

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacture of White Flower Embrocation, property investment, wholesaling of cosmetic products, and distribution of healthcare and household products.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of all of the Group's properties and certain investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is eliminated against reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration, is credited to reserves.

On the disposal of a subsidiary, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the gain or loss on disposal of the subsidiary.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power or where the Company controls the composition of its board of directors or equivalent governing body.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in subsidiaries (continued)

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Revenue recognition

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Securities trading income is recognised on a trade date basis when contracts are concluded.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of raw materials, bottles, caps and packing materials is determined on a first-in, first-out basis. Cost of finished goods includes materials, direct labour, subcontracting charges and an appropriate portion of production overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents estimated selling price in the ordinary course of business less all estimated further costs in manufacturing, selling and distribution.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On the disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is credited to the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment is stated at cost or valuation less depreciation or amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement 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 asset, the expenditure is capitalised as an additional cost of the asset.

Leasehold land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation surplus arising on the revaluation of land and buildings is credited to the other property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on the revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset.

On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is written down to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

No residual values are assumed for the property, plant and equipment by the directors when determining their depreciation charges.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The cost or valuation of property, plant and equipment in use are depreciated on a straight-line basis over their estimated useful lives. During the year, the directors conducted a review of the useful lives of the property, plant and equipment of the Group for depreciation purposes. With effect from 1st January, 2000, the useful lives of plant and machinery, and furniture, fixtures and equipment located in the factory are revised as follows:

Category of property, plant and equipment	Former useful lives	Revised remaining useful lives
Plant and machinery	5 years	10 years
Furniture, fixtures and equipment located in factory	5 years	10 years

The directors are of the opinion that the revision will give a more realistic measurement of the economic useful lives of these assets. Such revision has resulted in a reduction in depreciation charges on property, plant and equipment acquired in previous years by approximately HK\$2,662,760 and on new additions for the year by HK\$65,700.

The useful lives of property, plant and equipment adopted for the current year are as follows:

Leasehold properties held under long and medium-term leases

Land	Over the remaining terms of the respective leases
Buildings	2% or over the relevant lease terms whichever is the shorter
Plant and machinery	10–15 years
Furniture, fixtures and equipment	5–15 years
Motor vehicles	5 years

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary. Other investments are measured at fair value with unrealised gains and losses included in net profit for the year.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

Transactions in foreign currencies are translated at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries which are denominated in currencies other than the Hong Kong dollar are translated at the exchange rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessors are accounted for as operating leases. The relevant lease payments are charged to the income statement on a straight-line basis over the terms of the respective leases.

Cash equivalents

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 advances.

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3. TURNOVER

Turnover represents the aggregate of net amounts received and receivable for goods sold, rental and interest income of the Group. All intra-group transactions are excluded.

The Group's turnover and contribution to profit before taxation from operations analysed by principal activity and by geographical market are set out below:

	Turnover		Contribution to profit (loss) from operations	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
<i>By principal activity:</i>				
Continuing operations:				
Manufacture of White Flower Embrocation	81,214,127	81,245,594	20,254,971	26,127,132
Property investment	6,985,287	6,300,444	8,972,000	5,151,232
Interest income	4,659,536	3,676,001	4,659,536	3,676,001
Others	250,495	391,183	(2,415,527)	(263,175)
	93,109,445	91,613,222	31,470,980	34,691,190
Discontinued operations:				
Leasing of studio rooms and equipment, and sales of recording tapes	–	520,173	–	(3,189,637)
	<u>93,109,445</u>	<u>92,133,395</u>	<u>31,470,980</u>	<u>31,501,553</u>

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3. TURNOVER (continued)

	Turnover		Contribution to profit (loss) from operations	
	2000	1999	2000	1999
	HK\$	HK\$	HK\$	HK\$
<i>By geographical market:</i>				
Continuing operations:				
The Hong Kong Special Administrative Region ("Hong Kong") of the People's Republic of China (the "PRC") and The Government of The Macau Special Administrative Region of the PRC	46,378,451	48,487,431	16,390,267	20,581,927
Other regions in the PRC	17,151,687	19,729,266	(1,279,994)	3,148,028
Southeast Asia	19,122,822	11,789,441	7,109,322	4,669,333
Northern America	4,211,912	5,740,588	1,138,244	1,437,756
United Kingdom	5,898,747	4,989,250	7,968,783	4,608,664
Others	345,826	877,246	144,358	245,482
	93,109,445	91,613,222	31,470,980	34,691,190
Discontinued operations:				
Hong Kong	–	520,173	–	(3,189,637)
	93,109,445	92,133,395	31,470,980	31,501,553

