

27. RESERVES (Cont'd)

At the balance sheet date, the Company's reserves available for distribution to shareholders represent its retained profits of HK\$62,187,440 (2000: HK\$107,012,556) and contributed surplus of HK\$41,954,109 (2000: HK\$52,238,506). The contributed surplus arising on the formation of the Company in 1989 is distributable to shareholders under the Companies Act 1981 of Bermuda. In addition, the Company's share premium account may be distributed in the form of fully-paid bonus shares.

Statutory reserve of the Group represents Enterprise Expansion Fund and General Reserve Fund set aside by subsidiaries in accordance with the relevant laws and regulations in the PRC.

28. DEFERRED TAXATION

At the balance sheet date, the major components of the deferred taxation liabilities (assets) unprovided are as follows:

| | 2001 | 2000 |
|--|----------------------------|---------------------|
| | <i>HK\$</i> | <i>HK\$</i> |
| Excess of tax allowances over depreciation | 405,504 | 730,917 |
| Tax losses carried forward | (34,588,818) | (25,710,496) |
| | <u>(34,183,314)</u> | <u>(24,979,579)</u> |

Deferred taxation has not been provided on the revaluation surplus arising on the valuation of leasehold land and buildings as profit arising on disposal of these assets would not be subject to taxation. Accordingly, the valuation does not constitute a timing difference for tax purposes.

**29. RECONCILIATION OF (LOSS) PROFIT FROM ORDINARY
ACTIVITIES BEFORE TAXATION TO NET CASH
(OUTFLOW) INFLOW FROM OPERATING ACTIVITIES**

| | 2001 | 2000 |
|---|---------------------|--------------|
| | <i>HK\$</i> | <i>HK\$</i> |
| (Loss) Profit from ordinary activities before taxation | (52,190,768) | 147,342,729 |
| Interest income | (17,579,492) | (15,738,796) |
| Interest expense | 24,920,975 | 18,335,695 |
| Depreciation | 5,222,184 | 5,098,314 |
| Reversal of cost of properties held for sale recognised as cost of sales in prior years upon termination of sales agreements | — | (47,140,798) |
| Impairment loss on property, plant and equipment | 1,926,167 | — |
| Loss on disposals/write off of property, plant and equipment | 1,543,039 | 390,785 |
| Loss on deemed disposal of shares in an associate | 6,789,629 | — |
| Provision for doubtful debts on amount due from an associate | 1,027,813 | — |
| (Profit) Loss attributable from associates | (2,399,207) | 29,510 |
| Gain on disposal of subsidiaries | — | (1,003,670) |
| Profit from deemed disposal of shares in a subsidiary | (20,703,994) | — |
| Gain on disposal of investment securities | — | (41,442,910) |
| Impairment loss on investment securities | 5,679,357 | — |
| Forfeiture of proceeds received from warrants upon their expiration | (15,848,676) | (33,836,256) |
| Changes in working capital: | | |
| Inventories | 3,072,266 | (3,572,772) |
| Properties held for sale | 5,210,408 | 4,175,602 |
| Trade and other receivables | 38,144,318 | (31,297,695) |
| Trade and other payables | (7,406,543) | 7,608,868 |
| Effects of exchange rate changes | (2,381,283) | (620,524) |
| Net cash (outflow) inflow from operating activities | (24,973,807) | 8,328,082 |

30. PURCHASE OF SUBSIDIARIES

| | 2001 | 2000 |
|--|----------------------------|---------------------|
| | <i>HK\$</i> | <i>HK\$</i> |
| Net assets acquired: | | |
| Investment properties | — | 480,000,000 |
| Property, plant and equipment | — | 266,475 |
| Trade and other receivables | — | 2,714,877 |
| Bank balances and cash | — | 24,003 |
| Trade and other payables | (331) | (5,817,877) |
| Interest-bearing borrowings | — | (298,000,000) |
| Due to immediate holding company | (17,710,127) | — |
| | <u>(17,710,458)</u> | <u>179,187,478</u> |
| Goodwill (Capital reserve) on consolidation | 347 | (9,000,000) |
| | <u>(17,710,111)</u> | <u>170,187,478</u> |
| Satisfied by: | | |
| Cash | 16 | 49,687,478 |
| Waive of amount due to immediate holding company | (17,710,127) | — |
| Shares allotted | — | 120,500,000 |
| | <u>(17,710,111)</u> | <u>170,187,478</u> |
| Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiaries: | | |
| | 2001 | 2000 |
| | <i>HK\$</i> | <i>HK\$</i> |
| Cash consideration | (16) | (49,687,478) |
| Bank balances and cash acquired | — | 24,003 |
| | <u>(16)</u> | <u>(49,663,475)</u> |
| Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries | (16) | (49,663,475) |

