

## Notes to the Financial Statements

for the year ended 31st March, 2001

**31. ACQUISITION OF SUBSIDIARIES**

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Interest in associates	3,537	4,970
Interest in a jointly controlled entity	–	144,740
Amount due to a shareholder	–	(47,095)
Creditors and accrued charges	–	(84)
	<u>3,537</u>	<u>102,531</u>
Goodwill (negative goodwill) on acquisition	<u>35,235</u>	<u>(10,958)</u>
	<u><u>38,772</u></u>	<u><u>91,573</u></u>
Satisfied by:		
Reclassification from interest in associates	–	39,564
Cash consideration	–	29,000
Issue of shares (note 27)	38,610	22,300
Expenses paid in connection with the acquisition	162	709
	<u>38,772</u>	<u>91,573</u>

Analysis of outflow of cash and cash equivalents in connection with the acquisition of subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Cash consideration	–	29,000
Expenses paid in connection with the acquisition	162	709
	<u>162</u>	<u>29,709</u>

The subsidiaries acquired during the year did not have any significant impact on the Group's cash flows.

## Notes to the Financial Statements

for the year ended 31st March, 2001

**32. DISPOSAL OF SUBSIDIARIES**

	2001 HK\$'000	2000 HK\$'000
Net assets disposed of:		
Property, plant and equipment	–	216
Properties under development	–	19,431
Properties held for sale	–	2,886
Debtors, deposits and prepayments	–	13,410
Bank balances and cash	–	2,388
Creditors and accrued charges	–	(5,434)
Deposits from properties held for sale	–	(22,944)
Taxation	–	(231)
Minority interests	–	(5,537)
	<u>–</u>	<u>4,185</u>
Gain on disposal of subsidiaries	–	6,516
	<u>–</u>	<u>10,701</u>
Satisfied by:		
Cash consideration	<u>–</u>	<u>10,701</u>

Analysis of net inflow of cash and cash equivalents in connection with the disposal of subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Cash consideration	–	10,701
Bank balances and cash disposed of	–	(2,388)
	<u>–</u>	<u>8,313</u>
Net cash inflow arising on disposal of subsidiaries	<u>–</u>	<u>8,313</u>

The subsidiaries disposed of in 2000 did not have any significant impact on the Group's cash flows in that year.

## Notes to the Financial Statements

for the year ended 31st March, 2001

**33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR**

	Share capital and premium HK\$'000	Bills payable and trust receipt loans HK\$'000	Bank loans HK\$'000	Minority interests HK\$'000	Obligations under a finance lease HK\$'000
At 1st April, 1999	423,011	11,224	206,081	6,375	—
Issue of shares as partial consideration for the acquisition of a subsidiary	22,300	—	—	—	—
Proceeds from issue of shares	47,298	—	—	—	—
Expenses incurred in connection with issue of shares	(203)	—	—	—	—
New borrowings raised	—	16,829	—	—	—
Repayments	—	(28,053)	(56,081)	—	—
Advance from minority shareholders	—	—	—	12,256	—
Minority interests' share of loss of subsidiaries	—	—	—	(5,053)	—
Disposal of subsidiaries	—	—	—	(5,537)	—
At 31st March, 2000	492,406	—	150,000	8,041	—
Issue of shares as consideration for the acquisition of Profit View (note 27)	38,610	—	—	—	—
Expenses incurred in connection with issue of shares	(82)	—	—	—	—
New borrowings raised	—	—	6,696	—	—
Inception of finance lease	—	—	—	—	281
Repayments	—	—	—	—	(74)
Advance from minority shareholders	—	—	—	700	—
Minority interests' share of loss of subsidiaries	—	—	—	(6,035)	—
At 31st March, 2001	530,934	—	156,696	2,706	207

## Notes to the Financial Statements

for the year ended 31st March, 2001

### 34. RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution retirement benefits scheme for eligible employees. The assets of the scheme are separately held in funds under the control of trustees.

The cost charged to the consolidated income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the balance sheet date, the Group had no significant forfeited contributions, which arose upon employees leaving the pension scheme and which are available to reduce the contributions payable by the Group in the future years.