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4. OTHER REVENUE

	2000 HK\$	1999 HK\$
Commission income	95,064	68,429
Dividends from other investments		
– listed	184,194	60,370
Profit on disposal of other investments		
– listed	2,170,048	1,317,589
– unlisted	78,394	164,330
Net unrealised gain (loss) on other investments		
– listed	921,874	233,685
– unlisted	75,800	(122,431)
Sundry income	138,600	254,313
	<u>3,663,974</u>	<u>1,976,285</u>

5. PROFIT FROM OPERATIONS

	2000 HK\$	1999 HK\$
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	551,032	536,972
Bad debts recovered	(225,000)	(509,403)
Cost of sale of manufactured goods	30,528,279	31,215,423
Exchange loss – net	4,104,806	2,538,558
(Gain) loss on disposal of property, plant and equipment	(55,306)	204,391
Operating lease rentals – equipment	–	280,000
– land and buildings	1,696,344	1,882,070
Provision for impairment loss in furniture, fixtures and equipment	–	1,094,658
Provision for impairment loss on investment securities	423,100	–
Provision for long service payments	248,989	348,551
Rental income from investment properties less outgoings of HK\$295,876 (1999: HK\$500,443)	(6,689,411)	(5,800,001)
Royalty charges	199,474	193,929
	<u>199,474</u>	<u>193,929</u>

6. FINANCE COSTS

	2000 HK\$	1999 HK\$
Interest on bank overdrafts and borrowings wholly repayable within five years	<u>3,693,012</u>	<u>2,662,013</u>

7. DISCONTINUED OPERATIONS

In June 1999, the Group ceased its business of leasing of studio rooms and equipment, and sales of recording tapes. The business accounted for a turnover of HK\$520,173 and loss before taxation of HK\$3,189,637 in the Group's results in 1999. The Group also disposed of the plant and equipment relating to this business in the current year at its carrying value of HK\$1,000,000.

8. DIRECTORS' EMOLUMENTS

Directors' emoluments are as follows:

	2000 HK\$	1999 HK\$
Directors' fees	150,000	150,000
Management remuneration	2,612,220	2,374,714
Management bonus	609,932	638,424
Provision for long service payments	89,251	81,377
Mandatory provident fund contributions	2,000	–
Housing allowances	1,152,051	1,049,136
Subsistence allowances	187,348	172,137
	<u>4,802,802</u>	<u>4,465,788</u>

Management bonus is calculated at 2.5 per cent (1999: 2.5 per cent) of the consolidated net profit after taxation and minority interests.

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8. DIRECTORS' EMOLUMENTS (continued)

The number of directors whose emoluments fall within each of the following bands is:

Band	2000 Number of directors	1999 Number of directors
HK\$Nil – HK\$1,000,000	3	3
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	–	–
HK\$2,000,001 – HK\$2,500,000	1	1
	<u>5</u>	<u>5</u>

During the year, directors' fees paid to the independent non-executive directors amounted to HK\$60,000 (1999: HK\$60,000).

9. SALARIES OF EMPLOYEES

Of the five individuals with the highest emoluments in the Group, three (1999: three) are directors whose emoluments are included in the amounts disclosed in note 8 above. The aggregate of the emoluments of the other two (1999: two) individuals are as follows:

	2000 HK\$	1999 HK\$
Salaries	1,092,630	1,192,478
Mandatory provident fund contributions	2,000	–
	<u>1,094,630</u>	<u>1,192,478</u>

The two individuals with the highest emoluments are within the HK\$1,000,000 band for the years ended 31st December, 2000 and 1999.

During the years ended 31st December, 2000 and 1999, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended 31st December, 2000 and 1999, no directors waived any emoluments.

