

NOTES TO FINANCIAL STATEMENTS

31 December 2001

1. CORPORATE INFORMATION

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

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

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26 : "Segment reporting"
- SSAP 28 : "Provisions, contingent liabilities and contingent assets"
- SSAP 29 : "Intangible assets"
- SSAP 30 : "Business combinations"
- SSAP 31 : "Impairment of assets"
- SSAP 32 : "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations — subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill — continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs and Interpretations which have had a significant effect on the financial statements, are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 27 and 33 to the financial statements, respectively.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company’s own financial statements for the year. The adoption of the SSAP has resulted in a prior year adjustment, further details of which are included in notes 12, 18 and 31 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of negative goodwill in the non-current assets section of the consolidated balance sheet. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to negative goodwill arising from acquisitions in previous years which remains credited to consolidated reserves. The adoption of the SSAP and Interpretation has resulted in a prior year adjustment, further details of which are included in notes 17, 20 and 31 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no impact on the preparation of these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

3. 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 further 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 2001. 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 whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and neither has joint control of, nor is in a position to exercise significant influence over, the joint venture company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

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 interests 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, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's interests in jointly-controlled entities.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, 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, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associate is included as part of the Group's interests in associates.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Negative goodwill *(continued)*

In prior years, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the negative goodwill previously credited to the capital reserve for all acquisitions has been retrospectively restated as if the new accounting policy above had always been applied. This restatement has given rise to a prior year adjustment, details of which are included in notes 17, 20 and 31 to the financial statements. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

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.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Fixed assets and depreciation**

Fixed assets, other than investment properties and construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

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, 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.

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, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs 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.

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.

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, any rental income being negotiated at arm's length. 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. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Assets under hire purchase contracts

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 hire purchase contract, the cost of the 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 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.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Unlisted investments

Unlisted investments represent club debentures, which are intended to be held for long term purposes and are stated at cost less any impairment losses.

Convertible debentures and notes

Convertible debentures and notes, which are intended to be held for long term purposes, are stated at cost less any impairment losses.

Other investments

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

Other investments are stated at 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 values 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 any estimated costs to be incurred to completion and in selling and distribution.

Deferred tax

Deferred tax is provided, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***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.

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 transaction 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 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) dividend income, when the shareholders' right to receive payment has been established;
and
- (e) from the sale of listed securities, on the trade date.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The Company also recognised the proposed final dividends of subsidiaries, which were declared and approved after the balance sheet date, as income in its profit and loss account for the year. The revised accounting treatments for dividends resulting from the adoption of SSAP 9 (Revised) and SSAP 18 (Revised) have given rise to a prior year adjustment in the Company's financial statements, further details of which are included in notes 12 and 31 to the financial statements.

Borrowing costs

Borrowing costs indirectly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

Retirement benefits scheme

The Group, other than Qualipak International Holdings Limited ("Qualipak") and its subsidiaries (details of whose retirement benefits scheme are included 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 has operated since 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits scheme (continued)

Qualipak International, a subsidiary of the Company, together with its subsidiaries (collectively, 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.

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.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the trading of automobile parts segment is a dealer of automobile parts mainly for use in the manufacture of automobiles;
- (b) the manufacture and sale of packaging products segment produces watch boxes, gift boxes, spectacles cases and stationery for resale;
- (c) the property and other investments segment invests in investment properties for their rental income potential and securities; and
- (d) the corporate and other segment comprises the Group's corporate income and expense items.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments in 2001.

Group 2001	Trading of automobile parts HK\$'000	Manufacture and sale of packaging products HK\$'000	Property and other investments HK\$'000	Corporate and other HK\$'000	Consolidated HK\$'000
Segment revenue:					
Sales to external customers	143,370	221,540	454	—	365,364
Segment results	(36,826)	29,639	49,383	(4,365)	37,831
Interest and dividend income					54,998
Finance costs					(13,922)
Share of profits of:					
Jointly-controlled entities	—	—	—	142	142
Associates	—	—	12,013	—	12,013
Profit before tax					91,062
Tax					(4,658)
Minority interests					(11,689)
Net profit from ordinary activities attributable to shareholders					74,715
Segment assets	175,535	218,876	1,156,177	299,437	1,850,025
Interest in a jointly-controlled entity	—	—	9,985	—	9,985
Interests in associates	—	—	611,299	—	611,299
Total assets	175,535	218,876	1,777,461	299,437	2,471,309
Segment liabilities	10,553	35,986	319,734	81,256	447,529
Other segment information:					
Capital expenditure	—	17,318	—	1,090	18,408
Recognition of negative goodwill	—	(6,107)	(772)	—	(6,879)
Depreciation	—	4,280	—	5,028	9,308
Deficit arising from revaluation of investment properties	—	—	300	—	300
Provision for doubtful debts, net	12,444	1,375	—	—	13,819
Provision for impairment in value of convertible debentures and notes	—	—	10,000	—	10,000
Loss on disposal of other investments	—	—	5,111	—	5,111
Unrealised holding gains on other investments	—	—	(78,045)	—	(78,045)
Warrant subscription reserve recognised as income upon expiry of warrants	—	—	—	(8,364)	(8,364)
Removal costs of production plants	—	5,129	—	—	5,129

4. SEGMENT INFORMATION (continued)
(a) Business segments (continued)

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments in 2000.

