources Limited	Corporate	Hong Kong	30	30	General trading

None of the above associates were audited by Ernst & Young, and all are held through subsidiaries.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 18. Interests in Associates *(continued)*

Extracts of the consolidated operating results and consolidated financial position of the major associate, Prestige Properties Holdings Limited, which was acquired by a wholly-owned subsidiary of the Company during the year, are as follows:

	<b>2000</b> <b>HK\$'000</b>
Operating results for the year:	
Turnover	<u><b>161,079</b></u>
Net loss attributable to the shareholders	<u><b>(120,968)</b></u>
Financial position at 31 December 2000:	
Non-current assets	<b>2,454,986</b>
Current assets	<b>291,832</b>
Current liabilities	<b>(289,593)</b>
Non-current liabilities	<u><b>(676,369)</b></u>
Net asset value	<u><b>1,780,856</b></u>

In October 1997, a 34.25%-owned associate of the Group entered into an agreement with an independent third party (the "Purchaser") for the sale of a property at a price of HK\$1,240 million, and installment payments totaling HK\$248 million has been received. In January 1998, the Purchaser purported to rescind the agreement and sought the return of the installment payments from the associate. The associate has counter-claimed from the Purchaser damages suffered as a result of the Purchaser's wrongful breach of the agreement. The Purchaser is defending the claim and the case is currently proceeding to trial. Based on senior counsel's advice, the directors of the associate are of the opinion that the Purchaser is unlikely to be able to recover the payments made and was in breach of, and has wrongfully repudiated the agreement.

A 34.25%-owned associate of the Group has claimed against the contractor of one of its property development project, and deducted from payments to the contractors approximately HK\$11 million for the delay in completion and defects of the construction works. The contractor has denied the claim and is counter-claiming the associate for HK\$22.3 million, including liquidated damages, disputed contract sum of HK\$1.7 million and loss and expense. The case is currently pending litigation.

## 19. Deposit Paid for the Purchase of a Property

The balance in 1999 represented the full consideration of US\$29,668,000 paid to a third party vendor for the acquisition of a property, together with the land use rights thereon, situated in Chongqing, the People's Republic of China. During the year, the acquisition was completed and the deposit had been transferred to the investment properties.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 20. Convertible Debenture

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Unsecured and interest-bearing	<b>11,700</b>	11,700
Provision	<b>(11,700)</b>	—
	<u>—</u>	<u>11,700</u>

In December 1999, a wholly-owned subsidiary of the Company entered into a convertible debenture and warrant purchase agreement with Tengtu International Corp. ("TIC"), a company whose shares are traded on the National Association of Securities Dealers Over the Counter Bulletin Board Market of the United States of America. Pursuant to the agreement, TIC issued to the Group, at par value, a debenture of US\$1,500,000, repayable on 15 December 2003 (the "Maturity Date") together with 1,500,000 warrants issued to the Group at nil consideration exchangeable for shares in TIC at prices ranging from US\$1 in the first year and increasing at 100% of the preceding year's price per annum up to US\$4 per share in the third year, depending on the time of exercise from 15 December 1999 up to the third anniversary thereof. The convertible debenture bears interest at an annual rate equal to the best lending rate of The Hong Kong and Shanghai Banking Corporation plus 2%. Additionally, under the agreement, the Group is entitled, but is not under any obligation, to the following:

