

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The subsidiaries are engaged in the manufacture and trading of chemical fibres, properties investment, securities investment and financial services.

The financial statements for the current year cover the twelve-month period from 1st January, 2001 to 31st December, 2001. The comparative amounts shown for the income statement, statement of recognised gains and losses, cash flows and related notes covered a nine-month period from 1st April, 2000 to 31st December, 2000 may not be comparable with amounts shown for the current year.

As the majority of the Group's business are operated by a subsidiary and a jointly controlled entity in The People's Republic of China (the "PRC") where they are required by statutes to adopt 31st December as the fiscal year end, the directors believe that the change of the Company's financial year end date to 31st December would facilitate the preparation of the Group's consolidated financial information.

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants for the first time. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. The new and revised SSAPs adopted during the year have not had any significant impact on the amounts reported in current or prior periods.

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and certain investments in securities, and 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 and jointly controlled entities 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 inter-company transactions and balances within the Group are eliminated on consolidation.

### **Investments in subsidiaries**

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

### **Joint ventures**

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss. The Group's share of post-acquisition results of the jointly controlled entities is included in the consolidated income statement.

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

**Investments in securities**

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

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

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

**Trademarks**

Trademarks are stated at cost less amortisation and accumulated impairment losses. Amortisation is calculated to write off the cost of trademarks over a period of ten years, using the straight line method.

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

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

### **Revenue recognition**

Sales of goods are recognised when goods are delivered and title has passed while service revenue is recognised when services are provided.

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

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the period of the relevant leases.

Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

Sales of investments in securities are recognised on a trade date basis.

### **Investment properties**

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

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

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

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

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

**Property, plant and equipment**

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and amortisation and accumulated impairment losses.

Construction in progress is stated at cost which includes all development expenditure and other direct costs attributable to such projects including borrowing costs capitalised. It is not depreciated or amortised until completion of construction. The costs of completed construction works are transferred to the appropriate categories of property, plant and equipment.

Depreciation and amortisation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives, using the straight line method, at the following rates per annum:

Buildings	2% – 18%
Furniture and fixtures	20%
Motor vehicles	20%
Plant and machinery	6% – 23%

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

**Capitalisation of borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the year in which they are incurred.

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

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

### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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.

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.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

### **Taxation**

The charge for taxation is based on the results for the year as adjusted for items that 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 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.

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

#### Operating leases

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

#### Retirement benefits scheme

Payments made to state-managed retirement benefits schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

### 4. TURNOVER

Turnover represents the aggregate of the net amounts received and receivable from third parties and is summarised as follows:

	<b>1.1.2001</b>	1.4.2000
	<b>to</b>	to
	<b>31.12.2001</b>	31.12.2000
	<b>HK\$'000</b>	HK\$'000
Sales of goods	<b>282,338</b>	255,605
Interest income from investments	<b>16,392</b>	18,744
Sales proceeds from disposal of other investments	<b>10,075</b>	—
Rental income and property management	<b>3,535</b>	3,499
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
	<b>312,340</b>	277,848
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# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 5. LOSS FROM OPERATIONS

	1.1.2001 to 31.12.2001 <i>HK\$'000</i>	1.4.2000 to 31.12.2000 <i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Staff costs		
— Directors' emoluments (note 6)	220	140
— Salaries and allowances	34,756	37,371
— Retirement benefits scheme contributions	8,854	7,890
	<u>43,830</u>	<u>45,401</u>
Amortisation of trademarks (included in administrative expenses)	373	280
Auditors' remuneration		
— current year	600	700
— underprovision in prior period	180	—
Depreciation and amortisation of property, plant and equipment	25,122	14,724
Loss on disposal of property, plant and equipment	147	1,889
Management fee paid to a subsidiary of a controlling shareholder	12,000	9,000
and after crediting:		
Property rental income, net of outgoings of HK\$258,000 (1.4.2000 to 31.12.2000: HK\$471,000)	2,811	2,395
Interest income, other than from investments	<u>2,104</u>	<u>1,165</u>



# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 6. DIRECTORS' EMOLUMENTS

	1.1.2001 to 31.12.2001 <i>HK\$'000</i>	1.4.2000 to 31.12.2000 <i>HK\$'000</i>
Directors' fees:		
Executive	120	80
Independent non-executive	100	60
	220	140
Other emoluments of executive directors:		
Salaries and other benefits	—	—
	220	140

None of the directors has waived any emoluments during the year.