Group 2000	Trading of automobile parts HK\$'000	Manufacture and sale of packaging products HK\$'000	Property and other investments HK\$'000	Corporate and other HK\$'000	Consolidated HK\$'000
Segment revenue:					
Sales to external customers	494,290	276,798	739	—	771,827
Segment results	6,833	54,556	(161,025)	(12,690)	(112,326)
Interest and dividend income					76,544
Finance costs					(5,576)
Share of profits of associates	—	—	5,651	—	5,651
Loss before tax					(35,707)
Tax					(4,579)
Minority interests					(23,581)
Net loss from ordinary activities attributable to shareholders					(63,867)
Segment assets	301,411	333,150	848,756	188,558	1,671,875
Interest in a jointly-controlled entity	—	—	9,867	—	9,867
Interests in associates	—	—	606,443	—	606,443
Total assets	301,411	333,150	1,465,066	188,558	2,288,185
Segment liabilities	27,238	39,312	219,750	79,256	365,556
Other segment information:					
Capital expenditure	—	7,997	—	9,939	17,936
Recognition of negative goodwill	—	(8,119)	(193)	—	(8,312)
Depreciation	—	3,848	—	4,797	8,645
Deficit/(surplus) arising from revaluation of investment properties	—	100	(300)	—	(200)
Provision/(write-back of provision) for doubtful debts, net	(20,600)	1,900	—	—	(18,700)
Provision for impairment in value of convertible debentures and notes	—	—	11,700	—	11,700
Gain on disposal of other investments	—	—	(2,782)	—	(2,782)
Unrealised holding losses/(gains) on other investments	(345)	—	138,456	—	138,111

NOTES TO FINANCIAL STATEMENTS

31 December 2001

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenue, profit/(loss) and certain asset and expenditure information for the Group's geographical segments.

Group 2001	Hong Kong HK\$'000	Elsewhere in the PRC HK\$'000	North and South Americas HK\$'000	European Union HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment revenue:						
Sales to external customers	<u>72,218</u>	<u>143,370</u>	<u>63,730</u>	<u>70,726</u>	<u>15,320</u>	<u>365,364</u>
Segment results	<u>38,118</u>	<u>(16,196)</u>	<u>6,769</u>	<u>7,513</u>	<u>1,627</u>	<u>37,831</u>
Other segment information:						
Segment assets	2,095,944	375,142	223	—	—	2,471,309
Capital expenditure	<u>2,676</u>	<u>15,732</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>18,408</u>
2000						
Segment revenue:						
Sales to external customers	<u>84,706</u>	<u>494,287</u>	<u>92,059</u>	<u>81,663</u>	<u>19,112</u>	<u>771,827</u>
Segment results	<u>(185,840)</u>	<u>41,427</u>	<u>15,318</u>	<u>13,589</u>	<u>3,180</u>	<u>(112,326)</u>
Other segment information:						
Segment assets	1,887,292	400,305	588	—	—	2,288,185
Capital expenditure	<u>10,988</u>	<u>6,948</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>17,936</u>

5. TURNOVER, REVENUE AND GAINS

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

An analysis of the Group's turnover, other revenue and gains is as follows:

	2001 HK\$'000	2000 HK\$'000 (Restated)
Turnover		
Sale of goods	<u>364,910</u>	771,088
Rental income	<u>454</u>	739
	<u>365,364</u>	<u>771,827</u>
Other revenue and gains		
Interest income	54,178	75,504
Dividend income from listed investments	820	1,040
Gain on disposal of fixed assets	171	230
Negative goodwill recognised	6,879	8,312
Other	<u>3,950</u>	<u>3,443</u>
	<u>65,998</u>	<u>88,529</u>

6. OTHER OPERATING INCOME/(EXPENSES), NET

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Write-back of provision/(provision) for doubtful debts, net	(13,819)	18,700
Surplus/(deficit) arising from revaluation of investment properties	(300)	200
Unrealised holding gains/(losses) on other investments	78,045	(138,111)
Gain/(loss) on disposal of other investments	(5,111)	2,782
Loss on deemed disposal of partial interest in subsidiaries	(1,201)	—
Provision for impairment in value of convertible debentures and notes	(10,000)	(11,700)
Warrant subscription reserve recognised as income upon expiry of warrants	8,364	—
Removal costs of production plants	(5,129)	—
Gain on disposal of subsidiaries	32	—
	<u>50,881</u>	<u>(128,129)</u>

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	300,384	664,799
(Write-back of provision)/provision against stocks	(1,570)	1,570
Depreciation	9,308	8,645
Minimum lease payments under operating leases in respect of land and buildings	5,486	6,478
Auditors' remuneration	1,746	1,879
Staff costs (including those of directors):		
Wages and salaries	35,178	38,515
Pension contributions	751	467
Less: Forfeited contributions	—	(148)
Net pension contributions*	<u>751</u>	<u>319</u>
	<u>35,929</u>	<u>38,834</u>
Gross rental income	(454)	(739)
Less: Outgoings	5	10
Net rental income	<u>(449)</u>	<u>(729)</u>
Exchange gains, net	<u>(1,459)</u>	<u>(19)</u>

* At 31 December 2001, forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years amounted to Nil (2000: HK\$20,000)

NOTES TO FINANCIAL STATEMENTS

31 December 2001

8. FINANCE COSTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	812	2,009
Interest on convertible notes	13,104	3,541
Hire purchase interest	6	26
	13,922	5,576

9. DIRECTORS' REMUNERATION

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Fees	1,300	1,300
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	5,313	4,874
Bonuses	4,800	5,600
	11,413	11,774

Fees include HK\$1,300,000 (2000: HK\$1,300,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2000: Nil).

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

The number of the directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	2	5
HK\$1,000,001 to HK\$1,500,000	2	—
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,500,001 to HK\$3,000,000	1	—
HK\$3,000,001 to HK\$3,500,000	1	2
	7	8

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2000: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2000: two) non-director, highest paid employee are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Basic salaries, bonuses, housing allowances, other allowances and benefits in kind	4,044	6,050

The number of the non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2001	2000
HK\$1,000,001 to HK\$1,500,000	—	1
HK\$4,000,001 to HK\$4,500,000	1	—
HK\$4,500,001 to HK\$5,000,000	—	1
	1	2

11. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year.

