

## 1. CORPORATE INFORMATION

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

- processing and trading of chemical fertilisers, agricultural products and other products
- property investment
- investment holding in retail business in Mainland China

During the year, the Group ceased its investment in the manufacturing joint ventures in Mainland China which were engaged in the processing of edible oil and wheat flour and oil seed.

## 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”

## • **NOTES TO FINANCIAL STATEMENTS**

31 December 2001

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

• 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 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 operating leases, which are further detailed in note 29 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 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. The principal impact of this SSAP on the financial statements is that certain provisions which were recognised in previous years no longer qualify for recognition as provisions under SSAP 28. This has not resulted in any prior year adjustment as the amount involved is not material.

• 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. Interpretation 13 prescribes the application of SSAP 30 to goodwill or negative goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The required new additional disclosures are included in note 26 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.

### 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 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 marketable securities 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, other than a jointly-controlled entity or an associate, in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

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

## • **NOTES TO FINANCIAL STATEMENTS**

31 December 2001

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

#### • **Joint venture companies** *(continued)*

- (d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

#### • **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.

#### • **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 associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in associate is 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**

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

• In prior years, goodwill or negative goodwill arising on acquisitions was eliminated against consolidated reserves or credited to the capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill or negative goodwill on acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves or credited to the capital reserve. Goodwill or negative goodwill on subsequent acquisition is treated according to the new accounting policy as required under SSAP 30.

• 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 goodwill or negative goodwill which remains unamortised or has not been recognised in the consolidated profit and loss account and any relevant reserves, as appropriate. Any attributable goodwill or negative goodwill previously eliminated against consolidated reserves or credited to capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

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

#### **Goodwill or negative goodwill** *(continued)*

The carrying amount of goodwill remaining eliminated against consolidated reserves is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

#### **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 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 relevant accounting policy for that revalued asset.

#### **Fixed assets and depreciation**

Fixed assets, other than investment properties, 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 the 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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

#### Fixed assets and depreciation (continued)

Depreciation 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 unexpired lease terms
Buildings	2% to 10%
Leasehold improvements	20%
Motor vehicles	20%
Furniture and equipment	20%

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 with unexpired lease term of more than 20 years are not depreciated and are stated at their open market value 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 the previous valuations is released to the profit and loss account.

#### Long term investments

Long term investments in non-trading investments, unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairments losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

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

#### **Marketable securities**

Marketable securities are investments in equity securities held for trading purposes and are stated at their 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 value of a security are credited or charged to the profit and loss account in the period in which they arise.

#### **Golf club memberships**

Golf club memberships are stated at cost less any impairment losses.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

#### **Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

#### **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.

#### **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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

#### 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, on a time proportion 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) agency and commission income, on the basis that the relevant services have been rendered;
- (e) from the disposal of marketable securities, on the transaction dates; and
- (f) dividend income, when the shareholders' right to receive payment has been established.

#### Foreign currencies

Foreign currency transactions are recorded at the applicable 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 applicable 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, associates and jointly-controlled entities are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

#### 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.

#### 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 equivalents represent assets similar in nature to cash, which are not restricted as to use.



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

#### **Retirement benefits scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. 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.

### 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 chemical fertiliser segment is a supplier of chemical fertilisers mainly for use in the agricultural industry;
- (b) the agricultural products segment is a supplier of soy bean for use in the oil processing industry and of refined sugar for edible use;
- (c) the property investment segment invests in prime office space and residential space for its rental income potential; and
- (d) the corporate and others segment comprises corporate income and expense items.

In determining the Group's geographical segment, 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.

Group	Chemical fertiliser		Agricultural products		Property investment		Corporate and others		Consolidated	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Segment revenue:										
Sales to external customers	564,669	2,316,872	665,039	759,625	2,177	3,348	—	—	1,231,885	3,079,845
Other revenue	377	2,337	802	1,468	—	—	536	788	1,715	4,593
Total	<u>565,046</u>	<u>2,319,209</u>	<u>665,841</u>	<u>761,093</u>	<u>2,177</u>	<u>3,348</u>	<u>536</u>	<u>788</u>	<u>1,233,600</u>	<u>3,084,438</u>
Segment results	<u>820</u>	<u>28,440</u>	<u>(16,462)</u>	<u>6,464</u>	<u>(11,345)</u>	<u>(2,714)</u>	<u>(11,400)</u>	<u>(10,502)</u>	<u>(38,387)</u>	<u>21,688</u>
Interest and dividend income and unallocated gains									13,511	29,931
Unallocated expenses									(9,527)	(6,859)
Profit/(loss) from operating activities									(34,403)	44,760
Finance costs									(4,710)	(22,527)
Write-off of interest in a jointly-controlled entity									(18,617)	—
Impairment of goodwill on jointly-controlled entities									(14,128)	—
Share of profits less losses of:										
An associate									1,215	1,164
Jointly-controlled entities									(4,172)	(13,708)
Profit/(loss) from ordinary activities before tax									(74,815)	9,689
Tax									496	(1,672)
Net profit/(loss) from ordinary activities attributable to shareholders									<u>(74,319)</u>	<u>8,017</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 4. SEGMENT INFORMATION (continued)