## 7. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals are as follows:

	1.1.2001 to 31.12.2001 <i>HK\$'000</i>	1.4.2000 to 31.12.2000 <i>HK\$'000</i>
Salaries and allowances	359	253
Retirement benefits scheme contributions	14	10
Bonus	19	22
	392	285

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 8. FINANCE COSTS

	1.1.2001 to 31.12.2001 <i>HK\$'000</i>	1.4.2000 to 31.12.2000 <i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	14,841	13,505
Less: Interest capitalised in construction in progress	<u>(503)</u>	<u>(2,096)</u>
	<u><b>14,338</b></u>	<u><b>11,409</b></u>

## 9. TAXATION

	1.1.2001 to 31.12.2001 <i>HK\$'000</i>	1.4.2000 to 31.12.2000 <i>HK\$'000</i>
The charge (credit) comprises:		
Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the year	8	—
Overprovision in prior years	<u>—</u>	<u>(291)</u>
	<u><b>8</b></u>	<u>(291)</u>
PRC income tax, other than Hong Kong Profits Tax	225	1,126
Overprovision in prior period	<u>(1,083)</u>	<u>—</u>
	<u><b>(858)</b></u>	<u>1,126</u>
Share of PRC income tax of a jointly controlled entity	<u>1,115</u>	<u>1,299</u>
	<u><b>265</b></u>	<u><b>2,134</b></u>

PRC income tax is calculated in accordance with the relevant laws and regulations in the PRC.

Details of unrecognised deferred tax assets are set out in note 28.

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 10. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the loss for the year of approximately HK\$26,070,000 (1.4.2000 to 31.12.2000: HK\$19,411,000) and on the 1,214,115,987 shares in issue during the year/period.

The computations of diluted loss per share for the period from 1st April, 2000 to 31st December, 2000 and year ended 31st December, 2001, had not assumed the exercise of share option because the exercise prices of the outstanding share options were higher than the market prices of the Company's shares during the period/year.

## 11. INVESTMENT PROPERTIES

	<i>HK\$'000</i>
<b>THE GROUP</b>	
VALUATION	
At 1st January, 2001	57,000
Transfer from property, plant and equipment ( <i>note 12</i> )	8,716
Deficit arising on revaluation	<u>(3,000)</u>
At 31st December, 2001	<u><u>62,716</u></u>

The investment properties of the Group were revalued at 31st December, 2001 on an open market value basis by A A Property Services Limited, an independent firm of professional property valuers. The deficit arising on the revaluation has been charged to the income statement.

The Group's investment properties are leased out under operating leases.

The carrying value of the investment properties comprises:

	<b>2001</b>	
	<b><i>HK\$'000</i></b>	<i>2000</i>
		<i>HK\$'000</i>
Properties held under medium-term leases in Hong Kong	<b>54,000</b>	57,000
Properties held under medium-term leases in the PRC	<b>8,716</b>	—
	<u><b>62,716</b></u>	<u>57,000</u>

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Plant and machinery HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>THE GROUP</b>						
COST						
At 1st January, 2001	123,497	88	3,317	197,658	219,268	543,828
Additions	—	—	—	11,191	3,030	14,221
Reclassifications	39,789	—	—	182,509	(222,298)	—
Transfer to investment properties ( <i>note 11</i> )	(10,595)	—	—	—	—	(10,595)
Disposals	—	—	—	(724)	—	(724)
At 31st December, 2001	152,691	88	3,317	390,634	—	546,730
DEPRECIATION, AMORTISATION AND IMPAIRMENT						
At 1st January, 2001	35,053	67	1,843	94,539	82,894	214,396
Provided for the year	5,365	18	662	19,077	—	25,122
Reclassifications	—	—	—	82,894	(82,894)	—
Transfer to investment properties ( <i>note 11</i> )	(1,879)	—	—	—	—	(1,879)
Eliminated on disposals	—	—	—	(58)	—	(58)
At 31st December, 2001	38,539	85	2,505	196,452	—	237,581
NET BOOK VALUE						
At 31st December, 2001	114,152	3	812	194,182	—	309,149
At 31st December, 2000	88,444	21	1,474	103,119	136,374	329,432
<b>THE COMPANY</b>						
COST						
At 1st January, 2001 and 31st December, 2001	—	88	3,317	—	—	3,405
DEPRECIATION						
At 1st January, 2001	—	67	1,842	—	—	1,909
Provided for the year	—	18	663	—	—	681
At 31st December, 2001	—	85	2,505	—	—	2,590
NET BOOK VALUE						
At 31st December, 2001	—	3	812	—	—	815
At 31st December, 2000	—	21	1,475	—	—	1,496

The Group's land and buildings, which are situated in the PRC are held under land use rights for a term of 30 years commencing on 28th December, 1993.