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10. TAXATION

	2000 HK\$	1999 HK\$
The charge comprises:		
Hong Kong		
– Profit for the year	3,280,012	4,186,500
– Overprovision in prior years	(25,382)	(520,183)
	3,254,630	3,666,317
Overseas		
– Profit for the year	245,658	303,728
– Underprovision in prior years	490,324	41,010
	735,982	344,738
	<u>3,990,612</u>	<u>4,011,055</u>

Hong Kong Profits Tax is calculated at 16% (1999: 16%) of the estimated assessable profit for the year. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

At the balance sheet date, the major components of the deferred taxation assets (liabilities) not recognised (unprovided) are as follows:

	The Group		The Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	(1,090,601)	(1,138,276)	–	–
Unutilised tax losses	1,960,928	1,573,563	5,366	–
Other timing differences	716,834	727,119	288,645	280,367
	<u>1,587,161</u>	<u>1,162,406</u>	<u>294,011</u>	<u>280,367</u>

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10. TAXATION (continued)

The amount of the unprovided deferred taxation credit (charge) not recognised (unprovided) for the year are as follows:

	The Group	
	2000	1999
	HK\$	HK\$
Tax effect of timing differences because of:		
Excess (shortfall) of depreciation over tax allowances	47,675	(91,998)
Tax losses arising	387,365	267,429
Other timing differences	(10,285)	(44,432)
	424,755	130,999

No provision for deferred taxation has been recognised in the financial statements of the Company and the Group as it is uncertain that the deferred taxation asset will crystallise in the foreseeable future.

Deferred taxation has not been provided on the revaluation surplus or deficit arising on the valuation of properties in Hong Kong, other regions in the PRC, Singapore and United Kingdom as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation surplus does not constitute a timing difference for deferred taxation purposes.

11. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year of HK\$23,787,356 (1999: HK\$24,898,568), a profit of HK\$13,646,188 (1999: HK\$12,272,298) has been dealt with in the financial statements of the Company.

12. DIVIDENDS

	2000	1999
	HK\$	HK\$
Interim, paid – 4.5 cents (1999: 2.5 cents) per share	5,850,000	3,250,000
Special cash, paid – Nil (1999: 5 cents) per share	–	6,500,000
Final, proposed – 7 cents (1999: 7 cents) per share	9,100,000	9,100,000
	14,950,000	18,850,000

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13. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit for the year of HK\$23,787,356 (1999: HK\$24,898,568) and on 130,000,000 (1999: 130,000,000) ordinary shares in issue during the year.

14. INVESTMENT PROPERTIES

	The Group			Total HK\$
	Investment properties in Hong Kong under long leases HK\$	Investment properties in other regions of the PRC under long leases HK\$	Freehold investment properties outside Hong Kong HK\$	
VALUATION				
At 1st January, 2000	14,650,000	1,650,000	70,422,993	86,722,993
Exchange realignment	–	–	(4,719,243)	(4,719,243)
Additions	–	–	16,120,932	16,120,932
Disposals	–	–	(9,611,250)	(9,611,250)
Revaluation (deficit) surplus	(1,350,000)	(150,000)	6,018,362	4,518,362
At 31st December, 2000	<u>13,300,000</u>	<u>1,500,000</u>	<u>78,231,794</u>	<u>93,031,794</u>

Investment properties were independently valued on an open market value existing use basis on 31st December, 2000 by Memfus Wong Surveyors Limited, a firm of independent professional valuers, in respect of properties in Hong Kong and the PRC and Healey & Baker and Victor Morris Team Pte. Limited, firms of independent professional valuers, in respect of properties outside Hong Kong and the PRC. The net surplus arising on revaluation has been credited to the investment property revaluation reserve (*Note 23*).

All of the investment properties of the Group are rented out under operating leases.

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15. PROPERTY, PLANT AND EQUIPMENT

The Group	Other properties in Hong Kong under long leases HK\$	Other properties in Hong Kong under medium- term leases HK\$	Plant and machinery HK\$	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Total HK\$
COST OR VALUATION						
At 1st January, 2000	17,800,001	27,800,000	10,226,898	18,066,967	1,345,930	75,239,796
Additions	–	–	463,235	736,554	–	1,199,789
Adjustment on revaluation	(1,200,001)	(200,000)	–	–	–	(1,400,001)
Disposals	–	–	–	(4,765,971)	–	(4,765,971)
At 31st December, 2000	16,600,000	27,600,000	10,690,133	14,037,550	1,345,930	70,273,613
Comprising:						
At cost	–	–	10,690,133	14,037,550	1,345,930	26,073,613
At 2000 professional valuation	16,600,000	27,600,000	–	–	–	44,200,000
	16,600,000	27,600,000	10,690,133	14,037,550	1,345,930	70,273,613
DEPRECIATION AND AMORTISATION						
At 1st January, 2000	–	–	4,670,193	10,856,009	1,038,758	16,564,960
Provided for the year	136,983	591,489	601,994	906,518	153,586	2,390,570
Eliminated on revaluation	(136,983)	(591,489)	–	–	–	(728,472)
Eliminated on disposals	–	–	–	(3,921,563)	–	(3,921,563)
At 31st December, 2000	–	–	5,272,187	7,840,964	1,192,344	14,305,495
NET BOOK VALUES						
At 31st December, 2000	<u>16,600,000</u>	<u>27,600,000</u>	<u>5,417,946</u>	<u>6,196,586</u>	<u>153,586</u>	<u>55,968,118</u>
At 31st December, 1999	<u>17,800,001</u>	<u>27,800,000</u>	<u>5,556,705</u>	<u>7,210,958</u>	<u>307,172</u>	<u>58,674,836</u>