	2001	2000
	HK\$'000	HK\$'000
Group:		
Hong Kong	3,092	4,607
Overprovision in prior year	(331)	(207)
	2,761	4,400
Share of tax attributable to:		
Jointly-controlled entity	24	—
Associates	1,873	179
Tax charge for the year	4,658	4,579

12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2001 dealt with in the financial statements of the Company is HK\$5,041,000 (2000: restated net loss of HK\$5,719,000).

The comparative amount for 2000 has been restated by a prior year adjustment resulting in a net debit of HK\$7,000,000 to the Company's net loss for that year, and a net credit of the same amount to the amounts due from subsidiaries in the Company's balance sheet. The prior year adjustment reversed dividends from subsidiaries which were declared and approved by the subsidiaries after the prior year's balance sheet date, but which were recognised by the Company as revenue in its financial statements for that year. The prior year adjustment resulted in no change to the amount of retained profits as at 1 January 2000. This change in accounting policy has arisen from the adoption of revisions to SSAP 18, as further detailed in notes 2 and 31 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS *(continued)*

The effect of this change in accounting policy on the Company's net profit for the current year, was to adjust a net loss of HK\$1,959,000 by HK\$7,000,000, to a net profit of HK\$5,041,000 as disclosed above.

13. DIVIDENDS

Group and Company	
2001	2000
HK\$'000	HK\$'000

Underprovision in prior year as a result of new shares issued subsequent to the approval of the prior year's financial statements

—	782
---	-----

14. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the year is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$74,715,000 (2000: restated net loss of HK\$63,867,000), and the weighted average of 8,453,321,700 (2000: 8,216,203,949) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2001 is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$85,715,000 as adjusted for the interest saving on the conversion of the convertible note into ordinary shares of the Company. The weighted average number of ordinary shares used in the calculation is the sum of the number of ordinary shares in issue during the year used in the basic earnings per share calculation of 8,453,321,700, and the weighted average of 2,111,917,808 ordinary shares assumed to have been issued at no consideration on the deemed conversion of all convertible notes into ordinary shares of the Company during the year. The share options and warrants outstanding during the year had no dilutive effect on the basic earnings per share for the year.

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 that year had an anti-dilutive effect on the basic loss per share for that year.

15. 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 2001	97,344	2,333	13,251	2,140	19,611	18,504	4,844	67,446	225,473
Additions	9,833	—	1,705	142	2,191	4,121	416	—	18,408
Transfer from construction in progress	66,091	—	627	—	—	728	—	(67,446)	—
Transfer from investment properties	1,100	—	—	—	—	—	—	—	1,100
Disposals	—	—	—	—	(1,820)	(53)	—	—	(1,873)
At 31 December 2001	174,368	2,333	15,583	2,282	19,982	23,300	5,260	—	243,108
Accumulated depreciation:									
At 1 January 2001	8,780	1,349	6,487	1,664	12,176	9,845	1,960	—	42,261
Provided during the year	2,173	467	1,377	154	2,760	1,713	664	—	9,308
Disposals	—	—	—	—	(1,638)	(24)	—	—	(1,662)
At 31 December 2001	10,953	1,816	7,864	1,818	13,298	11,534	2,624	—	49,907
Net book value:									
At 31 December 2001	163,415	517	7,719	464	6,684	11,766	2,636	—	193,201
At 31 December 2000	88,564	984	6,764	476	7,435	8,659	2,884	67,446	183,212

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

	People's Republic of China		Total
	Hong Kong	Elsewhere	
	HK\$'000	HK\$'000	HK\$'000
At cost:			
Long term leases	81,256	4,534	85,790
Medium term leases	4,000	84,578	88,578
	85,256	89,112	174,368

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 have been granted to the Group for a period of 50 years up to 2047. No borrowing costs were capitalised for the construction in progress during the year as the amount qualifying for capitalisation was not significant.

Certain of the Group's land and buildings were pledged to banks to secure banking facilities granted to the Group (note 36 to the financial statements).

The net book value of the Group's fixed assets held under hire purchase contracts included in the total amount of office equipment, and motor vehicles and yachts at 31 December 2001 amounted to HK\$3,582 and HK\$37,600, respectively (2000: HK\$9,722 and HK\$383,580, respectively).

NOTES TO FINANCIAL STATEMENTS

31 December 2001

16. INVESTMENT PROPERTIES

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of year	237,798	7,200
Surplus/(deficit) on revaluation	(300)	200
Reclassified from deposit paid for the purchase of a property	—	230,398
Transfer to fixed assets	(1,100)	—
Disposal of a subsidiary	(230,398)	—
	<u>6,000</u>	<u>237,798</u>
At end of year	<u>6,000</u>	<u>237,798</u>

The Group's investment properties at 31 December 2001 are situated in Hong Kong and are held under long term leases.

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 2001.

The Group's investment properties were pledged to banks to secure banking facilities granted to the Group (note 36 to the financial statements).

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

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

During the year, the Group disposed of its entire interest in a wholly-owned subsidiary, Yukon Agents Limited, which held an investment property situated in the PRC, for a consideration of HK\$230,398,000 (see note 32(b) to the financial statements).

17. NEGATIVE GOODWILL

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. The amounts of the negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group <i>HK\$'000</i>
Cost:	
At beginning of year:	
As previously reported	—
Prior year adjustment	79,441
	<hr/>
As restated and at 31 December 2001	79,441
	<hr/>
Accumulated recognition as income:	
At beginning of year:	
As previously reported	—
Prior year adjustment	25,310
	<hr/>
As restated	25,310
Recognised as income during the year	6,107
	<hr/>
At 31 December 2001	31,417
	<hr/>
Net book value:	
At 31 December 2001	48,024
	<hr/> <hr/>
At 31 December 2000 (as restated)	54,131
	<hr/> <hr/>

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits negative goodwill in respect of previous acquisitions to be restated to the non-current assets section of the consolidated balance sheet, in accordance with the new accounting policy.