During the year, the Group transferred all of its construction in progress to the appropriate categories of property, plant and equipment as a result of the completion of the construction.

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 13. INTERESTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost less impairment	<b>38,887</b>	38,766
Amounts due from subsidiaries less impairment recognised	<b>155,979</b>	200,758
	<b>194,866</b>	239,524

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of directors, the amounts will not be repayable within one year from the balance sheet date and accordingly, the amounts are shown as non-current.

During the year, the directors of the Company have reviewed the carrying amounts of the assets of the subsidiaries. In light of the current market conditions and the existing production plan, the directors have identified certain assets with an aggregate carrying amount of approximately HK\$31,580,000, and which are considered to have a negligible recoverable amount as at the balance sheet date. Accordingly, the whole amount has been recognised in the income statement as impairment losses for the current year.

Particulars of the Company's principal subsidiaries, all of which are wholly-owned and held directly by the Company except otherwise indicated, at 31st December, 2001 are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued and fully paid share capital/ registered capital	Principal activity
Brilliant Prospect Limited *	British Virgin Islands	US\$1	Investment holding
Eastern Prosper Developments Ltd.	British Virgin Islands	US\$1	Securities investment
Equal Link Investments Limited *	Hong Kong	HK\$2	Investment holding
Grandace Investments Ltd.	British Virgin Islands	US\$2	Investment holding

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 13. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued and fully paid share capital/ registered capital	Principal activity
杭州藍孔雀化學纖維(股份)有限公司 (Hangzhou B.P. Chemical Fibre Co., Ltd.) ("Hangzhou B.P.") **	PRC	US\$27,272,727	Manufacture and trading of chemical fibres
Honest Power Investment Limited	Hong Kong	HK\$2	Property investment
Lolliman Finance Limited	Hong Kong	HK\$1,000,000	Financial services
Lolliman Property Nominees Limited	Hong Kong	HK\$2	Property services
Marvellous Development Limited	Hong Kong	HK\$100	Property investment
Time Profit Investments Limited	Hong Kong	HK\$100	Property investment

\* This subsidiary is indirectly wholly-owned by the Company.

\*\* This subsidiary is 55% indirectly held by the Company and established for a term of 30 years commencing on 28th December, 1993.

The above table only lists those 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 the above subsidiaries, except Brilliant Prospect Limited and Eastern Prosper Developments Ltd. which operate principally in Hong Kong, operate in their respective places of incorporation/registration.

None of the subsidiaries had any debt securities outstanding at the end of the year/period, or at any time during the year/period.

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 14. INTEREST IN A JOINTLY CONTROLLED ENTITY

	<b>THE GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Share of net assets of a jointly controlled entity	<b>48,061</b>	48,489

The Group's investment represents a 30% indirect equity interest in 上海虹橋友誼商城有限公司 Shanghai Hong Qiao Friendship Shopping Center Co., Ltd. ("Shanghai Hong Qiao") which is established in the PRC for a term of 20 years commencing on 30th March, 1993. Shanghai Hong Qiao is engaged in the business of retail sales of high end consumer goods and is currently operating in two shopping centres in Shanghai and Suzhou, the PRC.