With effect from 1st December, 2000, the Group has also joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all eligible employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the 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 MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

### 35. CONTINGENT LIABILITIES

At 31st March, 2001, the contingent liabilities of the Group are as follows:

- (a) An indemnity was given to the purchaser relating to unrecorded taxation liabilities, if any, and warranties relating to the affairs and businesses of a subsidiary disposed of in the previous year. The maximum aggregate liability of the Group in respect of all claims for breach of the warranties shall, when taken together with the aggregate liability of the Group in respect of all claims under the indemnity, not exceed the sum of HK\$60,000,000 (2000: HK\$60,000,000). All related claims may be brought against the Group up to the expiry of 10 years from 31st March, 1998.
- (b) Counter-indemnities were given to a bank for its guarantees amounting to approximately HK\$1,165,000 (2000: HK\$324,000) issued in respect of the Group's performance for certain engineering services rendered.

At 31st March, 2001, the Company had outstanding corporate guarantees amounting to approximately HK\$201,600,000 (2000: HK\$398,600,000) issued in favour of banks to secure general banking facilities granted to its subsidiaries.

## Notes to the Financial Statements

for the year ended 31st March, 2001

**36. COMMITMENTS**

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Commitments contracted for but not provided in the financial statements:		
For purchase of property, plant and equipment	–	1,435
For property development projects	2,592	11,203
For acquisition of a subsidiary	–	38,610
For acquisition of medicine production technology	741	–
For contribution of uncalled registered capital of a jointly controlled entity	–	39,758
	<u>3,333</u>	<u>91,006</u>
Commitments authorised but not contracted for:		
For property development projects	<u>57,794</u>	<u>50,733</u>

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating lease commitments under non-cancellable operating leases in respect of rented premises and which is payable in the following year is as follows:				
Operating leases which expire:				
Within one year	394	98	–	–
In the second to fifth year inclusive	1,649	1,681	1,649	–
	<u>2,043</u>	<u>1,779</u>	<u>1,649</u>	<u>–</u>

## Notes to the Financial Statements

for the year ended 31st March, 2001

### 36. COMMITMENTS (Cont'd)

In addition to the above, the Group's share of the capital commitments of its jointly controlled entity are as follows:

Commitments contracted for but not provided in the financial statements of the jointly controlled entity:

	2001 HK\$'000	2000 HK\$'000
For property development projects	<u>90,000</u>	<u>120,022</u>

The Company did not have any significant capital commitments at the balance sheet date.

### 37. PLEDGE OF ASSETS

At 31st March, 2001, the Group's bank borrowings were secured by the following:

- (a) legal charges over certain leasehold land and buildings and properties under development of the Group with carrying values of approximately HK\$9,264,000 (2000: HK\$9,598,000) and HK\$160,000,000 (2000: HK\$150,000,000), respectively;
- (b) a share charge of a subsidiary;
- (c) bank deposits of HK\$10,894,000 (2000: HK\$32,710,000) of which HK\$5,894,000 (2000: HK\$19,478,000) was pledged to a long term bank loan;
- (d) a floating charge on all the assets, including but not limited to the uncalled capital, of a subsidiary;
- (e) assignments of the right, title, interest and benefits in and under all the existing and future building contracts in respect of Group's properties under development held in Hong Kong;
- (f) the benefit under all insurance policies of Group's properties under development held in Hong Kong;
- (g) the future sales proceeds, rentals and other earnings generated from Group's properties under development;
- (h) subordination of shareholders' loans of a subsidiary; and
- (i) an investment property of the Group, together with the rental income receivable from letting of the investment property, with carrying value of approximately HK\$20,000,000 (2000: Nil).

## Notes to the Financial Statements

for the year ended 31st March, 2001

### 38. RELATED PARTY TRANSACTIONS

- (a) During the year, Master Super Development Limited ("Master Super"), a 60% owned subsidiary, obtained shareholders' loans from the Group and two shareholder companies controlled by Mr. Wong Chun Hong ("Mr. Wong"), a director of the Company. At 31st March, 2001, the outstanding balance of the loans from the Group and the shareholder companies amounting to approximately HK\$135,926,400 (2000: HK\$134,877,000) and HK\$90,617,600 (2000: HK\$89,918,000) respectively.

The loans are unsecured, interest free, repayable on demand and made on a pro rata basis with reference to the equity holding in Master Super. Details of the balance of the loans advanced by the above companies as at 31st March, 2001 are set out in note 26.

In addition, Mr. Wong and the Company have given guarantees amounting to HK\$194,000,000 (2000: HK\$194,000,000) in favour of a bank to secure banking facilities granted to Master Super. The guarantees were given on a pro rata basis with reference to the equity holding in Master Super and at nil consideration.