The prior year adjustment so arising has resulted in negative goodwill previously credited to the capital reserve of HK\$79,441,000 as at 1 January 2001, being restated as the cost of the negative goodwill above, as at that date. The cumulative amount of negative goodwill that would have been recognised in the consolidated profit and loss account under the new accounting policy, of HK\$25,310,000 as at 1 January 2001, has been restated as the balance of accumulated recognition as income as at that date.

The effect of this change in accounting policy on the consolidated profit and loss account for the current year was to increase the negative goodwill recognised as income by HK\$6,107,000.

The net amount of negative goodwill recognised as income of HK\$25,310,000 as at 1 January 2001 has been adjusted to the balance of retained profits as at that date, as detailed in note 31 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

18. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000 (Restated)
Unlisted shares, at cost	105,759	105,759
Due from subsidiaries	2,011,818	1,891,092
Due to subsidiaries	(5,050)	(8,952)
	2,112,527	1,987,899

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

The amounts due from subsidiaries in the prior year have been adjusted for the effect of the prior year adjustment of HK\$7,000,000 in respect of dividends proposed by the subsidiaries after the prior year's balance sheet date, as further explained in note 12 to the financial statements.

Details of the principal 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
			2001	2000	
Aquatic Assets Limited	British Virgin Islands	US\$1	100	100	Not yet commenced business
Big Brother Resources Limited	British Virgin Islands/ Hong Kong	US\$1	100	—	Property holding
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	100	Investment holding

18. 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
			2001	2000	
Funrise Limited	British Virgin Islands	US\$1	100	100	Investment holding
First River Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Grand Island Development Limited	British Virgin Islands	US\$1	100	100	Investment holding
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
Regulator Holdings 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	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	100	Investment holding
Yugang Enterprises Limited	Hong Kong	HK\$2	100	100	General trading and property holding

NOTES TO FINANCIAL STATEMENTS

31 December 2001

18. 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
			2001	2000	
Yugang International (B.V.I.) Limited	British Virgin Islands	US\$5	100	100	Investment holding
iChoice Limited	British Virgin Islands	US\$10	60	60	Investment holding
iFortune Limited	British Virgin Islands	US\$1	60	60	Investment holding
iNoble Inc.	British Virgin Islands	US\$1	60	60	Investment holding
Gainwin Packaging Limited*	Hong Kong	HK\$2	51.48	52.13	Dormant
Permate Production Inc.*	British Virgin Islands/ PRC	US\$20	51.48	52.13	Manufacture of gift boxes, spectacles cases and bags and pouches
Qualipak Development Limited*	British Virgin Islands	US\$10,000	51.48	52.13	Investment holding
Qualipak Enterprises Limited*	Republic of Mauritius	US\$1,000	51.48	52.13	Dormant
Qualipak Finance Limited*	Hong Kong	HK\$2	51.48	52.13	Dormant
Qualipak Fortune Inc.*	British Virgin Islands/ PRC	US\$10,000	51.48	52.13	Manufacture of watch boxes, gift boxes, spectacles cases and bags and pouches
Qualipak Manufacturing (China) Limited*	British Virgin Islands	US\$1	51.48	52.13	Investment holding
Qualipak International Holdings Limited*	Bermuda	HK\$20,971,000	51.48	52.13	Investment holding

18. 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
			2001	2000	
Qualipak Manufacturing Limited*	Hong Kong	Ordinary HK\$100 non-voting deferred# HK\$22,303,857	51.48	52.13	Trading of watch boxes, gift boxes, spectacles cases, bags and pouches and display units
Qualipak Manufacturing Packaging (Zhongshan) Co., Ltd.*	PRC	HK\$16,000,000	51.48	52.13	Dormant
Qualipak Nominees Limited*	British Virgin Islands/ Hong Kong	US\$1	51.48	52.13	Provision of nominee services
Qualipak Production Inc.*	British Virgin Islands/ PRC	US\$10,000	51.48	52.13	Manufacture of watch boxes and gift boxes
Qualipak Vision Inc.*	British Virgin Islands/ PRC	US\$10,000	51.48	52.13	Manufacture of watch boxes, gift boxes and spectacles cases
Qualipak Wonder Inc.*	British Virgin Islands/ PRC	US\$10,000	51.48	52.13	Manufacture of watch boxes, gift boxes, spectacles cases and display units
Winning Hand Management Limited*	British Virgin Islands/ PRC	US\$1	51.48	52.13	Property holding

NOTES TO FINANCIAL STATEMENTS

31 December 2001

18. 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
			2001	2000	
Wisdom Way Limited*	Hong Kong	HK\$2	51.48	52.13	Property holding
Worthwell Investments Limited*	British Virgin Islands	US\$50,000	51.48	52.13	Investment holding

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.

The above table lists the subsidiaries of the Company 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 subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	<u>9,985</u>	<u>9,867</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	
青島海信軟件股份有限公司	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.

20. INTERESTS IN ASSOCIATES

	2001 HK\$'000	Group 2000 HK\$'000 (Restated)
Share of net assets:		
Listed investment	619,609	615,403
Negative goodwill on acquisition	(8,310)	(9,082)
	<u>611,299</u>	<u>606,321</u>
Amounts due from associates	—	2,622
	<u>611,299</u>	<u>608,943</u>
Provision for impairment	—	(2,500)
	<u>611,299</u>	<u>606,443</u>
Market value of listed shares of an associate	<u>87,360</u>	<u>136,500</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\$10,140,000 (2000: profit of HK\$5,472,000).