## 15. TRADEMARKS

	HK\$'000
<b>THE GROUP</b>	
<b>COST</b>	
At 1st January, 2001 and 31st December, 2001	3,738
<b>AMORTISATION</b>	
At 1st January, 2001	2,617
Provided for the year	373
At 31st December, 2001	2,990
<b>NET BOOK VALUE</b>	
At 31st December, 2001	748
At 31st December, 2000	1,121

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 16. INVESTMENTS IN SECURITIES

### THE GROUP

	Held-to-		Investment securities		Other investments		Total	
	maturity security							
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Equity securities								
Listed	—	—	—	—	1,735	2,765	1,735	2,765
Unlisted	—	—	1,431	2,251	—	—	1,431	2,251
	<u>—</u>	<u>—</u>	<u>1,431</u>	<u>2,251</u>	<u>1,735</u>	<u>2,765</u>	<u>3,166</u>	<u>5,016</u>
Debt securities								
— Unlisted	1,036	1,503	—	—	—	—	1,036	1,503
	<u>1,036</u>	<u>1,503</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,036</u>	<u>1,503</u>
Total								
— Listed in Hong Kong	—	—	—	—	1,735	2,765	1,735	2,765
— Unlisted	1,036	1,503	1,431	2,251	—	—	2,467	3,754
	<u>1,036</u>	<u>1,503</u>	<u>1,431</u>	<u>2,251</u>	<u>1,735</u>	<u>2,765</u>	<u>4,202</u>	<u>6,519</u>
Market value of listed securities	—	—	—	—	1,735	2,765	1,735	2,765
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,735</u>	<u>2,765</u>	<u>1,735</u>	<u>2,765</u>
Carrying amount analysed for reporting purposes as:								
Current	—	—	—	—	1,735	2,765	1,735	2,765
Non-current	1,036	1,503	1,431	2,251	—	—	2,467	3,754
	<u>1,036</u>	<u>1,503</u>	<u>1,431</u>	<u>2,251</u>	<u>1,735</u>	<u>2,765</u>	<u>4,202</u>	<u>6,519</u>

The Group's unlisted investment securities represent a 33 $\frac{1}{3}$ % interest in the capital of 南杭漿粕絲綢廠 (Nanhang Pulp Filaments Factory), which is a factory engaged in the manufacture of chemical fibre in the PRC. In the opinion of the directors, the Group is not in a position to exercise significant influence over the financial and operating policies of the factory and, accordingly, this investment has not been accounted for as an associate.



# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 17. INVENTORIES

	THE GROUP	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Raw materials	27,920	44,664
Work in progress	8,350	13,280
Finished goods	21,975	38,342
	58,245	96,286
	58,245	96,286

Included above are finished goods of approximately HK\$1.6 million (2000: HK\$7.5 million) which were carried at net realisable value.

## 18. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Trade receivables		
0 – 60 days	11,983	4,447
61 – 90 days	166	—
Over 90 days	632	422
	12,781	4,869
Other receivables	4,414	22,590
	17,195	27,459
	17,195	27,459

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## 19. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Trade payables		
0 – 60 days	13,072	24,975
61 – 90 days	2	9
Over 90 days	439	620
	<u>13,513</u>	<u>25,604</u>
Other payables	52,217	25,732
Value added tax payables	1,282	227
	<u>67,012</u>	<u>51,563</u>

## 20. BANK BORROWINGS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Bank loans	<u>194,769</u>	<u>232,580</u>
Secured	166,934	193,452
Unsecured	27,835	39,128
	<u>194,769</u>	<u>232,580</u>

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
The maturity of the bank loans is as follows:		
On demand or within one year	183,630	98,072
More than one year, but not exceeding two years	11,139	11,219
More than two years, but not exceeding five years	—	123,289
	<u>194,769</u>	<u>232,580</u>
Less: Amount due within one year shown under current liabilities	(183,630)	(98,072)
	<u>11,139</u>	<u>134,508</u>

# NOTES TO THE FINANCIAL STATEMENTS

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## 21. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured, interest-free and have no fixed repayment terms. The amounts will not be repayable within one year from the balance sheet date and accordingly, the amounts are shown as non-current.

## 22. SHARE CAPITAL

Authorised:

1,800,000,000 ordinary shares of HK\$0.50 each

Issued and fully paid:

1,214,115,987 ordinary shares of HK\$0.50 each

**2001 & 2000**  
**HK\$'000**

**900,000**

**607,058**

There were no movements in the share capital of the Company in the year/period.

