# Notes to the Financial Statements

For the year ended 31st December, 2001

## 1. GENERAL

The Company was incorporated in Bermuda on 24th November, 1993 as an exempted company under the Companies Act 1981 of Bermuda (as amended). The Company is a public limited company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Suncorp Investments Group Limited ("Suncorp"), a company incorporated in the British Virgin Islands.

The principal activities of the Company are investment holding and those of its principal subsidiaries are set out in note 15.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In October 1999, there was a court judgment regarding the ownership of Matrix Plastic Manufacturing (Zhongshan) Co., Ltd. ("MPMZ"), an indirect wholly-owned major subsidiary of the Company, in connection with a claim by a trade creditor which has subsequently been settled. The Company is in the process of making an application for a judicial review of the judgment regarding the ownership of MPMZ. The directors have sought independent legal advice and are of the opinion that the aforesaid judgment can be overruled and the court judgement will have no material impact on the financial position and operations of the Group. Accordingly, MPMZ is still treated as indirect subsidiary of the Company.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain property, plant and equipment.

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

**Basis of consolidation**

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

**Turnover**

Turnover represents the amounts received and receivable for goods sold, less returns, to outside customers during the year.

**Revenue recognition**

Sales of goods are recognised when goods are delivered and title has passed.

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

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

**Property, plant and equipment**

Property, plant and equipment other than leasehold land and buildings and plant and machinery are stated at cost less depreciation and accumulated impairment losses.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Property, plant and equipment** *(Continued)*

Any revaluation increase arising on revaluation of leasehold land and buildings and plant and machinery is credited to the other asset revaluation reserves, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is charged as an expense to the income statement to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

| | |
|---|---|
| Leasehold land | 2% or over the lease term, if shorter |
| Buildings | 2% – 4% or over the lease term, if shorter |
| Leasehold improvement | 2% or over the lease term, if shorter |
| Plant and machinery | 20% |
| Furniture and equipment | 10% – 20% |

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

**Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the impairment loss is treated as a revaluation decrease under that Standard.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Impairment** *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that Standard.

**Foreign currencies**

The books of account of the companies comprising the Group are maintained in Hong Kong dollars. Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

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

**Operating leases**

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

**Taxation**

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

**Retirement benefits scheme**

The retirement benefits costs charged in the income statement represent the contributions payable in respect of the current year to the Mandatory Provident Fund Scheme by the Group.

## 4. SEGMENTAL INFORMATION

The Group is engaged in the manufacture and trading of gifts and novelties. The nature of products, the nature of production processes and the methods used to distribute the products to customers in different geographical locations are similar. The Group's production facilities are located in the People's Republic of China (the "PRC") (other than Hong Kong). The directors of the Company consider the geographical segments by location of customers as primary source of the Group's risks and returns.

The Group's customers are mainly located in United States and Hong Kong. The following table provides an analysis of the Group's segment information by geographical location of the Group's customers :

**2001**

| | **United States** *HK$'000* | **Hong Kong** *HK$'000* | **Others** *HK$'000* | **Consolidated** *HK$'000* |
|---|---|---|---|---|
| REVENUE | | | | |
| External sales | 161,838 | 27,143 | 6,058 | 195,039 |
| RESULTS | | | | |
| Segment results | 52,208 | 3,328 | 2,359 | 57,895 |
| Unallocated income and expenses | | | | (19,517) |
| Profit from operations | | | | 38,378 |
| Finance costs | | | | (2,210) |
| Restructuring costs recovered | | | | 4,654 |
| Profit before taxation | | | | 40,822 |
| Taxation | | | | (5,147) |
| Net profit for the year | | | | 35,675 |
| ASSETS | | | | |
| Segment assets | 62,233 | 432 | 3,230 | 65,895 |
| Unallocated corporate assets | | | | 111,966 |
| | | | | 177,861 |
| LIABILITIES | | | | |
| Segment liabilities | 38,530 | 407 | 2,202 | 41,139 |
| Unallocated corporate liabilities | | | | 66,009 |
| | | | | 107,148 |
| OTHER INFORMATION | | | | |
| Unallocated additions to property, plant & equipment | | | | 4,464 |
| Unallocated depreciation | | | | 5,503 |