Other properties were independently valued on an open market value existing use basis on 31st December, 2000 by Memfus Wong Surveyors Limited, a firm of independent professional valuers.

If other properties had not been revalued, they would have been included in the financial statements at their historical costs less accumulated depreciation and amortisation of approximately HK\$50,900,000 (1999: HK\$51,700,000).

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16. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2000	1999	2000	1999	2000	1999
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
The Group						
Equity securities						
Listed	–	–	17,369,785	7,156,948	17,369,785	7,156,948
Unlisted	1,344,700	1,767,800	–	–	1,344,700	1,767,800
	<u>1,344,700</u>	<u>1,767,800</u>	<u>17,369,785</u>	<u>7,156,948</u>	<u>18,714,485</u>	<u>8,924,748</u>
Debt securities						
Listed	–	–	9,246,770	12,075,980	9,246,770	12,075,980
Unlisted	–	–	2,983,200	945,000	2,983,200	945,000
	<u>–</u>	<u>–</u>	<u>12,229,970</u>	<u>13,020,980</u>	<u>12,229,970</u>	<u>13,020,980</u>
Total:						
Listed						
Hong Kong	–	–	1,809,600	555,800	1,809,600	555,800
Elsewhere	–	–	24,806,955	18,677,128	24,806,955	18,677,128
Unlisted	1,344,700	1,767,800	2,983,200	945,000	4,327,900	2,712,800
	<u>1,344,700</u>	<u>1,767,800</u>	<u>29,599,755</u>	<u>20,177,928</u>	<u>30,944,455</u>	<u>21,945,728</u>
Market value of listed securities	<u>–</u>	<u>–</u>	<u>26,616,555</u>	<u>19,232,928</u>	<u>26,616,555</u>	<u>19,232,928</u>
Carrying amount analysed for reporting purposes as:						
Current	–	–	29,599,755	20,177,928	29,599,755	20,177,928
Non-current	1,344,700	1,767,800	–	–	1,344,700	1,767,800
	<u>1,344,700</u>	<u>1,767,800</u>	<u>29,599,755</u>	<u>20,177,928</u>	<u>30,944,445</u>	<u>21,945,728</u>

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16. INVESTMENTS IN SECURITIES (continued)

	Investment securities		Other investments		Total	
	2000	1999	2000	1999	2000	1999
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
The Company						
Listed overseas						
Equity securities	–	–	3,027,721	965,144	3,027,721	965,144
Debt securities	–	–	3,021,373	4,283,671	3,021,373	4,283,671
Carrying amount for reporting purposes as current assets	–	–	6,049,094	5,248,815	6,049,094	5,248,815
Market value of listed securities	–	–	6,049,094	5,248,815	6,049,094	5,248,815

17. INVESTMENTS IN SUBSIDIARIES

The Company
2000 & 1999
HK\$

Unlisted shares, at cost 84,339,832

Particulars of the Company's subsidiaries, all of which are private limited liability companies, are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of nominal value of issued ordinary shares held by the Company		Principal activities
			Directly	Indirectly	
Biotech Products Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US\$1	–	100	Distribution of healthcare and household products