- (a) to convert the convertible debenture of US\$1,500,000 or any part thereof into shares in TIC at prices ranging from US\$0.50 per share in the first year and increasing at 100% of the preceding year's price up to US\$4 per share in the fourth year, depending on the time of exercise, from 15 December 1999 up to the fourth anniversary thereof;
- (b) to have the entire unrepaid amount of the convertible debenture together with accrued interest thereon outstanding as at the Maturity Date converted into shares in TIC at the price equivalent to a 20% discount from the then market price of TIC shares, provided that under no circumstances shall such conversion exceed 50.1% of the TIC common stock outstanding as at the date of conversion;
- (c) to subscribe for an additional convertible debenture of TIC on or before 15 June 2000 for a maximum amount of US\$3,500,000. Such additional convertible debenture will be convertible into shares in TIC at various pre-determined prices depending on the time of exercise. In the event that the Group exercises the right to subscribe for the additional convertible debenture, the Group is further entitled to 3,500,000 additional warrants exchangeable for additional shares in TIC at various pre-determined prices depending on the time of exercise. The Group has not subscribed for any additional convertible note during the year;
- (d) the right of first offer to participate in all future projects of the TIC Group; and
- (e) a seat on the board of directors of TIC if its total investment therein reaches US\$5 million or its holding of TIC's common shares either exceeds the amount of 3 million shares, or reaches 15% of the issued share capital of TIC.



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 21. Other Investments

	Group	
	2000	1999
	HK\$'000	HK\$'000
Equity investments listed in:		
People's Republic of China:		
Hong Kong	218,834	143,650
Elsewhere	714	370
	<hr/>	<hr/>
At market value	219,548	144,020
Less: Amounts classified as current assets	(194,908)	(14,081)
	<hr/>	<hr/>
Amounts classified as non-current assets	<u>24,640</u>	<u>129,939</u>

### 22. Stocks

	Group	
	2000	1999
	HK\$'000	HK\$'000
Raw materials	21,922	18,605
Work in progress	8,447	7,826
Finished goods	9,654	10,632
	<hr/>	<hr/>
	<u>40,023</u>	<u>37,063</u>

There was no stocks carried at net realisable value at 31 December 2000 (1999: Nil).

### 23. Loans Receivable

	Group	
	2000	1999
	HK\$'000	HK\$'000
Unsecured	166,000	66,000
Secured	95,000	40,367
	<hr/>	<hr/>
	<u>261,000</u>	<u>106,367</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 24. Trade Debtors

The aged analysis of trade debtors at the balance sheet date was as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
0 - 30 days	22,575	13,630
31 - 60 days	5,929	11,131
More than 60 days	39,996	21,704
	<u>68,500</u>	<u>46,465</u>

The Group allows an average credit period of 60 days to its customers.

### 25. Trade Creditors

The aged analysis of trade creditors at the balance sheet date was as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
0 - 30 days	6,843	4,797
31 - 60 days	4,540	6,402
More than 60 days	7,086	8,071
	<u>18,469</u>	<u>19,270</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 26. Hire Purchase Contracts

Details of obligations under hire purchase contracts at the balance sheet date are as follows:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Amounts payable:		
Within one year	<b>21</b>	136
In the second year	<b>17</b>	9
In the third to fifth years, inclusive	<b>31</b>	4
	<hr/>	<hr/>
Total minimum payable under hire purchase contracts	<b>69</b>	149
Less: Future finance charges	<b>(19)</b>	(26)
	<hr/>	<hr/>
Total net payable under hire purchase contracts	<b>50</b>	123
Portion payable within one year classified as current liabilities	<b>(15)</b>	(114)
	<hr/>	<hr/>
Long term portion	<b>35</b>	9
	<hr/> <hr/>	<hr/> <hr/>

### 27. Due to the Ultimate Holding Company

The amount due is unsecured, interest-free and has no fixed terms of repayment.

### 28. Deferred Tax

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Balance at beginning of year	<b>1,455</b>	914
Acquisition of subsidiaries	<b>—</b>	541
	<hr/>	<hr/>
Balance at end of year	<b>1,455</b>	1,455
	<hr/> <hr/>	<hr/> <hr/>

There were no significant potential deferred tax liabilities for which provision has not been made.

Deferred tax has not been quantified on the surplus or deficit arising from the revaluation of investment properties, as the revaluation does not constitute a timing difference for tax purposes.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 29. Convertible Notes

On 5 September 2000, the Company issued convertible notes (the "Notes") of HK\$219,700,000 with maturity date on 4 September 2002 and bear interest at the rate of 5% per annum. The Notes are convertible into 1,690,000,000 new shares of the Company at a conversion price of HK\$0.13 per share (subject to adjustment) at any time from 5 September 2000 to 4 September 2002.