31. ANALYSIS OF CHANGES IN FINANCING

| | Issued capital and share premium <i>HK\$</i> | Interest- bearing borrowings <i>HK\$</i> | Capital reserve <i>HK\$</i> | Minority interests <i>HK\$</i> |
|---|---|---|-----------------------------------|--------------------------------------|
| At 1st April, 1999 | 870,472,546 | — | 491,666,676 | 200,526,418 |
| Acquisition of a subsidiary | — | 298,000,000 | — | — |
| Cash inflow (outflow) from financing | 31,670,008 | (12,000,000) | 27,230,306 | (58,545,423) |
| Shares issued for non-cash consideration | 195,500,000 | — | — | — |
| Share of loss for the year | — | — | — | (4,922,353) |
| Exercise of warrants | 10,248,286 | — | (10,248,286) | — |
| Expiry of warrants | — | — | (33,836,256) | — |
| Share of exchange reserve | — | — | — | 23,970 |
| At 31st March, 2000 | 1,107,890,840 | 286,000,000 | 474,812,440 | 137,082,612 |
| Cash inflow (outflow) from financing | 2,474,000 | (5,138,597) | — | 41,508,062 |
| Exercise of warrants | 1,171,206 | — | (1,171,206) | — |
| Inception of new hire purchase obligations | — | 439,414 | — | — |
| Transferred from trade and other payables | — | 3,725,367 | — | — |
| Expiry of warrants | — | — | (15,848,676) | — |
| Share of loss for the year | — | — | — | (11,789,738) |
| Dividends paid to minority shareholders | — | — | — | (7,290,514) |
| Profit on deemed disposal of shares of a subsidiary | — | — | — | (20,703,994) |
| Purchase of further interests in a subsidiary | — | — | — | (71,645) |
| Interest capitalised into properties held for/under development | — | — | — | 3,572,337 |
| Goodwill on deemed disposal of shares in a subsidiary | — | — | — | 88,800 |
| Share of revaluation reserve | — | — | — | 35,872 |
| At 31st March, 2001 | 1,111,536,046 | 285,026,184 | 457,792,558 | 142,431,792 |

32. CONTINGENT LIABILITIES

- (a) At the balance sheet date, guarantees amounting to HK\$2,097,621 (2000: HK\$163,853) were given by a subsidiary to a bank for mortgage loans made by the bank to the purchasers of properties sold by the subsidiary.
- (b) At the balance sheet date, guarantees amounting to approximately HK\$6,000,000 (2000: HK\$6,000,000) and HK\$1,000,000 (2000: HK\$1,000,000) were given by the Company to a business partner and a supplier of a subsidiary respectively for the due and punctual payment by the subsidiary of amounts due to the business partner and supplier respectively.

33. COMMITMENTS

(a) Capital expenditure commitments

At the balance sheet date, the Group had capital expenditure commitments contracted but not provided for amounting to HK\$10,980,774 (2000: HK\$19,601,669).

(b) Commitments under operating leases

At the balance sheet date, the Group had outstanding commitments not provided for under non-cancellable operating leases in respect of land and building, the portion of these commitments which are payable in the following year is as follows:

| | 2001 | 2000 |
|--|-----------------------|------------------|
| | <i>HK\$</i> | <i>HK\$</i> |
| Operating leases which expire: | | |
| Within one year | 240,474 | 795,888 |
| In the second to fifth years inclusive | 434,100 | 735,372 |
| | <u>674,574</u> | <u>1,531,260</u> |

34. POST BALANCE SHEET EVENTS

- (a) On 12th June, 2001, a wholly-owned subsidiary of the Company's ultimate holding company ("fellow subsidiary") entered into a placing agreement with First Shanghai Capital Limited ("First Shanghai") pursuant to which the fellow subsidiary agreed to place 100,000,000 existing shares of HK\$0.05 each of the Company through First Shanghai to independent professional institutional and other investors at a price of HK\$0.27. The fellow subsidiary also entered into a subscription agreement on the same date with the Company to subscribe for 170,000,000 new shares of HK\$0.05 each of the Company also at a price of HK\$0.27. The subscription of new shares was completed on 22nd June, 2001. The Company intends to use the net proceeds of approximately HK\$45,000,000 from the share subscription for general working capital purposes.

First Shanghai is independent of the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates.

- (b) On 13th June, 2001, the Group entered into a rental agreement with a third party pursuant to which the Group agreed to pre-lease five floors of the commercial podium of Chengdu Chuang's Centre to the third party for a term of ten years, with an annual rental of RMB10,000,000 in the first year and escalating rent thereafter. Total rental income for the ten years' period amounted to RMB142,000,000.

35. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company is Chuang's Consortium International Limited, a company incorporated in Bermuda and listed in Hong Kong.