- (b) On 1st April, 1999, the Group entered into a lease agreement with Mr. Lee Sai Kai, David ("Mr. Lee"), a director of the Company, under which an investment property of the Group was leased to Mr. Lee for a period of three years commencing 1st August, 1999 for a monthly rental of HK\$17,000 exclusive of rates and management fee. The rental income received by the Group during the year amounting to HK\$204,000 (2000: HK\$136,000). The rental was negotiated by reference to prevailing market rates.
- (c) During the year, the Group entered into an agreement with Mr. Wong to dispose of its 50% interest in an associate, Shenzhen Hong Kong Real Estates Exchange Services Limited, for a cash consideration of HK\$5,000. The gain on disposal of the associate amounted to approximately HK\$180,000. The transaction was carried out according to the terms of the agreement entered into.
- (d) During the year, the Group entered into a lease agreement with a related company, 祥泰信息諮詢(深圳)有限公司, a company in which Mr. Wong has a beneficial interest. Under the lease agreement, an investment property of the Group situated outside Hong Kong was leased to the related company for a period of two years commencing 15th December, 2000 for a monthly rental of approximately HK\$3,500. The rental income received by the Group during the year amounting to approximately HK\$12,000. The rental was negotiated by reference to prevailing market rates.
- (e) the amounts due from associates are non-interest bearing and amount due from a jointly controlled entity is interest-bearing at prevailing market rate.

## Notes to the Financial Statements

for the year ended 31st March, 2001

### 39. POST BALANCE SHEET EVENTS

- (a) Subsequent to 31st March, 2001, Cheung Tai Hong Holdings (Property) Limited, a wholly-owned subsidiary of the Company, entered into a preliminary agreement (the "Agreement") with Master Super to purchase a commercial unit in Sheung Wan Centre from Master Super for a consideration of HK\$9,500,000, subject to the other terms and conditions contained in the Agreement. Master Super is a 60% owned subsidiary of the Company and 40% owned by two shareholder companies controlled by Mr. Wong, a director of the Company.
- (b) On 13th July, 2001, a writ of summons (the "Writ") was filed to the High Court in Hong Kong against Mr. Cheng Yuk Kuen, David ("Mr. Cheng") in relation to the Group's investment in Value-Net Limited ("Value-Net").

As stated in the Writ, inter alia, on 17th February, 2000 and 2nd May, 2000, Cheung Tai Hong Holdings (Technology) Limited ("CTHHTL"), a wholly-owned subsidiary of the Company, entered into sale and purchase agreements (the "Agreements") with Mr. Cheng to acquire from Mr. Cheng the respective entire issued share capital of Sunray Power Limited and Profit View Limited for a total consideration of HK\$89,910,000. The principal asset of these companies is their combined 30% interest in the issued share capital of Value-Net. After completion of the Agreements, CTHHTL indirectly holds a 30% interest in the issued share capital of Value-Net, which consequently became an associate of the Group. Under the Agreements, Mr. Cheng irrevocably guaranteed to CTHHTL that the consolidated profit of Value-Net, after taxation and minority interest but before exceptional and extraordinary items (the "Net Profit"), for the financial year ended 31st March, 2001 would not be less than HK\$16,000,000. Pursuant to the Agreements, CTHHTL has an option by serving written notice on Mr. Cheng requiring Mr. Cheng to purchase the entire issued share capital of Sunray Power Limited and Profit View Limited from CTHHTL at the option price of HK\$89,910,000 in the event that the Net Profit is less than HK\$16,000,000.

As stated in the Writ, CTHHTL sued Mr. Cheng for loss and damages in the amount of HK\$89,910,000 for breaching of the Agreements.



## Notes to the Financial Statements

for the year ended 31st March, 2001

**40. SUBSIDIARIES**

Particulars of the Company's subsidiaries as at 31st March, 2001 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/registered* capital	Percentage of issued share/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Beijing Health Medical Development Co., Ltd. (北京海爾富藥業有限公司)	People's Republic of China	US\$1,000,000*	–	90	Manufacture of pharmaceutical products, medicine and nutrient
Cheung Tai Hong (B.V.I.) Limited	British Virgin Islands	US\$50,000 ordinary shares	100	–	Investment holding
Cheung Tai Hong (China) Limited	Hong Kong	HK\$2 ordinary shares	–	100	Trading of motorcycles and electronic products
Cheung Tai Hong Holdings (Construction Materials) Limited	Hong Kong	HK\$2 ordinary shares	–	100	Inactive
Cheung Tai Hong Holdings (Foods) Limited	Hong Kong	HK\$2 ordinary shares	–	100	Inactive
Cheung Tai Hong Holdings (Industry) Limited	Hong Kong	HK\$2 ordinary shares	–	100	Investment holding
Cheung Tai Hong Holdings (Pharmacy) Limited	Hong Kong	HK\$2 ordinary shares	–	100	Inactive
Cheung Tai Hong Holdings (Property) Limited	Hong Kong	HK\$10,000,000 ordinary shares	–	100	Investment holding
Cheung Tai Hong Holdings (REA) Limited	Hong Kong	HK\$2 ordinary shares	–	60	Provision of sales and marketing services
Cheung Tai Hong Holdings (Superstore) Limited	Hong Kong	HK\$2 ordinary shares	–	100	Investment holding