# Notes to the Financial Statements

For the year ended 31st December, 2001



## 4. SEGMENTAL INFORMATION *(Continued)*

**2000**

| | United States HK$'000 | Hong Kong HK$'000 | Others HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| REVENUE | | | | |
| External sales | 50 | 33,881 | 1,541 | 35,472 |
| RESULTS | | | | |
| Segment results | 15 | 10,132 | 499 | 10,646 |
| Unallocated income and expenses | | | | 2,765 |
| Profit from operations | | | | 13,411 |
| Finance costs | | | | (1,467) |
| Restructuring costs charged | | | | (10,590) |
| Waiver of indebtedness | | | | 189,441 |
| Profit before taxation | | | | 190,795 |
| Taxation | | | | (57) |
| Net profit for the year | | | | 190,738 |
| ASSETS | | | | |
| Segment assets | 42 | 10,394 | 506 | 10,942 |
| Unallocated corporate assets | | | | 81,797 |
| | | | | 92,739 |
| LIABILITIES | | | | |
| Segment liabilities | 42 | 418 | 2,302 | 2,762 |
| Unallocated corporate liabilities | | | | 54,049 |
| | | | | 56,811 |
| OTHER INFORMATION | | | | |
| Unallocated additions to property, plant & equipment | | | | 809 |
| Unallocated depreciation | | | | 5,015 |

As the Group operates in one business segment, which is engaged in the manufacture and trading of gifts and novelties, the segment information by business segment is the same as above.

## 4. SEGMENTAL INFORMATION *(Continued)*

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment analysed by the geographical area in which the assets are located :

| | Carrying amount of segment assets | | Additions to property, plant and equipment | |
|---|---|---|---|---|
| | **2001** | 2000 | **2001** | 2000 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| PRC | **91,841** | 75,949 | **4,294** | 320 |
| Hong Kong | **50,094** | 16,330 | **170** | 489 |
| Socialist Republic of Vietnam | **25,187** | – | **–** | – |
| Macau | **10,739** | 460 | **–** | – |
| | **177,861** | 92,739 | **4,464** | 809 |

## 5. OTHER INCOME

Other income includes interest income of approximately HK$521,000 (2000: HK$24,000) earned during the year. In the prior year, other income included reversals of accruals over-provided in previous years amounting to HK$3,655,000.

## 6. PROFIT FROM OPERATIONS

| | **2001** | 2000 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit from operations has been arrived at after charging: | | |
| Auditors' remuneration | | |
| – current year | **450** | 350 |
| – under-provision in previous year | **23** | 102 |
| Loss on disposal of property, plant and equipment | **214** | – |
| Depreciation of property, plant and equipment | **5,503** | 5,015 |
| Staff costs (including directors' remuneration) | **34,625** | 14,010 |

## 7. FINANCE COSTS

The charge for the year represents interest on the Group's convertible loan stock.

## 8. RESTRUCTURING COSTS RECOVERED (CHARGED) AND AMOUNT DUE FROM A FORMER SHAREHOLDER

The restructuring costs recovered for the year represented the write back of the restructuring costs overcharged in previous year. In September 2001, the Group claimed the former shareholder such amount which was subsequently received in February 2002.

The amount in prior year represented expenses incurred as a result of the group restructuring happened in the year ended 31st December, 2000. Details of the group restructuring are set out in the circulars issued by the Company on 7th April, 2000 and 8th September, 2000.

## 9. WAIVER OF INDEBTEDNESS

It represented the waiver of debts due to financial creditors as a result of the group restructuring happened in the year ended 31st December, 2000. Details of the group restructuring are set out in the circulars issued by the Company on 7th April, 2000 and 8th September, 2000.

## 10. DIRECTORS' EMOLUMENTS

Directors' emoluments are analysed as follows:

| | **2001**<br>***HK$'000*** | 2000<br>*HK$'000* |
|---|---|---|
| Fees | | |
| Independent non-executive directors | **120** | 520 |
| Other emoluments (executive directors) | | |
| Salaries and allowances | **807** | 225 |
| Contributions to Mandatory Provident Fund scheme | **42** | – |
| | **969** | 745 |

# Notes to the Financial Statements

For the year ended 31st December, 2001



## 11. HIGHEST PAID EMPLOYEES

The five highest paid individuals included one (2000: one) director, details of whose emoluments are set out above. The emoluments of the remaining four highest paid individuals are as follows:

| | **2001** | 2000 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and allowances | **2,048** | 1,064 |
| Contributions to Mandatory Provident Fund scheme | **39** | – |
| | **2,087** | 1,064 |

The aggregate emoluments of each of the five highest paid individuals during the relevant periods were within the emoluments band ranging from nil to HK$1,000,000.