## 23. SHARE OPTIONS

At 31st December, 2001, the following options to subscribe for shares were outstanding under the Company's share option scheme:

Date of grant	Exercisable period	Exercise price per share HK\$	Outstanding at 31.12.2001
3.9.1997	3.9.1997 - 2.9.2007	1.27	47,400,000
5.6.1998	5.6.1998 - 4.6.2008	0.50	41,000,000
30.11.2000	30.11.2000 - 29.11.2010	0.50	31,300,000
			<b>119,700,000</b>

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 24. DEFICIT

	Share premium	Investment properties revaluation reserve	Translation reserve	Capital reserve	Statutory surplus reserve	Enterprise expansion fund	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>								
At 1st April, 2000	2,252	2,000	6,552	—	2,285	663	(11,463)	2,289
Deficit arising on revaluation of investment properties	—	(2,000)	—	—	—	—	—	(2,000)
Loss for the period	—	—	—	—	—	—	(19,411)	(19,411)
Transfers	—	—	—	—	274	—	(274)	—
At 31st December, 2000	2,252	—	6,552	—	2,559	663	(31,148)	(19,122)
Loss for the year	—	—	—	—	—	—	(26,070)	(26,070)
Transfers	—	—	—	—	268	—	(268)	—
At 31st December, 2001	<u>2,252</u>	<u>—</u>	<u>6,552</u>	<u>—</u>	<u>2,827</u>	<u>663</u>	<u>(57,486)</u>	<u>(45,192)</u>
<b>THE COMPANY</b>								
At 1st April, 2000	2,252	—	—	3,547	—	—	(10,744)	(4,945)
Loss for the period	—	—	—	—	—	—	(14,342)	(14,342)
At 31st December, 2000	2,252	—	—	3,547	—	—	(25,086)	(19,287)
Loss for the year	—	—	—	—	—	—	(24,610)	(24,610)
At 31st December, 2001	<u>2,252</u>	<u>—</u>	<u>—</u>	<u>3,547</u>	<u>—</u>	<u>—</u>	<u>(49,696)</u>	<u>(43,897)</u>

The accumulated losses of the Group include approximately HK\$1,866,000 (2000: HK\$1,438,000) attributable to its jointly controlled entity.

As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the PRC subsidiary of the Company is required to maintain three statutory reserves, being a statutory surplus reserve fund, expansion fund and a staff welfare and incentive bonus fund which are non-distributable. Appropriations to such reserves are made out of net profit after taxation of the statutory financial statements of the PRC subsidiary and the amount and allocation basis are decided by its board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses of the PRC subsidiary, if any, and can be applied in conversion into capital by means of capitalisation issue. The enterprises expansion fund is used for expanding the capital base of the PRC subsidiary by means of capitalisation issue.

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 24. DEFICIT (Continued)

The amount transferred to the staff welfare and incentive bonus fund in the statutory financial statements of the PRC subsidiary has been adjusted in the consolidated financial statements as an operating expense as in the opinion of the directors, this fund will be used to pay incentive bonus and other benefits to the PRC subsidiary's employees.

Capital reserve represents the amount of initial payment from the shareholders to subscribe new shares at HK\$1 each share which were subsequently forfeited as a result of non-payment of the remaining committed contribution.

The Company did not have any distributable profit as at the balance sheet date.

## 25. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1.1.2001 to 31.12.2001 HK\$'000	1.4.2000 to 31.12.2000 HK\$'000
Loss before taxation	(49,245)	(39,726)
Interest income, other than from investments	(2,104)	(1,165)
Interest on bank and other borrowings	14,841	11,409
Dividend received from listed investments	(201)	(75)
Share of profits of a jointly controlled entity	(2,369)	(2,930)
Amortisation of trademarks	373	280
Depreciation and amortisation of property, plant and equipment	25,122	14,724
Loss on disposal of property, plant and equipment	147	1,889
Unrealised holding loss on other investments	1,030	1,955
Impairment loss on investment securities	820	821
Impairment loss on construction in progress	—	45,500
Deficit arising on revaluation of investment properties	3,000	1,000
Decrease (increase) in inventories	38,041	(22,206)
Decrease in trade and other receivable	10,264	3,879
Decrease in short-term loans receivable	12,840	—
Increase (decrease) in trade and other payables	6,096	(7,496)
Increase in trade payable to a minority shareholder of a subsidiary	1,228	1,425
	1,228	1,425
Net cash inflow from operating activities	59,883	9,284