SSAP 30 was adopted during the year as detailed in note 2 to the financial statements. The amount of negative goodwill recognised in interests in associates arising from the acquisition of associates in prior years is as follows:

	Group HK\$'000
Cost:	
At beginning of year:	
As previously reported	—
Prior year adjustment	9,275
As restated and at 31 December 2001	<u>9,275</u>
Accumulated recognition as income:	
At beginning of year:	
As previously reported	—
Prior year adjustment	193
As restated	193
Recognised as income during the year	772
At 31 December 2001	<u>965</u>
Net book value:	
At 31 December 2001	<u>8,310</u>
At 31 December 2000 (as restated)	<u>9,082</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

20. INTERESTS IN ASSOCIATES (continued)

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits negative goodwill in respect of previous acquisitions of associates to be restated and included in the carrying amount of interests in associates, in accordance with the new accounting policy.

The prior year adjustment so arising has resulted in negative goodwill previously credited to the capital reserve of HK\$9,275,000 as at 1 January 2001, being restated and included in interests in associates, as at that date. The cumulative amount of negative goodwill that would have been recognised in the consolidated profit and loss account under the new accounting policy, of HK\$193,000 as at 1 January 2001, has been restated as the balance of accumulated recognition as income as at that date.

The effect of this change in accounting policy on the consolidated profit and loss account for the current year was to increase the negative goodwill recognised as income by HK\$772,000.

The net amount of negative goodwill recognised as income of HK\$193,000 as at 1 January 2001 has been adjusted to the balance of retained profits as at that date, as detailed in note 31 to the financial statements.

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
			2001	2000	
Prestige Properties Holdings Limited	Corporate	Bermuda	34.25	34.25	Investment holding
Achiever Assets Limited	Corporate	Hong Kong	34.25	34.25	Property development
Asset Class Developments Limited	Corporate	British Virgin Islands/ PRC	34.25	—	Property trading
Benefit Plus Company Limited	Corporate	Hong Kong	34.25	34.25	Property investment
Best View Limited	Corporate	British Virgin Islands/ Hong Kong	34.25	—	Property holding
E-Tech Services Limited	Corporate	Hong Kong	34.25	—	Property management
Future China Developments Limited	Corporate	British Virgin Islands/ PRC	34.25	—	Property trading

20. INTERESTS IN ASSOCIATES (continued)

Name	Business structure	Place of incorporation and operations	Percentage of equity attributable to the Group		Principal activities
			2001	2000	
Gold Region Developments Limited	Corporate	British Virgin Islands/ PRC	34.25	—	Property trading
Harson Investment Limited	Corporate	Hong Kong	34.25	34.25	Property investment
Honway Limited	Corporate	British Virgin Islands/ Hong Kong	34.25	—	Investment holding
Luckleen Development Limited	Corporate	Hong Kong	34.25	34.25	Property trading
Pencester Properties Limited	Corporate	British Virgin Islands/ PRC	34.25	—	Property trading
Picomán Properties Limited	Corporate	Hong Kong/ PRC	34.25	34.25	Property trading
Prestige (China) Limited	Corporate	Hong Kong/ PRC	34.25	34.25	Investment holding
Prestige Finance Limited	Corporate	Hong Kong	34.25	34.25	Finance vehicle
The Cross-Harbour (Holdings) Limited	Corporate	Hong Kong	9.45	—	Investment holding

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 2001

20. INTERESTS IN ASSOCIATES (continued)

Extracts of the consolidated operating results and consolidated financial position of the major associate, Prestige Properties Holdings Limited, are as follows:

	2001 HK\$'000	2000 HK\$'000 (Restated)
Operating results for the year:		
Turnover	<u>233,002</u>	<u>161,079</u>
Net profit/(loss) attributable to the shareholders	<u>33,130</u>	<u>(120,968)</u>
Financial position at 31 December:		
Non-current assets	2,556,340	2,454,986
Current assets	235,643	291,832
Current liabilities	(339,909)	(273,650)
Non-current liabilities	<u>(643,000)</u>	<u>(676,369)</u>
Net asset value	<u>1,809,074</u>	<u>1,796,799</u>

During the year, the associates of the Company adopted revised SSAP 9 "Events after the balance sheet date", as detailed in note 2 to the financial statements. To comply with this revised SSAP, a prior year adjustment has been made by the associates to reclassify the proposed final dividend for the year ended 31 December 2000 of HK\$15,943,000, which was recognised as a current liability as at the prior year end, to the proposed final dividend reserve account within the capital and reserves section of the associates' balance sheet. The result of this has been to reduce the associates' current liabilities and increase the reserve as previously reported as at 31 December 2000, by HK\$15,943,000.

A 34.25%-owned associate of the Group has claimed against the contractor of a property development project, and deducted approximately HK\$11 million from payments to the contractor for the delay in completion and defects of the construction works. In addition, there is a dispute of approximately HK\$1.7 million regarding the final contract amount. The contractor has denied the claim and is counter-claiming against the associate for HK\$22.3 million, including liquidated damages, the above-mentioned disputed contract sum and loss expenses. The case is currently pending arbitration. As at 31 December 2001, provisions of HK\$7.4 million (2000: HK\$8.2 million) have been made by this associate for the expected legal costs on this dispute, which the directors consider to be adequate, taking into account expert professional advice received.

21. CONVERTIBLE DEBENTURES AND NOTES

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unsecured and interest-bearing	99,700	11,700
Provision for impairment	<u>(21,700)</u>	<u>(11,700)</u>
	<u>78,000</u>	<u>—</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 to US\$4 per share 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 Limited plus 2%.

During the year, certain subsidiaries of the Company acquired unlisted convertible notes amounting to HK\$88,000,000 issued by companies with shares listed on the Stock Exchange. The convertible notes bear interest at rates ranging from 5% to 8% per annum and confer rights to the bearers to convert the whole or part of the outstanding principal amount into shares of those listed companies at pre-determined conversion prices ranging from HK\$0.028 to HK\$0.16 each.