## 12. TAXATION

Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profit for the year.

Neither the Group nor the Company had any significant unprovided deferred taxation for the year or at the balance sheet date.

## 13. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data:

**Earnings**

| | **2001** | 2000 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Earnings for the purposes of basic earnings per share | **35,675** | 190,738 |
| Effect of dilutive potential ordinary shares: | | |
| Interest on convertible loan stock | **2,210** | 1,467 |
| Earnings for the purposes of diluted earnings per share | **37,885** | 192,205 |

**Number of shares**

| | **2001** | 2000 |
|---|---|---|
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **144,720** | 111,386 |
| Effect of dilutive potential ordinary shares: | | |
| Convertible loan stock | **440,000** | 295,738 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **584,720** | 407,124 |

# Notes to the Financial Statements

For the year ended 31st December, 2001



## 14. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings HK$'000 | Leasehold improvement HK$'000 | Plant and machinery HK$'000 | Furniture and equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **THE GROUP** | | | | | |
| COST OR VALUATION | | | | | |
| At 1st January, 2001 | 59,920 | 55 | 17,820 | 434 | 78,229 |
| Additions | – | 2,603 | 1,649 | 212 | 4,464 |
| Adjustment on revaluation | (1,500) | – | (3,387) | – | (4,887) |
| Disposal | (750) | – | – | – | (750) |
| At 31st December, 2001 | 57,670 | 2,658 | 16,082 | 646 | 77,056 |
| Comprising: | | | | | |
| At cost | 470 | 2,658 | 1,684 | 646 | 5,458 |
| At valuation – 30th June, 2000 *(Note)* | – | – | 6,498 | – | 6,498 |
| At valuation – 31st December, 2001 | 57,200 | – | 7,900 | – | 65,100 |
| | 57,670 | 2,658 | 16,082 | 646 | 77,056 |
| DEPRECIATION | | | | | |
| At 1st January, 2001 | 1,417 | 9 | 3,502 | 87 | 5,015 |
| Provided for the year | 1,402 | 79 | 3,893 | 129 | 5,503 |
| Impairment loss recognised in equity | – | – | 3,245 | – | 3,245 |
| Adjustment on revaluation | (2,784) | – | (4,458) | – | (7,242) |
| Eliminated on disposal | (16) | – | – | – | (16) |
| At 31st December, 2001 | 19 | 88 | 6,182 | 216 | 6,505 |
| NET BOOK VALUES | | | | | |
| At 31st December, 2001 | 57,651 | 2,570 | 9,900 | 430 | 70,551 |
| At 31st December, 2000 | 58,503 | 46 | 14,318 | 347 | 73,214 |

# Notes to the Financial Statements

For the year ended 31st December, 2001



## 14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

*Note :*

Plant and machinery in the PRC stated at valuation on 30th June, 2000 of HK$6,275,000 with accumulated depreciation of HK$2,510,000 at 31st December, 2001 was disposed of subsequent to the balance sheet date for consideration of HK$520,000. In the opinion of the directors, the fair value of the plant and machinery at 31st December, 2001 was not materially different from that subsequent sales price. Accordingly, an impairment loss of HK$3,245,000 was recognised for the year, which loss was debited to other asset revaluation reserves.

The net book value of properties shown above comprises:

| | **Leasehold land and buildings** | |
|---|---|---|
| | **2001** | 2000 |
| | ***HK$'000*** | *HK$'000* |
| Land in Hong Kong held on medium term lease | **–** | 734 |
| Land outside Hong Kong held on medium term lease | **57,651** | 57,769 |
| | **57,651** | 58,503 |

Other than the plant and machinery disposed of subsequent to the year end, the Group's leasehold land and buildings in the People's Republic of China ("the PRC") and the plant and machinery were revalued at 31st December, 2001 by RHL Appraisal Ltd., Chartered Surveyors, at open market value on a continued use basis. RHL Appraisal Ltd. is not connected with the Group. At 31st December, 2001, had all of the leasehold land and buildings and plant and machinery of the Group been carried at historical cost less accumulated depreciation, their carrying amounts would have been HK$109,626,000 (2000: HK$113,350,000) and HK$1,511,000 (2000: HK$986,000) respectively.