### 30. Share Capital

#### Shares

	2000 HK\$'000	1999 HK\$'000
Authorised:		
30,000,000,000 (1999: 5,000,000,000) ordinary shares of HK\$0.10 each	<u>3,000,000</u>	<u>500,000</u>
Issued and fully paid:		
8,453,321,700 (1999: 2,546,820,160) ordinary shares of HK\$0.10 each	<u>845,332</u>	<u>254,682</u>

The movements in share capital during the year were as follows:

- (i) Pursuant to a resolution passed in a special general meeting held on 10 March 2000, the Company's authorised share capital was increased from HK\$500,000,000 to HK\$3,000,000,000 by the creation of an additional 25,000,000,000 shares of HK\$0.10 each ranking pari passu in all respects with the existing shares of the Company.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 30. Share Capital (continued)

#### Shares

(ii) During the year, the movements in the issued and fully paid share capital of the Company are as follows:

			Number of ordinary shares	Share capital HK\$'000	Share premium HK\$'000
		Description			
		Balance at beginning of year	2,546,820,160	254,682	758,862
		6 January 2000	159,200,000	15,920	13,070
	(a)	17 January 2000	509,000,000	50,900	178,150
	(a)	28 February 2000	643,800,000	64,380	270,396
		January to June 2000	367,840,690	36,784	56,890
	(b)	20 June 2000	4,226,660,850	422,666	(422,666)
		Share issue expenses	—	—	(14,073)
		Balance at end of year	<u>8,453,321,700</u>	<u>845,332</u>	<u>840,629</u>

(a) On 17 January and 28 February 2000, a substantial shareholder of the Company, Chongqing Industrial Limited, ("Chongqing Industrial") placed 509,000,000 and 406,850,000 ordinary shares respectively, in the share capital of the Company to independent investors at a price of HK\$0.45 and HK\$0.52 per share, respectively. Immediately after the above placements, Chongqing Industrial subscribed for 509,000,000 and 643,800,000 new shares of the Company at the same price of HK\$0.45 and HK\$0.52 per share, respectively. The total net proceeds from the subscriptions of approximately HK\$554,000,000 will be used as working capital for the Group and to further diversify of the Company's business.

(b) A bonus issue of one share for every existing share held by members on the register of members on 12 June 2000 was issued on 20 June 2000, resulting in the issue of 4,226,660,850 shares of HK\$0.10 each.

There were no movements in authorised and issued shares during 1999.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 30. Share Capital *(continued)*

#### Share options

On 19 October 1993, the Company adopted a share option scheme under which the directors may, at their discretion, invite any employee or executive director of the Company or its subsidiaries to take up options to subscribe for shares in the capital of the Company. 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. The scheme will remain in force for a period of ten years from the date of its adoption.

In 1999, the Company granted a total of 159,200,000 share options to certain directors and employees of the Company for a cash consideration of HK\$1 per acceptance form. Each share option entitles the holder to subscribe for one share of the Company at any time during the period from 29 December 1999 to 18 October 2003 at a subscription price of HK\$0.1821 (subject to adjustment). During the year, all of the above share options were exercised, resulting in the issue of 159,200,000 additional shares of the Company for cash proceeds of approximately HK\$28,990,000.

On 24 March 2000, the Company granted a total of 116,500,000 share options to certain directors and employees for a cash consideration of HK\$1 per acceptance form. Each share option entitles the holder to subscribe for one share of the Company at any time during the period from 24 September 2000 to 18 October 2003 at a subscription price of HK\$0.288 (subject to adjustment). Upon the one for one bonus issue of shares made by the Company on 20 June 2000, each of the above share options was adjusted to entitle the holder to subscribe for two shares of the Company at a subscription price of HK\$0.144. At the balance sheet date, all of these options remained unexercised and the exercise in full of these options would, under the present capital structure of the Company, result in the issue of 233,000,000 additional shares of the Company.