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 26. ANALYSIS OF CHANGES IN FINANCING DURING THE PERIOD/YEAR

	Amount due to a minority shareholder of a subsidiary <i>HK\$'000</i>	Bank borrowings <i>HK\$'000</i>	Minority interest <i>HK\$'000</i>
At 1st April, 2000	57,343	212,144	85,236
Interest waived by a minority shareholder ( <i>note 27</i> )	(7,442)	—	7,442
Borrowings raised	9,346	110,758	—
Repayment of borrowings	—	(90,322)	—
Increase in trade balance with a minority shareholder ( <i>note 25</i> )	1,425	—	—
Share of loss of a subsidiary	—	—	(22,449)
Dividend paid	—	—	(1,908)
	<hr/>	<hr/>	<hr/>
At 31st December, 2000	60,672	232,580	68,321
Borrowings raised	2,146	97,488	—
Repayment of borrowings	—	(135,299)	—
Increase in trade balance with a minority shareholder ( <i>note 25</i> )	1,228	—	—
Share of loss of a subsidiary	—	—	(23,440)
Dividend paid	—	—	(1,866)
	<hr/>	<hr/>	<hr/>
At 31st December, 2001	<u>64,046</u>	<u>194,769</u>	<u>43,015</u>

## 27. MAJOR NON-CASH TRANSACTION

During the year, additions to property, plant and equipment amounting to approximately HK\$9,899,000 had not yet settled and included in other payables as at the balance sheet date.

During the period ended 31st December, 2000, the minority shareholder of a subsidiary agreed to waive the interest payable to it amounting to approximately HK\$7,442,000.

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 28. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, the Group and the Company had an unrecognised net deferred tax asset as follows:

	THE GROUP		THE COMPANY	
	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Taxation effect of timing differences arising as a result of:				
Tax losses available to set off against future assessable profits	<b>12,005</b>	11,283	<b>11,460</b>	10,537
Difference between depreciation allowances claimed for tax purposes and depreciation charged in the financial statements	<b>(103)</b>	(200)	<b>(103)</b>	(200)
Net deferred tax asset	<b><u>11,902</u></b>	<u>11,083</u>	<b><u>11,357</u></b>	<u>10,337</u>

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 28. UNRECOGNISED DEFERRED TAXATION (Continued)

The amount of unprovided deferred tax credit for the year are as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences arising as a result of:				
Tax losses arising	722	639	923	509
Difference between depreciation allowances claimed for tax purposes and depreciation charged in the financial statements	97	64	97	70
	<u>819</u>	<u>703</u>	<u>1,020</u>	<u>579</u>

The deferred tax asset has not been recognised in the financial statements as it is not certain that the benefit will be realised in the foreseeable future.

## 29. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

	2001 HK\$'000	2000 HK\$'000
Operating lease rentals in respect of land and buildings	<u>2,471</u>	<u>1,854</u>

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

	2001 HK\$'000	2000 HK\$'000
Within one year	2,471	2,471
In the second to fifth year inclusive	9,884	9,884
Over five years	42,007	44,478
	<u>54,362</u>	<u>56,833</u>



# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 29. OPERATING LEASE ARRANGEMENTS (Continued)

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

The Group as lessor:

Property rental income earned during the year was approximately HK\$3 million (1.4.2000 to 31.12.2000: HK\$2.9 million). The property held has committed tenants for periods ranging from 1 to 3 years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	<b>2001</b>	
	<b>HK\$'000</b>	2000
		HK\$'000
Within one year	<b>3,030</b>	2,524
In the second to fifth year inclusive	<b>2,743</b>	898
	<b>5,773</b>	3,422

## 30. CAPITAL COMMITMENTS

	<b>THE GROUP</b>	
	<b>2001</b>	
	<b>HK\$'000</b>	2000
		HK\$'000
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	—	39,416
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	—	10,290
	—	49,706

The Company had no capital commitments at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 31. PLEDGE OF ASSETS

At the balance sheet date, the credit facilities granted by banks for certain subsidiaries were secured by the following:

- (a) pledge of bank deposits of HK\$11,700,000 (2000: HK\$23,291,000); and
- (b) pledge of certain of the Group's land and buildings with an aggregate net book value of approximately HK\$67,455,000 (2000: HK\$68,395,000).

At 31st December, 2000, the credit facilities granted by banks for certain subsidiaries were also secured by the following:

- (a) pledge of the Group's investment properties of HK\$57,000,000;
- (b) pledge of shares of those subsidiaries holding the above-mentioned property interests; and
- (c) assignment of rental income received and receivable from the above-mentioned investment properties.