# Notes to the Financial Statements

For the year ended 31st December, 2001

## 15. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|---|---|---|
| | **2001** | 2000 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **88,090** | 88,090 |
| *Less*: Impairment loss recognised | **(88,089)** | (88,089) |
| | **1** | 1 |
| Amounts due from subsidiaries | **144,749** | 86,510 |
| *Less*: Impairment loss recognised | **(50,091)** | (63,806) |
| | **94,658** | 22,704 |
| | **94,659** | 22,705 |

The cost of the unlisted shares is based on the book value of the underlying net tangible assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the group reorganisation in 1994.

Details of the principal subsidiaries at 31st December, 2001 are as follows:

| Name of subsidiary | Place of incorporation/ registration/ operation | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/registered capital held by the Company | Principal activities |
|---|---|---|---|---|
| Associated Traders Hong Kong Limited | Hong Kong | HK$10,000 | 100% | Trading of gifts and novelties |
| Besco Enterprises Limited | Hong Kong | HK$10,000 | 100% | Manufacture of gifts and novelties |
| Keyhinge Procurement Limited | Hong Kong | HK$10,000 | 100% | Purchasing |
| Keyhinge Toys Company Limited | The British Virgin Islands | US$10 | 100% | Trading of gifts |

## 15. INTERESTS IN SUBSIDIARIES *(Continued)*

| Name of subsidiary | Place of incorporation/ registration/ operation | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/registered capital held by the Company | Principal activities |
|---|---|---|---|---|
| Matrix Distribution Limited | The British Virgin Islands | US$1 | 100% | Investment holding |
| Matrix International Holdings Limited | The British Virgin Islands | US$6 | 100% | Investment holding |
| Matrix Investments Group Limited | The British Virgin Islands | US$10 | 100% | Investment holding |
| Matrix Manufacturing Limited | The British Virgin Islands | US$1 | 100% | Investment holding |
| Matrix Plastic Manufacturing (Zhongshan) Co., Ltd. | PRC | US$5,910,000 | 100% | Manufacture of gifts and novelties |
| Matrix Properties Limited | The British Virgin Islands | US$1 | 100% | Investment holding |
| Matrix Resources Enterprise Limited | Hong Kong | HK$10,000 | 100% | Management purpose |
| Supertact Limited | Hong Kong | HK$1,000 | 100% | Property holding |

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

All of the subsidiaries are owned indirectly by the Company except for Matrix International Holdings Limited and Matrix Investments Group Limited which are owned directly.

None of the subsidiaries had any debt capital outstanding at the end of the year.

# Notes to the Financial Statements

For the year ended 31st December, 2001



## 16. INVENTORIES

| | **2001** | 2000 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **31,863** | 500 |
| Work in progress | **5,272** | 910 |
| Finished goods | **6,737** | 1,711 |
| | **43,872** | 3,121 |

All of the inventories above are carried at cost.

## 17. TRADE AND OTHER RECEIVABLES

The trade and other receivables include trade receivables of HK$24,551,000 (2000: HK$8,322,000). The Group allows an average credit period of 14 to 45 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

| | **THE GROUP** | |
|---|---|---|
| | **2001** | 2000 |
| | ***HK$'000*** | *HK$'000* |
| 0 – 60 days | **24,165** | 7,918 |
| 61 – 90 days | **27** | 404 |
| > 90 days | **359** | – |
| | **24,551** | 8,322 |

## 18. TRADE AND OTHER PAYABLES

The trade and other payables include trade payables of HK$40,559,000 (2000: HK$2,468,000).

The following is an aged analysis of trade payables at the balance sheet date:

| | THE GROUP | |
|---|---|---|
| | **2001** | 2000 |
| | ***HK$'000*** | *HK$'000* |
| 0 – 60 days | **39,310** | 694 |
| 61 – 90 days | **1,111** | 232 |
| > 90 days | **138** | 1,542 |
| | **40,559** | 2,468 |

## 19. AMOUNT DUE TO A RELATED COMPANY

The amount is unsecured, interest free and have no fixed terms of repayments. Mr. Cheng Yung Pun ("Mr. Cheng"), a director of the Company, has beneficial interest in the related company.