#### Warrants

In 1999, the Company issued 509,000,000 warrants at a price of HK\$0.05 each. These warrants entitle the holders to subscribe, during the period from 16 September 1999 to 15 September 2001, up to HK\$117,070,000 for new shares in the Company at HK\$0.23 per share (subject to adjustment).

The subscription price of these warrants was finally adjusted to HK\$0.21 per share after the placing and subscription of the Company's shares on 28 February 2000. Upon the one for one bonus issue of shares of the Company on 20 June 2000, the subscription price of the warrants was further adjusted to HK\$0.105 per share.

During the year, a total of HK\$77,372,000 of the above warrants were exercised, resulting in the issue of 367,840,690 new shares of the Company of par value HK\$0.10 each.

At the balance sheet date, HK\$39,698,000 of the above warrants remained outstanding and the exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 378,076,190 additional shares of the Company.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 31. Reserves

	Share premium <i>HK\$ '000</i>	Capital reserve <i>HK\$ '000</i>	Warrant subscription reserve <i>HK\$ '000</i>	Exchange fluctuation reserve <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
<b>Group</b>					
At 1 January 1999	758,862	17,191	—	—	776,053
Arising from acquisition of subsidiaries	—	61,529	—	—	61,529
Placement of warrants	—	—	25,450	—	25,450
Warrant issue expenses	—	—	(784)	—	(784)
At 31 December 1999 and 1 January 2000	758,862	78,720	24,666	—	862,248
Exercise of share options	13,070	—	—	—	13,070
Placing and subscription of new shares	448,546	—	—	—	448,546
Exercise of warrants	56,890	—	(16,302)	—	40,588
Share issue expenses	(14,073)	—	—	—	(14,073)
One for one bonus issue of shares	(422,666)	—	—	—	(422,666)
Arising from issue of shares by a subsidiary upon the exercise of warrants	—	721	—	—	721
Arising from acquisition of associates*	—	9,275	—	—	9,275
Exchange realignments	—	—	—	57	57
At 31 December 2000	<u>840,629</u>	<u>88,716</u>	<u>8,364</u>	<u>57</u>	<u>937,766</u>
Reserves retained by:					
Company and subsidiaries	840,629	88,716	8,364	—	937,709
Associates	—	—	—	57	57
At 31 December 2000	<u>840,629</u>	<u>88,716</u>	<u>8,364</u>	<u>57</u>	<u>937,766</u>
Company and subsidiaries	<u>758,862</u>	<u>78,720</u>	<u>24,666</u>	<u>—</u>	<u>862,248</u>
At 31 December 1999	<u>758,862</u>	<u>78,720</u>	<u>24,666</u>	<u>—</u>	<u>862,248</u>

\* The fair value of properties of the associates at the date of acquisition was determined by the directors with reference to the open market value at 31 December 2000 given by independent professional valuers. In the opinion of the directors, there was no material fluctuation between the open market value of these properties at these dates.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 31. Reserves (continued)

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Warrant subscription reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Company</b>				
At 1 January 1999	758,862	78,309	—	837,171
Placement of warrants	—	—	25,450	25,450
Warrant issue expenses	—	—	(784)	(784)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1999 and 1 January 2000	758,862	78,309	24,666	861,837
Exercise of share options	13,070	—	—	13,070
Placing and subscription of new shares	448,546	—	—	448,546
Exercise of warrants	56,890	—	(16,302)	40,588
Share issue expenses	(14,073)	—	—	(14,073)
One for one bonus issue of shares	(422,666)	—	—	(422,666)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000	<u>840,629</u>	<u>78,309</u>	<u>8,364</u>	<u>927,302</u>

The contributed surplus of the Company represents the excess net asset value of the subsidiaries acquired over the nominal value of the Company's shares issued for their acquisition at the time of the reorganisation in preparation for the listing of the Company's shares in 1993. Under the Companies Act (1981) of Bermuda (as amended), the contributed surplus may be distributed to shareholders under certain circumstances.