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17. INVESTMENTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of nominal value of issued ordinary shares held by the Company		Principal activities
			Directly	Indirectly	
Digi Star Advertising Company Limited (Formerly known as Digi Star Recording Studio Limited)	Hong Kong	4,000,000 ordinary shares of HK\$1 each	–	100	Inactive
Hoe Hin Pak Fah Yeow (B.V.I.) Limited	British Virgin Islands/ Hong Kong	20,000 ordinary shares of US\$1 each	100	–	Investment holding
Hoe Hin Pak Fah Yeow Manufactory, Limited	Hong Kong	22,000 non-voting deferred shares** of HK\$1,000 each, and 2 ordinary shares of HK\$1,000 each	–	100	Manufacture of White Flower Embrocation
Pak Fah Yeow Advertising Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100	Advertising agency
Pak Fah Yeow Investment (Hong Kong) Company, Limited	Hong Kong	21,200,000 non-voting deferred shares** of HK\$1 each, and 2 ordinary shares of HK\$1 each	–	100	Property investment
* Princely Profits Limited	British Virgin Islands/ United Kingdom	1 ordinary share of US\$1	–	100	Property investment
* Princesland International Limited	British Virgin Islands/ United Kingdom	1 ordinary share of US\$1	–	100	Property investment

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17. INVESTMENTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of nominal value of issued ordinary shares held by the Company		Principal activities
			Directly	Indirectly	
Velton Enterprises Limited	British Virgin Islands/ Hong Kong	30,000 ordinary shares of US\$1 each	–	70	Wholesaling of cosmetic products

* Subsidiaries not audited by Deloitte Touche Tohmatsu

** The non-voting deferred shares carry no right to receive notice of or to attend or vote at any general meeting of these subsidiaries. They also carry very limited rights in respect of dividends and share of surplus assets upon winding up of the company.

18. INVENTORIES

	The Group	
	2000 HK\$	1999 HK\$
Finished goods	776,040	1,066,514
Raw materials	3,704,376	5,308,405
Bottles, caps and packing materials	4,210,156	4,356,840
	8,690,572	10,731,759

All the inventories are stated at cost.

19. DEBTORS, DEPOSITS AND PREPAYMENTS

At 31st December, 2000, included in the Group's debtors, deposits and prepayments were trade receivables of HK\$27,868,483 (1999: HK\$24,998,028). The Group allows an average credit period of 90 days to its trade customers. Details of the aged analysis of trade receivables are as follows:

	The Group	
	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
0 - 30 days	25,052,671	12,319,393
31 - 60 days	2,503,103	6,349,983
61 - 90 days	300,975	4,702,904
> 90 days	11,734	1,625,748
	<u>27,868,483</u>	<u>24,998,028</u>

20. CREDITORS AND ACCRUED CHARGES

At 31st December, 2000, included in the Group's creditors and accrued charges were trade payables of HK\$946,707 (1999: HK\$839,610). Details of the aged analysis of trade payables are as follows:

	The Group	
	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
0 - 30 days	946,707	208,527
31 - 60 days	-	419,522
> 60 days	-	211,561
	<u>946,707</u>	<u>839,610</u>

21. BANK BORROWINGS, SECURED – DUE AFTER ONE YEAR

The bank borrowings were repayable on 8th June, 2003 and bear interest at 1.10% per annum above a six months British Sterling Pounds London Interbank Offered Rate. The bank borrowings in 1999 were fully repaid during the year.

The bank borrowings were secured by the Group's investment properties with net book value of HK\$93,031,794 (1999: HK\$63,842,993) at the balance sheet date.

22. SHARE CAPITAL

	2000 & 1999
	<i>HK\$</i>
Authorised	
300,000,000 ordinary shares of HK\$0.1 each	<u>30,000,000</u>
Issued and fully paid	
130,000,000 ordinary shares of HK\$0.1 each	<u>13,000,000</u>

There were no changes in share capital during the two years' period.

Share option scheme

The Company has a Share Option Scheme ("Scheme") for the benefit of its directors and eligible employees. Under the Scheme, the directors of the Company may, at their discretion, invite employees of any member of the Group, including executive directors of any member of the Group, to take up options to subscribe for shares of the Company at a price to be determined by the Board of Directors of the Company and notified to each invitee at not less than either 80 per cent of the average of the closing prices of the shares of the Company quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the option or the nominal value of the shares, whichever is the higher.

The maximum number of shares of the Company in respect of which options may be granted (together with options exercised and options then outstanding) under the Scheme may not exceed 10 per cent of the issued share capital of the Company, excluding any shares issued on the exercise of options, from time to time.