Provision for impairment was made against certain convertible notes to reduce their carrying value to the estimated recoverable amount.

22. OTHER INVESTMENTS

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity investments listed in:		
Hong Kong	299,903	218,834
Elsewhere in the People's Republic of China	<u>99</u>	<u>714</u>
At market value	300,002	219,548
Less: Amount classified as current assets	<u>(237,701)</u>	<u>(194,908)</u>
Amount classified as non-current assets	<u>62,301</u>	<u>24,640</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

23. STOCKS

	2001 <i>HK\$'000</i>	Group 2000 <i>HK\$'000</i>
Raw materials	20,529	21,922
Work in progress	10,809	8,447
Finished goods	7,312	9,654
	<u>38,650</u>	<u>40,023</u>

There was no stocks carried at net realisable value at 31 December 2001 (2000: Nil).

24. LOANS RECEIVABLE

	2001 <i>HK\$'000</i>	Group 2000 <i>HK\$'000</i>
Unsecured	299,950	166,000
Secured	—	95,000
	<u>299,950</u>	<u>261,000</u>

25. TRADE DEBTORS

An aged analysis of the trade debtors at the balance sheet date is as follows:

	2001 <i>HK\$'000</i>	Group 2000 <i>HK\$'000</i>
0 – 30 days	8,722	22,575
31 – 60 days	5,204	5,929
More than 60 days	24,576	39,996
	<u>38,502</u>	<u>68,500</u>

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

26. TRADE CREDITORS

An aged analysis of the trade creditors at the balance sheet date is as follows:

	2001 <i>HK\$'000</i>	Group 2000 <i>HK\$'000</i>
0 – 30 days	4,741	6,843
31 – 60 days	2,576	4,540
More than 60 days	6,790	7,086
	<u>14,107</u>	<u>18,469</u>

27. HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its office equipment for its trading business. These leases are classified as finance leases and have remaining lease terms ranging from one to two years.

At 31 December 2001, the total future minimum lease payments under hire purchase contracts and their present values were as follows:

Group	Minimum lease payments 2001 HK\$'000	Minimum lease payments 2000 HK\$'000	Present value of minimum lease payments 2001 HK\$'000	Present value of minimum lease payments 2000 HK\$'000
Amounts payable:				
Within one year	16	21	12	15
In the second year	13	17	9	13
In the third to fifth years, inclusive	18	31	13	22
Total minimum finance lease payments	47	69	34	50
Future finance charges	(13)	(19)		
Total net finance lease payables	34	50		
Portion classified as current liabilities	(12)	(15)		
Long term portion	22	35		

SSAP 14 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

28. CONVERTIBLE NOTES

On 5 September 2000, the Company issued convertible notes (the "Notes") of HK\$219,700,000 with a maturity date of 5 September 2002 which 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 5 September 2002.

On 31 July 2001, the Company issued a convertible note of HK\$100,000,000 with a maturity date of 31 July 2004 which bears interest at the rate of 5% per annum. The note is convertible into 1,000,000,000 new ordinary shares of the Company at a conversion price of HK\$0.10 per share during the period from 31 July 2001 to 31 July 2002, HK\$0.11 per share during the period from 1 August 2002 to 31 July 2003 and HK\$0.12 per share during the period from 1 August 2003 to 31 July 2004 (subject to adjustment). Further details of the note are set out in note 38(iv) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

29. DEFERRED TAX

	2001 <i>HK\$'000</i>	Group 2000 <i>HK\$'000</i>
Balance at beginning and at end of year	<u>1,455</u>	<u>1,455</u>

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.

30. SHARE CAPITAL

Shares

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Authorised:		
50,000,000,000 ordinary shares of HK\$0.01 each (2000: 30,000,000,000 ordinary shares of HK\$0.10 each)	<u>500,000</u>	<u>3,000,000</u>
Issued and fully paid:		
8,453,321,700 ordinary shares of HK\$0.01 each (2000: 8,453,321,700 ordinary shares of HK\$0.10 each)	<u>84,533</u>	<u>845,332</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 29 March 2001, the Company's authorised share capital was reduced to HK\$300,000,000 divided into 30,000,000,000 shares of HK\$0.01 each and the authorised share capital was then increased to HK\$500,000,000 by the creation of 20,000,000,000 additional shares of HK\$0.01 each, ranking pari passu in all respects with the existing share capital of the Company.
- (ii) During the year, the movements in the issued and fully paid share capital of the Company were as follows:

Description	Number of ordinary shares	Share capital <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>
Balance at beginning of year	8,453,321,700	845,332	—
Capital reduction (a)	<u>—</u>	<u>(760,799)</u>	<u>760,799</u>
Balance at end of year	<u>8,453,321,700</u>	<u>84,533</u>	<u>760,799</u>

30. SHARE CAPITAL (continued)**Shares (continued)**

- (a) On 29 March 2001, a resolution was passed in a special general meeting, whereby the par value of the Company's ordinary shares was reduced from HK\$0.10 to HK\$0.01 each, by the cancellation of HK\$0.09 of the nominal value of each share. The credit arising from this capital reduction of HK\$760,799,000 was transferred to the contributed surplus account of the Company, as detailed in note 31 to the financial statements.

Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors on page 15.

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 per share (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 per share. 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 of HK\$0.01 each and proceeds of approximately HK\$33,552,000.

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 15 September 1999 to 14 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 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.

In the prior 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.

On 14 September 2001, HK\$39,698,000 of the above warrants remained outstanding and expired upon maturity.