### 32. Retained Profits

	Group 2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Profits retained in:		
The Company	709	210
Subsidiaries	52,710	131,642
Associates	5,472	—
	<hr/>	<hr/>
	<u>58,891</u>	<u>131,852</u>



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 33. Notes to the Consolidated Cash Flow Statement

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

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Profit/(loss) from operating activities	<b>(44,094)</b>	86,566
Gain on disposals of fixed assets	<b>(230)</b>	(5)
Unrealised holding losses/(gains) on other investments	<b>138,111</b>	(44,372)
Write-back of provision for doubtful debts	<b>(18,700)</b>	(10,902)
Surplus arising from revaluation of investment properties	<b>(200)</b>	—
Gain on disposals of other investments	<b>(2,782)</b>	(4,248)
Provision against stocks	<b>1,570</b>	—
Provision for diminution in value of convertible debenture	<b>11,700</b>	—
Interest income	<b>(75,504)</b>	(45,216)
Dividend income from listed investments	<b>(1,040)</b>	(1,097)
Depreciation	<b>8,645</b>	4,281
Decrease/(increase) in bills receivable	<b>(26,673)</b>	5,565
Decrease/(increase) in trade debtors	<b>(3,336)</b>	100,175
Decrease/(increase) in other debtors, deposits and prepayments	<b>(5,879)</b>	55,038
Increase in stocks	<b>(4,530)</b>	—
Increase/(decrease) in bills payable and trust receipt loans, secured	<b>23,875</b>	(5,504)
Increase/(decrease) in trade creditors	<b>(800)</b>	128
Increase/(decrease) in other payables	<b>(10,552)</b>	1,112
Increase in accrued expenses	<b>13,556</b>	98
Increase in customers' deposits received	<b>530</b>	98
Decrease in an amount due to ultimate holding company	<b>(26)</b>	(33,913)
Provision against an amount due from an associate	<b>—</b>	2,500
	<hr/>	<hr/>
Net cash inflow from operating activities	<b><u>3,641</u></b>	<b><u>110,304</u></b>

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 33. Notes to the Consolidated Cash Flow Statement (continued)

#### (b) Purchases of subsidiaries

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Net assets acquired:		
Fixed assets	—	91,867
Investment properties	—	1,200
Cash and bank balances	—	3,465
Time deposits	—	89,072
Stocks	—	37,063
Trade debtors	—	35,336
Other debtors, deposits and prepayments	—	1,856
Bills receivable	—	7,045
Trade creditors	—	(17,485)
Other payables	—	(4,016)
Accrued expenses	—	(5,298)
Bills payable and trust receipt loans	—	(396)
Customers' deposits received	—	(7,201)
Tax	—	(3,829)
Deferred tax	—	(541)
	—	228,138
Less:		
Minority interests	—	(110,738)
Share of post-acquisition profits after tax of associates	—	(1,243)
	—	116,157
Capital reserve arising from acquisition of subsidiaries	—	(61,529)
	—	54,628
Satisfied by:		
Cash	—	45,252
Outstanding consideration payable by cash	—	9,376
	—	54,628

## NOTES TO FINANCIAL STATEMENTS

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### 33. Notes to the Consolidated Cash Flow Statement (continued)

#### (b) Purchases of subsidiaries (continued)

Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Cash consideration paid	—	(45,252)
Cash and bank balances acquired	—	3,465
Time deposits acquired	—	89,072
	<u>—</u>	<u>47,285</u>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>—</u>	<u>47,285</u>

No subsidiaries were acquired during the year. The subsidiaries acquired in 1999 did not contribute significantly to the results and cash flows of the Group for that year.