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the Board of Directors of the Company to each grantee and in any event such period shall not exceed two years commencing on the expiry of six months after the date on which the option is accepted and expiring at the end of the two-year period or 27th November, 2001, whichever is the earlier.

The Scheme will remain in force for a period of ten years commencing from 28th November, 1991, being the date on which it was adopted by a resolution of the Company in general meeting.

No option has been granted under the Scheme since its adoption.

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23. RESERVES

	The Group		The Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
SHARE PREMIUM				
At 1st January and 31st December	24,925,458	24,925,458	24,925,458	24,925,458
CONTRIBUTED SURPLUS (NOTE)				
At 1st January and 31st December	–	–	67,707,053	67,707,053
GOODWILL RESERVE				
At 1st January and 31st December	12,808,008	12,808,008	–	–
PROPERTY REVALUATION RESERVE				
Investment properties				
At 1st January	30,591,456	25,016,003	–	–
Exchange realignment	(2,455,235)	–	–	–
Surplus on revaluation	4,518,362	5,575,453	–	–
Realised upon disposals	(2,531,696)	–	–	–
At 31st December	30,122,887	30,591,456	–	–
Other properties				
At 1st January	2,592,609	2,885,763	–	–
(Deficit) surplus on revaluation	(142,409)	59,145	–	–
Transferred to retained profits upon disposals	–	(352,299)	–	–
At 31st December	2,450,200	2,592,609	–	–
	32,573,087	33,184,065	–	–
EXCHANGE RESERVE				
At 1st January	(235,500)	458,103	–	–
Exchange difference arising on translation of financial statements of overseas operations	75,374	(693,603)	–	–
At 31st December	(160,126)	(235,500)	–	–
RETAINED PROFITS				
At 1st January	137,997,383	131,596,516	8,531,139	15,108,841
Net profit for the year	23,787,356	24,898,568	13,646,188	12,272,298
Dividends (note 12)	(14,950,000)	(18,850,000)	(14,950,000)	(18,850,000)
Other property revaluation reserve realised upon disposals	–	352,299	–	–
At 31st December	146,834,739	137,997,383	7,227,327	8,531,139
	216,981,166	208,679,414	99,859,838	101,163,650

23. RESERVES (continued)

Note: The balance of contributed surplus represents the difference between the nominal value of the Company's share allotted on 28th November, 1991 and the consolidated net assets of the subsidiaries then acquired.

24. DISTRIBUTABLE RESERVES

Under the Companies Act of 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if there are reasonable grounds for believing that:

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

At the balance sheet date, the Company's reserves available for distribution to shareholders represent its retained profits of HK\$7,227,327 (1999: HK\$8,531,139) and contributed surplus of HK\$67,707,053 (1999: HK\$67,707,053).

25. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

During the year, the Group entered into the following transactions with the directors and the related parties in which certain directors of the Company have beneficial interests:

- (a) During the year, sales at a 50 per cent discount on retail prices to Hong Kong Pak Fah Yeow Charity Association Limited ("Charity") amounted to HK\$41,300 (1999: HK\$31,080). Messrs. Gan Wee Sean and Chiu Sin Kuen, are also the shareholders and directors of Charity.
- (b) The Group made purchases from and sales to Hoe Hin Pak Fah Yeow Manufactory, Limited, Taiwan ("Taiwan PFY") amounting to HK\$347,760 (1999: HK\$524,275) and HK\$71,073 (1999: HK\$85,640) respectively during the year. Messrs. Gan Wee Sean and Gan Fock Wai, Stephen, are also the directors and shareholders of Taiwan PFY.
- (c) Mr. Gan Wee Sean was interested as licensor in an agreement with a subsidiary, Hoe Hin Pak Fah Yeow Manufactory, Limited, whereby the subsidiary was granted a licence to use certain trademarks relating to White Flower Embrocation registered in Malaysia and Singapore for a period of ten years from 1st January, 1992 in consideration of an annual royalty payment equivalent to 10 per cent of the invoiced sales less returns and discounts. During the year, royalties in the amount of HK\$199,474 (1999: HK\$193,929) were paid by the Group pursuant to the aforesaid agreement.
- (d) Both of Mr. Lee Ka Sze, Carmelo and Mr. Yuen Ka Fai are partners of Woo, Kwan, Lee & Lo, Solicitors and Notaries. During the year, Woo, Kwan, Lee & Lo provided legal services to the Company and its subsidiaries and received professional fees amounting to HK\$46,450 (1999: HK\$131,318) for those services.

26. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000 HK\$	1999 HK\$
Profit before taxation	27,777,968	28,839,540
Revaluation deficit (surplus) of properties other than investment properties	529,120	(3,124,688)
(Gain) loss on disposal of property, plant and equipment	(55,306)	204,391
Gain on disposal of investment properties	(3,927,589)	–
Interest expenses	3,693,012	2,662,013
Depreciation and amortisation of property, plant and equipment	2,390,570	5,851,795
Impairment loss in furniture, fixtures and equipment	–	1,094,658
Bad debts recovered	(225,000)	(509,403)
Net unrealised gain on other investments	(997,674)	(111,254)
Provision for impairment loss on investment securities	423,100	–
Decrease in inventories	2,041,187	6,126,859
Decrease (increase) in long-term receivable, debtors, deposits and prepayments and bills receivable	1,208,972	(8,806,038)
(Decrease) increase in creditors and accrued charges	(4,181,554)	2,730,826
Decrease in provision for long service payments	(123,502)	(200,723)
Exchange difference	1,423,681	–
Net cash inflow from operating activities	<u>29,976,985</u>	<u>34,757,976</u>

27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Short-term bank loans excluding cash and cash equivalents HK\$	Bank borrowings due after one year HK\$
At 1st January, 1999	769,809	40,170,000
Exchange realignment	–	(1,298,109)
Net cash outflow from financing	(769,809)	–
At 31st December, 1999	–	38,871,891
Exchange realignment	–	(2,873,391)
Net cash inflow from financing	–	10,601,500
At 31st December, 2000	<u>–</u>	<u>46,600,000</u>

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28. PLEDGE OF ASSETS

Certain of the Group's investment properties, bank deposits and securities were pledged to secure banking facilities granted to the Group to the extent of HK\$83,091,854 (1999: HK\$75,071,891) of which HK\$47,367,775 (1999: HK\$41,327,071) were utilised at the balance sheet date.

Details of the Group's investment properties, bank deposits and securities pledged are as follows:

	2000 HK\$	1999 HK\$
Investment properties	93,031,794	63,842,993
Bank deposits	57,458,945	32,639,129
Securities	21,153,903	10,625,161
	<u>171,644,642</u>	<u>107,107,283</u>

29. LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases payable within the next year in respect of land and buildings, advertising spaces and equipment, as follows:

	The Group	
	2000 HK\$	1999 HK\$
Operating leases which expire:		
– within one year	492,466	920,130
– in the second to fifth years inclusive	224,411	110,804
	<u>716,877</u>	<u>1,030,934</u>

The Company did not have any significant lease commitments at 31st December, 2000 and 1999.

30. CAPITAL COMMITMENTS

	The Group	
	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for in the financial statements	1,124,550	–

The Company did not have any significant capital commitments at 31st December, 2000 and 1999.

31. LONG SERVICE PAYMENTS

At 31st December, 2000, the Group had provided for the long service payments in the financial statements regarding those non-daily rate employees who had worked for the Group for over 10 years or those employees who had worked for the Group for over 5 years and at age 65 or above. The Group also had a number of employees who had completed the required number of years of service under Hong Kong's Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances which are specified in the Ordinance. The Group will not account for the long service payments for those employees other than those who satisfied the conditions stated above in the income statement until the termination of their employment. Had the employment of all eligible employees been terminated on 31st December, 2000 under the circumstances specified by the Ordinance, the maximum further potential exposure would have been approximately HK\$362,300 (1999: HK\$579,500). No provision has been made in the financial statements in respect of such further long service payment liability.

32. PENSION SCHEME

Prior to 1st December, 2000, no pension scheme was operated by the Group.

With effective from 1st December, 2000, the Group joined a Mandatory Provident Fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF scheme is registered with the Mandatory Provident Fund Scheme Authority under the Hong Kong's Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contribution is available to reduce the contribution payable in future years.

The contributions charged to the consolidated income statement during the year under the MPF Scheme amounting to HK\$58,603 represents contributions payable to the funds by the Group at rates specified in the rules of the MPF Scheme.

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33. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date.

The Company has given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31st December, 2000 amounted to approximately HK\$46,600,000 (1999: HK\$6,425,000).

34. COMPARATIVE FIGURES

Certain comparative figures of the consolidated cash flow statement and note 26 have been reclassified in order to conform with the presentation of current year.