On 18 July 2001, the Company issued 1,312,586,000 warrants at a price of HK\$0.02 each. These warrants entitle the holders to subscribe, during the period from 18 July 2001 to 18 July 2003, up to HK\$118,132,740 for new shares in the Company at HK\$0.09 per share (subject to adjustment). At the balance sheet date, all of these warrants remained outstanding. The exercise in full of these warrants would, under the present capital structure of the Company, result in the issue of 1,312,586,000 additional shares of HK\$0.01 each.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

31. RESERVES

Group	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Warrant subscription reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2000:							
As previously reported	758,862	—	78,720	24,666	—	131,852	994,100
Prior year adjustments:							
SSAP 30 - restatement to non-current assets section of balance sheet of negative goodwill on acquisition of: Subsidiaries (notes 2 and 17)	—	—	(78,720)	—	—	17,191	(61,529)
As restated	758,862	—	—	24,666	—	149,043	932,571
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)
Exchange realignments	—	—	—	—	57	—	57
Net loss for the year (as restated)	—	—	—	—	—	(63,867)	(63,867)
Dividends	—	—	—	—	—	(782)	(782)
At 31 December 2000	<u>840,629</u>	<u>—</u>	<u>—</u>	<u>8,364</u>	<u>57</u>	<u>84,394</u>	<u>933,444</u>
At 1 January 2001:							
As previously reported	840,629	—	88,716	8,364	57	58,891	996,657
Prior year adjustments:							
SSAP 30 - restatement to non-current assets section of balance sheet of negative goodwill on acquisition of: Subsidiaries (notes 2 and 17)	—	—	(79,441)	—	—	25,310	(54,131)
Associates (notes 2 and 20)	—	—	(9,275)	—	—	193	(9,082)
As restated	840,629	—	—	8,364	57	84,394	933,444
Expiry of warrants	—	—	—	(8,364)	—	—	(8,364)
Issue of warrants	—	—	—	26,252	—	—	26,252
Warrant issue expenses	—	—	—	(578)	—	—	(578)
Exchange realignment	—	—	—	—	(476)	—	(476)
Arising from the reduction in par value of shares from HK\$0.10 to HK\$0.01 each (note 30)	—	760,799	—	—	—	—	760,799
Net profit for the year	—	—	—	—	—	74,715	74,715
At 31 December 2001	<u>840,629</u>	<u>760,799</u>	<u>—</u>	<u>25,674</u>	<u>(419)</u>	<u>159,109</u>	<u>1,785,792</u>
Reserves retained by:							
Company and subsidiaries	840,629	760,799	—	25,674	—	143,379	1,770,481
Associates	—	—	—	—	(419)	15,612	15,193
Jointly-controlled entity	—	—	—	—	—	118	118
At 31 December 2001	<u>840,629</u>	<u>760,799</u>	<u>—</u>	<u>25,674</u>	<u>(419)</u>	<u>159,109</u>	<u>1,785,792</u>
Company and subsidiaries	840,629	—	—	8,364	—	78,922	927,915
Associates	—	—	—	—	57	5,472	5,529
At 31 December 2000	<u>840,629</u>	<u>—</u>	<u>—</u>	<u>8,364</u>	<u>57</u>	<u>84,394</u>	<u>933,444</u>

31. RESERVES (continued)

Company

	Share premium account HK\$ '000	Contributed surplus HK\$ '000	Warrant subscription reserve HK\$ '000	Retained profits/ (accumulated losses) HK\$ '000	Total HK\$ '000
At 1 January 2000	758,862	78,309	24,666	210	862,047
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)
Net loss for the year (as restated)	—	—	—	(5,719)	(5,719)
Dividends	—	—	—	(782)	(782)
	<u>840,629</u>	<u>78,309</u>	<u>8,364</u>	<u>(6,291)</u>	<u>921,011</u>
At 31 December 2000 and 1 January 2001					
As previously reported	840,629	78,309	8,364	709	928,011
Prior year adjustment: SSAP 18 (Revised) — effect of dividends from subsidiaries no longer recognised as income for the year (notes 2 and 12)	—	—	—	(7,000)	(7,000)
As restated	<u>840,629</u>	<u>78,309</u>	<u>8,364</u>	<u>(6,291)</u>	<u>921,011</u>
Expiry of warrants	—	—	(8,364)	—	(8,364)
Issue of warrants	—	—	26,252	—	26,252
Warrant issue expenses	—	—	(578)	—	(578)
Arising from the reduction in par value of shares from HK\$0.10 to HK\$0.01 each (note 30)	—	760,799	—	—	760,799
Net profit for the year	—	—	—	5,041	5,041
At 31 December 2001	<u>840,629</u>	<u>839,108</u>	<u>25,674</u>	<u>(1,250)</u>	<u>1,704,161</u>

The contributed surplus of the Company at the beginning of the year represents the excess of the net asset values 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Group	
	2001	2000
	HK\$'000	HK\$'000 (Restated)
Profit/(loss) from operating activities	92,829	(35,782)
Gain on disposal of fixed assets	(171)	(230)
Unrealised holding losses/(gains) on other investments	(78,045)	138,111
Negative goodwill recognised as income	(6,879)	(8,312)
Provision/(write-back of provision) for doubtful debts, net	13,819	(18,700)
Deficit/(surplus) arising from revaluation of investment properties	300	(200)
Loss/(gain) on disposals of other investments	5,111	(2,782)
Write-back of provision/(provision) against stocks	(1,570)	1,570
Provision for impairment in value of convertible debentures and notes	10,000	11,700
Interest income	(54,178)	(75,504)
Dividend income from listed investments	(820)	(1,040)
Depreciation	9,308	8,645
Warrant subscription reserve recognised as income upon expiry of warrants	(8,364)	—
Loss on deemed disposal of partial interest in subsidiaries	1,201	—
Gain on disposal of subsidiaries	(32)	—
Decrease/(increase) in bills receivable	22,349	(26,673)
Decrease/(increase) in trade debtors	16,179	(3,336)
Increase in other debtors, deposits and prepayments	(35,076)	(5,879)
Decrease/(increase) in stocks	2,943	(4,530)
Increase/(decrease) in bills payable and trust receipt loans, secured	(18,110)	23,875
Decrease in trade creditors	(4,362)	(800)
Increase/(decrease) in other payables	11,312	(10,552)
Increase in accrued expenses	754	13,556
Increase/(decrease) in customers' deposits received	(569)	530
Decrease in an amount due to a shareholder	—	(26)
Net cash inflow/(outflow) from operating activities	<u>(22,071)</u>	<u>3,641</u>