## 20. SHARE CAPITAL

| | Number of shares | | | |
|---|---|---|---|---|
| | **2001** | 2000 | **2001** | 2000 |
| | ***'000*** | *'000* | ***HK$'000*** | *HK$'000* |
| Authorised* | **700,000** | 700,000 | **70,000** | 70,000 |
| Issued and fully paid* | | | | |
| At the beginning of the year | **144,720** | 447,200 | **14,472** | 44,720 |
| Capital reduction *(note (a))* | **–** | (402,480) | **–** | (40,248) |
| Issue of new shares *(note (b))* | **–** | 100,000 | **–** | 10,000 |
| At the end of the year | **144,720** | 144,720 | **14,472** | 14,472 |

## 20. SHARE CAPITAL *(Continued)*

* Prior to 30th April, 2000, the shares in the Company carried a nominal value of HK$0.10 each. As a result of the capital reduction and the share consolidation as explained in note (a) below, the shares in the Company were reduced from nominal value of HK$0.10 each to HK$0.01 each and, immediately after the capital reduction, every ten issued shares of HK$0.01 each was consolidated to HK$0.10 each. Consequently, the issued shares were treated as the new shares as explained in note (a)(iii) below of the Company and the nominal value was again carried at HK$0.10 each.

(a) Pursuant to the special and ordinary resolutions passed at a Special General Meeting of the Company held on 30th April, 2000,

(i) in accordance with section 46 of the Companies Act 1981 of Bermuda, the issued share capital of the Company was reduced from HK$44,720,000 by an amount of HK$40,248,000 to HK$4,472,000 by cancelling paid-up capital to the extent of HK$0.09 on each of the 447,200,000 issued shares of HK$0.10 in the capital of the Company so that each of the 447,200,000 shares of HK$0.10 in the capital of the Company to be treated as one fully paid share of HK$0.01 in the capital of the Company (the "Capital Reduction");

(ii) the directors were authorised to apply the credit arising as a result of the Capital Reduction to write off part of the retained losses of the Company; and

(iii) every ten issued shares of HK$0.01 each in the capital of the Company was consolidated into one new share of HK$0.10 (the "New Shares") (the "Share Consolidation").

(b) At the Special General Meeting of the Company held on 30th April, 2000, the directors approved the Subscription Agreement (the "Subscription Agreement") as set out in the circular issued by the Company on 7th April, 2000 between the Company and Mental Resources Limited ("MRL"). Pursuant to the Subscription Agreement, MRL agreed to subscribe for and the Company agreed to issue 100 million New Shares as explained in note (a)(iii) above in the capital of the Company at a subscription price of HK$0.10 per share, and the Company agreed to issue to MRL convertible loan stock in the amount of HK$30 million as set out in the circular issued by the Company on 7th April, 2000. The subscription of the New Shares was completed on 30th April, 2000.

## 21. RESERVES

| | Share premium | Special reserve | Contributed surplus | Retained profits (losses) | Other asset revaluation reserves | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **THE GROUP** | | | | | | |
| At 1st January, 2000 | 55,708 | 971 | – | (281,179) | 15,170 | (209,330) |
| Realised upon liquidation of a subsidiary | – | (200) | – | – | – | (200) |
| Capital reduction *(note 20(a))* | – | – | – | 40,248 | – | 40,248 |
| Net profit for the year | – | – | – | 190,738 | – | 190,738 |
| At 31st December, 2000 | 55,708 | 771 | – | (50,193) | 15,170 | 21,456 |
| Revaluation increase in the year | – | – | – | – | 2,355 | 2,355 |
| Impairment loss recognised in respect of plant and machinery | – | – | – | – | (3,245) | (3,245) |
| Net profit for the year | – | – | – | 35,675 | – | 35,675 |
| At 31st December, 2001 | 55,708 | 771 | – | (14,518) | 14,280 | 56,241 |
| **THE COMPANY** | | | | | | |
| At 1st January, 2000 | 55,708 | – | 56,202 | (311,571) | – | (199,661) |
| Capital reduction *(note 20(a))* | – | – | – | 40,248 | – | 40,248 |
| Net profit for the year | – | – | – | 176,876 | – | 176,876 |
| At 31st December, 2000 | 55,708 | – | 56,202 | (94,447) | – | 17,463 |
| Net profit for the year | – | – | – | 41,906 | – | 41,906 |
| At 31st December, 2001 | 55,708 | – | 56,202 | (52,541) | – | 59,369 |

The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the aggregate nominal amount of the share capital of subsidiaries acquired in exchange under the group reorganisation in 1994.