#### (c) Disposal of a subsidiary

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Net assets disposed of:		
Cash and bank balances	<b>1,508</b>	—
Accounts receivable	<b>1</b>	—
Trade creditors	<b>(1)</b>	—
Other payables	<b>(1,096)</b>	—
Tax	<b>(74)</b>	—
	<u><b>338</b></u>	<u>—</u>
Satisfied by:		
Outstanding consideration receivable by cash	<u><b>338</b></u>	<u>—</u>

Analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary:

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Cash and bank balances disposed of	<u><b>(1,508)</b></u>	—
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	<u><b>(1,508)</b></u>	—

The subsidiary disposed of during the year did not contribute significantly to the results and cash flows of the Group for that year. No subsidiaries were disposed in 1999.

## NOTES TO FINANCIAL STATEMENTS

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### 33. Notes to the Consolidated Cash Flow Statement *(continued)*

#### (d) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Warrant subscription reserve HK\$'000	Minority interests HK\$'000	Obligations under hire purchase contracts HK\$'000	Convertible notes HK\$'000
Balance at 1 January 1999	1,013,544	—	—	277	—
Arising from acquisition of subsidiaries	—	—	110,738	—	—
Net cash inflow/(outflow) from financing	—	24,666	—	(154)	—
Balance at 31 December 1999	1,013,544	24,666	110,738	123	—
Transfer upon exercise of warrants	16,302	(16,302)	—	—	—
Dividend paid	—	—	(4,952)	—	—
Share of profit after tax	—	—	23,581	—	—
Arising from issue of shares by a subsidiary upon the exercise of warrants	—	—	(721)	—	—
Net cash inflow/(outflow) from financing	656,115	—	15,207	(73)	219,700
Balance at 31 December 2000	<u>1,685,961</u>	<u>8,364</u>	<u>143,853</u>	<u>50</u>	<u>219,700</u>

#### (e) Major non-cash transaction

During the year, the Company issued bonus shares of HK\$0.10 each, credited as fully paid by way of capitalisation of part of the Company's share premium account amounting to HK\$422,666,000.

## NOTES TO FINANCIAL STATEMENTS

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### 34. Commitments

At the balance sheet date, the Group had the following commitments:

- (a) Commitments under non-cancellable operating leases in respect of land and buildings during the next year were as follows:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Leases expiring within:		
One year	<b>2,276</b>	1,929
Two to five years, inclusive	<b>2,972</b>	4,606
	<u><b>5,248</b></u>	<u>6,535</u>

- (b) Capital commitments in respect of purchases of fixed assets:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Authorised and contracted for	<b>9,730</b>	3,356
Authorised, but not contracted for	<b>1,875</b>	13,084
	<u><b>11,605</b></u>	<u>16,440</u>

- (c) The Group's share of capital commitments of associates are as follows:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Authorised, but not contracted for	<b>3,397</b>	—
Contracted, but not provided for	<b>3,569</b>	—
	<u><b>6,966</b></u>	<u>—</u>

At the balance sheet date, the Company did not have any material commitments (1999: Nil).

## NOTES TO FINANCIAL STATEMENTS

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### 35. Banking Facilities

The Group's banking facilities were secured by:

- (a) a pledge of the Group's time deposits of HK\$7,676,000 (1999: HK\$7,204,000);
- (b) the Group's investment properties and certain fixed assets to the extent of HK\$84,176,000 (1999: HK\$83,975,534); and
- (c) corporate guarantees issued by the Company and its subsidiary, Qualipak International Holdings Limited ("Qualipak International").

### 36. Contingent Liabilities

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

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries*	—	—	748,500	760,500
Bills receivable discounted with recourse	<u>93,360</u>	<u>90,186</u>	<u>—</u>	<u>—</u>

\* The banking facilities were utilised to the extent of HK\$24,741,000 (1999: Nil) at the balance sheet date.