## 32. RETIREMENT BENEFITS SCHEME

The Company and its subsidiaries in Hong Kong do not operate retirement schemes since the Company and its subsidiaries do not have local permanent employees.

The employees in the subsidiary in the PRC are members of the state-managed retirement benefits scheme operated by the PRC government. The subsidiary is required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is the required contributions under the scheme.

The total cost charged to the income statement of approximately HK\$9 million (1.4.2000 to 31.12.2000: HK\$8 million) represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 33. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(A) During the year, the Group had significant transactions with related parties which are also deemed to be connected persons as defined by the Rules Governing the Listing of Securities on the Stock Exchange. The significant transactions with the connected persons during the year, and significant balances with them at the balance sheet date, are as follows:

		THE GROUP	
Connected persons	Nature of transactions/ balances	1.1.2001 to 31.12.2001 HK\$'000	1.4.2000 to 31.12.2000 HK\$'000
<b>Transactions:</b>			
(a)	Subsidiary of CMIC (note i) Management fee paid by the Group (note ii)	12,000	9,000
(b)	HCF Group and its affiliates (note iii) Sales of chemical fibres (note iv) 8,194	8,194	2,940
	Purchase of raw materials (note iv) 585	585	716
	Interest expenses (note v) 2,140	2,140	873
	Interest payable waived by HCF Group and its affiliates (note vi) —	—	7,442
	Trade debtors assigned by the Group (note vii) —	—	1,894
		At 31.12.2001 HK\$'000	At 31.12.2000 HK\$'000
<b>Balances:</b>			
(c)	HCF Group and its affiliates Payable by the Group (note viii) 64,046	64,046	60,672

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2001

## 33. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Notes:

- (i) Continental Mariner Investment Company Limited ("CMIC") is a controlling shareholder of the Company.
  - (ii) The management fee was charged in accordance with the management agreement with CMIC Management Services Limited ("CMIC Management") for the provision of general corporate management and consultancy services to the Company with effect from 16th August, 1993. CMIC Management is a wholly-owned subsidiary of CMIC, the shares of which are listed on the Stock Exchange. All the executive directors of the Company are executive directors of CMIC. The management fee charged was determined on the basis of expenses incurred by CMIC Management in connection with the said management agreement.
  - (iii) Hangzhou Chemical Fibre Group Company ("HCF Group") is a 45% shareholder of Hangzhou B.P., one of the Company's non-wholly owned subsidiary.
  - (iv) These transactions were carried out at market prices and were subject to a waiver granted by the Stock Exchange from making disclosure on each occasion when they arose as disclosed in the Company's announcement dated 5th August, 1999.
  - (v) The interest was charged at the prevailing market rate on the outstanding advances from HCF Group.
  - (vi) In July 2000, HCF Group agreed to waive the interest payable by the Group to it of approximately HK\$7,442,000 and not to charge interest any more.
  - (vii) In July 2000, the Group assigned certain long outstanding trade debtors of Hangzhou B.P. to HCF Group at their book values of HK\$1,894,000 as part of the agreement pursuant to which the Group acquired its interest in Hangzhou B.P. from HCF Group in 1993.
  - (viii) The balance is unsecured and has no fixed repayment terms. Other than an amount of approximately HK\$36.7 million (2000: HK\$36.4 million) which carries interest at the prevailing market rates, the balance is interest-free.
- (B) At 31st December, 2001, the Company had given a guarantee amounting to approximately HK\$12.3 million (2000: HK\$18.5 million) to a bank in respect of credit facilities granted to Hangzhou B.P. In addition, at 31st December, 2001, the Group had also advanced approximately HK\$33 million (2000: HK\$30.8 million) to Hangzhou B.P. for financing its operations. These advances are unsecured, interest-free and have no fixed repayment terms.

HCF Group, the minority shareholder of Hangzhou B.P., has also provided guarantees in favour of, and advances to, Hangzhou B.P. in proportion not less than those provided by the Group.

In July 2000, the Group agreed to waive the interest payable by Hangzhou B.P. to the Group of approximately HK\$8,042,000 and not to charge interest any more.

## 34. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and trading of chemical fibres in the PRC. All the identifiable assets of the Group are principally located in the PRC. Accordingly, no segmental analysis is presented.