## 21. RESERVES *(Continued)*

The contributed surplus of the Company represents the difference between the nominal amount of the share capital issued by the Company and the book value of the underlying consolidated net tangible assets of subsidiaries acquired as a result of the group reorganisation.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of directors, the Company had no reserves available for distribution to the shareholders.

## 22. CONVERTIBLE LOAN STOCK

After the completion of the restructuring as explained in the circulars issued by the Company on 7th April, 2000 and 8th September, 2000, on 30th June, 2000, Suncorp entered into an agreement with MRL, Best Fortune Profits Limited, Mr. Wong Chak Hung, James and Oilpro (Asia) Limited, pursuant to which Suncorp acquired the entire interest of the convertible loan stock.

The convertible loan stock carries interest at 5% per annum on the principal amount from time to time which is payable annually in arrears. The convertible loan stock is unsecured and can be converted into new shares by the holder at a pre-determined fixed price of HK$0.10 per share commencing from the third anniversary from its date of issue on 30th April, 2000. Pursuant to an ordinary resolution passed at the Special General Meeting held on 22nd May, 2001, the conversion period of the convertible loan stock has been revised to a period from 23rd May, 2001 to 30th April, 2005. At the end of its five years term, all the outstanding amount of the convertible loan stock must be converted into new shares at a pre-determined fixed price of HK$0.10 per share.

In January 2002, an amount of HK$7,700,000 convertible loan stock was converted into 77,000,000 shares of HK$0.10 each of the Company.

# Notes to the Financial Statements

For the year ended 31st December, 2001



## 23. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES

| | **2001** | 2000 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before taxation | **40,822** | 190,795 |
| Loss on disposal of property, plant and equipment | **214** | – |
| Waiver of indebtedness | **–** | (189,441) |
| Distribution from liquidation of a subsidiary | **–** | (1,257) |
| Interest income | **(521)** | (24) |
| Interest expenses | **2,210** | 1,467 |
| Depreciation | **5,503** | 5,015 |
| Special reserve realised upon liquidation of a subsidiary | **–** | (200) |
| Increase in inventories | **(40,751)** | (3,121) |
| Increase in trade and other receivables | **(17,040)** | (12,378) |
| Increase in amount due from a former shareholder | **(4,654)** | – |
| Increase (decrease) in trade and other payables | **43,625** | (2,920) |
| Increase in amount due to a related company | **829** | – |
| Increase in amount due to a director | **726** | – |
| Net cash inflow (outflow) from operating activities | **30,963** | (12,064) |

# Notes to the Financial Statements

For the year ended 31st December, 2001

## 24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

| | Share capital HK$'000 | Special reserve HK$'000 | Convertible loan stock HK$'000 | Advance from a former director HK$'000 | Amount due to a subsidiary not consolidated HK$'000 | Bank borrowings HK$'000 | Obligations under finance leases and hire purchase contracts HK$'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1st January, 2000 | 44,720 | 971 | – | 4,200 | 68,222 | 138,991 | 12,061 |
| Reclassification of liabilities | | | | | | | |
| Rental payable | – | – | – | – | – | 4,512 | – |
| Repayment of financial creditors | – | – | – | – | (6,345) | (14,000) | – |
| Repayment to a former director | – | – | – | (4,200) | – | – | – |
| Issue of shares | 10,000 | – | – | – | – | – | – |
| Issue of convertible loan stock | – | – | 30,000 | – | – | – | – |
| Capital reduction | (40,248) | – | – | – | – | – | – |
| Other movements not involving cash flows: | | | | | | | |
| Realised upon liquidation of a subsidiary | – | (200) | – | – | – | – | – |
| Waiver of indebtedness | – | – | – | – | (61,877) | (115,503) | (12,061) |
| Issue of convertible loan stock | – | – | 14,000 | – | – | (14,000) | – |
| Balance at 31st December, 2000 and 31st December, 2001 | 14,472 | 771 | 44,000 | – | – | – | – |