- (b) Certain subsidiaries of Qualipak International, a subsidiary of the Company, are in discussions with the Hong Kong Inland Revenue Department (the "IRD") regarding their prior year tax computations. The IRD is presently requesting further information and explanations from these subsidiaries. In the opinion of the directors, these subsidiaries have prepared their prior year tax computations on a proper basis.

Pursuant to the Deed of Indemnity dated 14 April 1999 made between Chuang Hing Limited ("CHL"), China United Holdings Limited ("CUHL") and Qualipak International (as set out in the paragraph headed "Other Information" in Appendix 5 of Qualipak International's prospectus dated 15 April 1999), CHL and CUHL agreed with the Qualipak Group that CHL and CUHL will jointly and severally indemnify each of the companies in the Qualipak Group against tax falling due by any of the companies in the Qualipak Group resulting from profits or gains earned or accrued on or before 27 April 1999.

After taking into consideration the foregoing, no provision for any additional tax liabilities is considered necessary by the directors.

## NOTES TO FINANCIAL STATEMENTS

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### 37. Related Party Transactions

The Group had the following transactions with related parties during the year:

	Notes	Group	
		2000 HK\$'000	1999 HK\$'000
Purchases from an associate	(i)	—	3,569
Rental expenses for office premises paid to a substantial shareholder	(ii)	1,333	1,741
Acquisition of a 17.18% of equity interest in Qualipak International from Bondic International Holdings Limited ("Bondic International")	(iii)	—	14,219
Rental income for office premises received from an associate	(iv)	132	—

Notes:

- (i) The purchases of goods were made at prices based on the costs of goods sold plus a margin.
- (ii) The rental expenses were charged at cost, based on the floor area occupied by the Group in respect of the office premises rented by Chongqing Industrial Limited from an independent third party. Cheung Chung Kiu, a director of the Company, has beneficial interests in Chongqing Industrial Limited, which is a substantial shareholder of the Company. This transaction also constituted a connected transaction for the Company under the Hong Kong Listing Rules.
- (iii) The cash consideration before expenses, of approximately HK\$14,219,000 was equivalent to the total acquisition cost to Bondic International, and represented a 29% discount to the market price on 10 November 1999. Cheung Chung Kiu, a director of the Company, has beneficial interests in Bondic International.
- (iv) The rental income was charged at cost based on the floor area occupied by the associate in respect of the office premises rented from Chongqing Industrial Limited.

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### 38. Subsequent Events

- (a) On 22 January 2001, the Company subscribed for a convertible note of HK\$10,000,000 issued by Luen Cheong Tai International Holdings Limited (“Luen Cheong Tai”), a company listed on the Stock Exchange of Hong Kong. The convertible note bears interest at the rate of 8% per annum with maturity date falling on 30 January 2003. The convertible note can be converted into shares of Luen Cheong Tai at a conversion price of HK\$0.16 per share at any time from 22 January 2001 to 16 January 2003.
- (b) On 5 March 2001, a resolution was passed in a special general meeting, whereby (i) the par value of the Company’s shares was reduced from HK\$0.10 to HK\$0.01 each, by the cancellation of HK\$0.09 and the credit arising from this capital reduction was transferred to the contributed surplus account of the Company; (ii) the authorised share capital was reduced to HK\$300,000,000 divided into 30,000,000,000 shares of HK\$0.01 each and (iii) the authorised share capital was increased to HK\$500,000,000 by the creation of an additional 20,000,000,000 shares of HK\$0.01 each.
- (c) On 12 April 2001, Yugang Enterprises Limited (“Yugang Enterprises”), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent party to dispose of its entire equity interest in Yukon Agents Limited, a wholly-owned subsidiary of Yugang Enterprises, for a cash consideration of HK\$230,398,000. The principal asset of Yukon Agents Limited is an investment property situated in the People’s Republic of China with a carrying value of HK\$230,398,000 at the balance sheet date.

### 39. Approval of the Financial Statements

The financial statements were approved by the board of directors on 20 April 2001.