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for the year ended 31st March, 2001

**40. SUBSIDIARIES** (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/registered* capital	Percentage of issued share/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Cheung Tai Hong Holdings (Technology) Limited	Hong Kong	HK\$2 ordinary shares	–	100	Investment holding and property investment
Cheung Tai Hong, Limited	Hong Kong	HK\$2,000 ordinary shares	–	100	Inactive
		HK\$500,000 non-voting deferred shares (note)	–	–	
Cheung Tai Pharmaceutical Company Limited	Hong Kong	HK\$10 ordinary shares	–	90	Inactive
CT Strategic Investment International Limited (formerly known as Cheung Tai Strategic Investment International Limited)	Hong Kong	HK\$10,000,000 ordinary shares	–	100	Investment holding and provision of consultancy services
Five Dragons Trading Company Limited	Hong Kong	HK\$10,000 ordinary shares	–	100	Investment holding
Fountain Property Limited	Hong Kong	HK\$2 ordinary shares	–	100	Property investment
Green Magic Limited	British Virgin Islands/ Hong Kong	US\$1 ordinary share	–	100	Property investment
Hankin International Limited	Hong Kong	HK\$20,000 ordinary shares	–	100	Investment holding
King-Tech Engineering Company Limited	Hong Kong	HK\$2 ordinary shares	–	100	Sale of air conditioning equipment and provision of engineering related services
		HK\$3,500,000 non-voting deferred shares (note)	–	–	

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**40. SUBSIDIARIES** (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/registered* capital	Percentage of issued share/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
King-Tech International Holdings Limited	Hong Kong	HK\$2 ordinary shares	–	100	Investment holding
King-Tech Technologies Limited	Hong Kong	HK\$10,000 ordinary shares	–	100	Sale of information technology related products
Long River Development Limited	Hong Kong	HK\$10,000 ordinary shares	–	100	Investment holding
Master Super Development Limited	Hong Kong	HK\$100 ordinary shares	–	60	Property development
Medieval Consultants Limited	British Virgin Islands	US\$1 ordinary share	–	100	Provision of consultancy services
Pacific King Limited	British Virgin Islands	US\$1 ordinary share	–	100	Investment holding
Profit View Limited	British Virgin Islands	US\$1 ordinary share	–	100	Investment holding
Sound Advice Investments Limited	British Virgin Islands	US\$100 ordinary shares	–	100	Investment holding
Sparkle Star Limited	British Virgin Islands	US\$1 ordinary share	–	100	Investment holding
Sunray Power Limited	British Virgin Islands	US\$1 ordinary share	–	100	Investment holding
Toppan Limited	British Virgin Islands/ Hong Kong	US\$1 ordinary share	–	100	Property investment
Traditional Chinese Medicine International Holdings Limited	Hong Kong	HK\$2 ordinary shares	–	100	Inactive

Note: The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.

None of the subsidiaries had any loan capital outstanding at the balance sheet date or at any time during the year.

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### 41. ASSOCIATES

Particulars of the Group's associates as at 31st March, 2001 are as follows:

Name of associate	Place of incorporation or registration/ operations	Issued and fully paid share/registered* capital	Percentage of issued share/ registered capital held by the Group	Principal activities
Shenzhen Rainbow Shopping Co. (深圳天虹商場有限公司)	People's Republic of China	RMB80,000,000*	48.728%	Operation of department stores
Value-Net Limited	Hong Kong	HK\$5,550,000 ordinary shares	30%	Development of internet communication technology

### 42. JOINTLY CONTROLLED ENTITY

Particulars of the Group's jointly controlled entity as at 31st March, 2001 are as follows:

Name of entity	Form of business structure	Place of registration/ operation	Percentage of registered capital held by the Group	Principal activities
Beijing Kang Xin Yuan Real Estate Development Co., Ltd. (北京康馨園房地產開發有限公司)	Incorporated	People's Republic of China	100%	Property development

The Group is entitled to share 80% of the profit and loss of the jointly controlled entity.