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of subsidiaries

	Group	
	2001 HK\$'000	2000 HK\$'000
Net assets disposed of:		
Investment properties	230,398	—
Cash and bank balances	9,600	1,508
Accounts receivables	—	1
Other receivables	700	—
Trade creditors	—	(1)
Other payables	(9,607)	(1,096)
Tax payable	(725)	(74)
	<u>230,366</u>	<u>338</u>
Gain on disposal of subsidiaries	<u>32</u>	<u>—</u>
	<u>230,398</u>	<u>338</u>
Satisfied by:		
Cash	23,039	—
Outstanding consideration receivable by cash	<u>207,359</u>	<u>338</u>
	<u>230,398</u>	<u>338</u>

Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Cash consideration received	23,039	—
Cash and bank balances disposed of	<u>(9,600)</u>	<u>(1,508)</u>
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	<u>13,439</u>	<u>(1,508)</u>

The subsidiaries disposed of during the years ended 31 December 2000 and 2001 did not contribute significantly to the results and cash flows of the Group for those years.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Analysis of changes in financing during the year

	Issued 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 2000	1,013,544	24,666	110,738	123	—
Transfer upon exercise of warrants	16,302	(16,302)	—	—	—
Dividends 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 and 1 January 2001	1,685,961	8,364	143,853	50	219,700
Expiry of warrants	—	(8,364)	—	—	—
Reduction in par value of shares from HK\$0.10 to HK\$0.01 each	(760,799)	—	—	—	—
Dividends paid	—	—	(4,996)	—	—
Share of profit after tax	—	—	11,689	—	—
Arising from issue of shares by a subsidiary upon the exercise of warrants	—	—	1,201	—	—
Net cash inflow/(outflow) from financing	—	25,674	1,708	(16)	100,000
Balance at 31 December 2001	925,162	25,674	153,455	34	319,700

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 16 to the financial statements) under operating lease arrangements, with leases negotiated for terms of approximately two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2001, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000 (Restated)
Within one year	649	1,171
In the second to fifth years, inclusive	—	649
	<u>649</u>	<u>1,820</u>

33. OPERATING LEASE ARRANGEMENTS (continued)**(b) As lessee**

The Group leases certain of its manufacturing plants, office properties and quarters under operating lease arrangements. The leases for the manufacturing plants, office properties and quarters are negotiated for terms ranging from two to five years.

At 31 December 2001, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
		(Restated)
Within one year	2,621	3,263
In the second to fifth years, inclusive	1,673	667
	<u>4,294</u>	<u>3,930</u>

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above have been restated to accord with the current year's presentation.

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33(b) above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments in respect of purchases of fixed assets:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Contracted for	11,752	9,730
Authorised, but not contracted for	—	1,875
	<u>11,752</u>	<u>11,605</u>

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Contracted for	3,538	3,569
Authorised, but not contracted for	3,420	3,397
	<u>6,958</u>	<u>6,966</u>

At the balance sheet date, the Company did not have any significant commitments (2000: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2001

35. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, a 51.48%-owned subsidiary of the Company acquired a property for a cash consideration of approximately HK\$18,500,000.

36. BANKING FACILITIES

At the balance sheet date, the Group's banking facilities were secured by:

- (a) a pledge of the Group's time deposits of HK\$7,947,000 (2000: HK\$7,676,000);
- (b) the Group's investment properties and certain fixed assets to the extent of HK\$68,795,000 (2000: HK\$84,176,000); and
- (c) corporate guarantees issued by the Company and its subsidiary, Qualipak.

37. CONTINGENT LIABILITIES

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

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries*	—	—	718,500	748,500
Bills receivable discounted with recourse	<u>7,755</u>	<u>93,360</u>	<u>—</u>	<u>—</u>

* The banking facilities were utilised to the extent of HK\$6,161,000 (2000: 24,741,000) at the balance sheet date.

- (b) Certain subsidiaries of Qualipak, a subsidiary of the Company, are in discussion 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 of Qualipak, 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 (as set out in the paragraph headed "Other Information" in Appendix 5 of Qualipak's prospectus dated 15 April 1999), CHL and CUHL agreed with Qualipak and its subsidiaries (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 of Qualipak.

38. RELATED PARTY TRANSACTIONS

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

		Group	
		2001	2000
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Rental expenses for office premises paid to a substantial shareholder	<i>(i)</i>	1,333	1,333
Rental income for office premises received from an associate	<i>(ii)</i>	917	132
Management fee received from an associate	<i>(iii)</i>	443	—
Interest expense paid to a related company	<i>(iv)</i>	2,110	—
Convertible note issued to a related company	<i>(iv)</i>	100,000	—

Notes:

- (i) 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 Listing Rules.
- (ii) 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.
- (iii) The management fee was charged to the associate at a monthly fixed amount based on the cost incurred on staff shared with the associate.
- (iv) The convertible note was issued to Timmex Investment Ltd., a company in which Cheung Chung Kiu, a director of the Company, has a beneficial interest of 100%. The interest expense paid to a related company was in respect of the convertible note issued. The above transactions constituted connected transactions for the Company under the Listing Rules, and further details of the convertible note are set out in the section headed "Connected transactions" in the Report of the Directors on page 18.

39. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12 April 2002.