# Notes to the Financial Statements

For the year ended 31st December, 2001



## 25. OPERATING LEASE COMMITMENTS

| | THE GROUP | |
|---|---|---|
| | **2001** | 2000 |
| | ***HK$'000*** | *HK$'000* |
| Minimum lease payments under operating leases recognised in the income statement for the year | **4,384** | 164 |

At the balance sheet date, the Group had the outstanding commitments under non-cancellable operating leases, which fall due as follows:

| | THE GROUP | |
|---|---|---|
| | **2001** | 2000 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **1,845** | 720 |
| In the second to fifth year inclusive | **64** | 480 |
| | **1,909** | 1,200 |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 2 years and rentals are fixed for an average of 2 years.

## 26. CONTINGENT LIABILITIES

MPMZ has been served a writ from Nam Guang Trading Company ("Nam Guang") regarding a breach of five years distribution agreement ("the agreement") signed between China Win Universal Group Ltd. ("China Win"), the subsidiary of Nam Guang, and MPMZ on 8th March, 1999. According to a civil litigation certificate issued by China Win, it asks for damage for failure to perform the agreement by MPMZ in amount of approximately US$194,000. The progress of the above is at the stage in waiting for the judgement from Zhongshan Municipal People's Court. The directors based on legal opinion given by the Group's legal counsel, consider that this claim should not significantly affect the financial results of the Group and, accordingly, no provision for liability has been made in these financial statements.

### 27. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following related party transactions:

| | **2001** | 2000 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest paid/payable on convertible loan stock to ultimate holding company *(Note a)* | **2,210** | 1,467 |
| Rental paid/payable to a related company *(Note b)* | **144** | – |
| Subcontracting fee paid/payable to a related company *(Note c)* | **8,833** | – |
| Purchases of goods from a related company *(Note d)* | **285** | – |

*Notes :*

a. The interest paid/payable on convertible loan stock to Suncorp is calculated at 5% per annum on the principal amount outstanding from time to time and shall be payable annually in arrears.

b. The rental paid/payable to a related company is determined in accordance to a tenancy agreement entered between a wholly owned subsidiary of the Group and a related company.

c. The subcontracting fee paid/payable to a related company was determined at 20% of the corresponding sales of a wholly owned subsidiary of the Group.

d. Purchase of goods was based on the terms agreed by both parties.

Pursuant to an agency agreement signed between Besco Enterprises Limited ("Besco") , a subsidiary of the Company, a related company in which Mr. Cheng Yung Pun has beneficial interest and a processing factory established in the PRC effective on 1st April, 2001, Besco had agreed to take up at no consideration all the rights and obligations of the related company in respect of a processing agreement signed between the related company and the processing factory but only for all the processing orders issued by Besco to the processing factory after that date. Further, in accordance with the processing agreement, all the plant and machinery are to be provided by the related company. Neither the processing factory or the Group incurred any expenses in respect of the use of plant and machinery owned by the related company.

## 28. RETIREMENT BENEFIT SCHEME AND MANDATORY PROVIDENT FUND

In December 2000, the Group changed its retirement benefits scheme to a Mandatory Provident Fund ("MPF"). According to the MPF legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1st December, 2000, the Group is required to participate in MPF scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages as calculated under the MPF legislation.

The eligible employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits.

The retirement benefits cost charged to income statement of approximately HK$600,000 (2000: nil) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes.

## 29. POST BALANCE SHEET EVENTS

On 5th November, 2001, the Group entered into an agreement with Mr. Cheng pursuant to which the Group would acquire the entire issued share capital of Keyhinge Holdings Limited, which was beneficially wholly owned by Mr. Cheng. The acquisition constituted a major and connected transaction of the Company which was approved by the independent shareholders on 18th January, 2002.

The total consideration payable under the sale & purchase agreement of HK$26 million in cash, is payable in four equal instalments by the Company. The first instalment will be payable upon the completion of the sale and purchase agreement and the remaining instalments will be payable on the last business day in each of the three calendar months following completion.