#### (a) Business segments (continued)

Group	Chemical fertiliser		Agricultural products		Property investment		Corporate and others		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	3,659	164,295	12,380	96,327	37,749	107,387	136,550	45,530	190,338	413,539
Interest in an associate	—	—	—	—	—	—	9,236	9,306	9,236	9,306
Interests in jointly- controlled entities	—	—	—	—	—	—	31,794	42,030	31,794	42,030
Total assets	<u>3,659</u>	<u>164,295</u>	<u>12,380</u>	<u>96,327</u>	<u>37,749</u>	<u>107,387</u>	<u>177,580</u>	<u>96,866</u>	<u>231,368</u>	<u>464,875</u>
Segment liabilities	<u>2,371</u>	<u>54,938</u>	<u>6,505</u>	<u>133,122</u>	<u>5,627</u>	<u>9,926</u>	<u>16,494</u>	<u>6,304</u>	<u>30,997</u>	<u>204,290</u>
Other segment information:										
Depreciation and amortisation	89	246	60	238	485	1,054	240	113	874	1,651
Impairment losses recognised in the profit and loss account	—	—	—	—	—	—	18,916	3,607	18,916	3,607
									<u>18,916</u>	<u>3,607</u>
Other non-cash expenses	12	—	106	329	—	—	2	—	120	329
Capital expenditure	—	68	2	36	—	350	20	390	22	844
Deficits on revaluation	—	—	—	—	14,699	6,877	—	—	14,699	6,877

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 4. SEGMENT INFORMATION (continued)

#### (b) Geographical segments

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

Group	Hong Kong		Elsewhere in the PRC		Overseas		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>3,791</u>	<u>8,916</u>	<u>1,090,105</u>	<u>3,024,552</u>	<u>137,989</u>	<u>46,377</u>	<u>1,231,885</u>	<u>3,079,845</u>
Segment results	<u>(21,690)</u>	<u>(11,963)</u>	<u>(10,771)</u>	<u>32,811</u>	<u>(5,926)</u>	<u>840</u>	<u>(38,387)</u>	<u>21,688</u>
Other segment information:								
Segment assets	<u>187,781</u>	<u>240,718</u>	<u>43,587</u>	<u>224,123</u>	<u>—</u>	<u>34</u>	<u>231,368</u>	<u>464,875</u>
Capital expenditure	<u>6</u>	<u>459</u>	<u>16</u>	<u>385</u>	<u>—</u>	<u>—</u>	<u>22</u>	<u>844</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 5. TURNOVER AND REVENUE

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

The Group's revenue for the year arose from the following activities:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
<b>Turnover</b>		
Sale of goods	1,229,708	3,076,497
Gross and net rental income	<u>2,177</u>	<u>3,348</u>
	<b><u>1,231,885</u></b>	<b><u>3,079,845</u></b>
<b>Other revenue</b>		
Agency and commission income	571	1,169
Dividend income from long term unlisted investments	316	561
Dividend income from investments in marketable securities	147	—
Interest income from:		
Bank deposits	4,121	5,985
Jointly-controlled entities	1,817	2,628
Associate	203	245
Customers	298	14,648
Others	—	1,293
Write-back of long outstanding payables	4,793	453
Compensation income from a customer	<u>—</u>	<u>4,114</u>
	<b><u>12,266</u></b>	<b><u>31,096</u></b>
<b>Gains</b>		
Gain on disposal of fixed assets	5	—
Gain on disposal of marketable securities	1,407	4
Unrealised gain on changes in fair values of marketable securities, net	381	—
Negative goodwill recognised on write-off of interest in a subsidiary	23	—
Exchange gains, net	—	387
Others	<u>1,144</u>	<u>3,037</u>
	<b><u>2,960</u></b>	<b><u>3,428</u></b>
Other revenue and gains	<b><u>15,226</u></b>	<b><u>34,524</u></b>

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2001 HK\$'000	2000 HK\$'000
Depreciation	874	1,651
Minimum lease payments under operating leases:		
— Land and buildings	1,691	2,899
— Golf club membership	64	—
Auditors' remuneration:		
— Current year	520	1,020
— Under/(over)provision in prior year	(198)	240
	<u>322</u>	<u>1,260</u>
Staff costs:		
— Wages and salaries (including directors' remuneration — note 8)	16,498	14,544
Write-off and impairment of long term unlisted investments	299	1,200
Provisions against amounts due from jointly-controlled entities	4,177*	1,378*
Write-off of amounts due from jointly-controlled entities	1,831*	—
Provisions for doubtful debts:		
— Trade receivables due from jointly-controlled entities	4,123	1,222
— Other trade receivables	3,001	—
— Other receivables	3,115	382
Revaluation deficit on investment properties	14,699	6,877
Provision for impairment of a golf club membership	105	—
Exchange losses/(gains), net	79	(387)
Unrealised losses/(gains) on changes in fair values of marketable securities	(381)	43
Provision against an amount due from an associate	—	187
Impairment of investment in an associate	—	2,407
Sales commission, net	—	6,742
Loss on disposal of equity interest in an associate	—	767
Loss on disposal of a property	—	487
Fixed assets written off	<u>—</u>	<u>8</u>

\* The write-off and provision made for amounts due from jointly-controlled entities were included in other operating expenses.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 7. FINANCE COSTS

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interest expense on bank loans, bank overdrafts and other loans repayable within five years	<u>4,710</u>	<u>22,527</u>

### 8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Companies Ordinance is as follows:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Fees:		
Executive directors	500	—
Independent non-executive directors	—	—
	<u>500</u>	<u>—</u>
Executive directors:		
Salaries, allowances and benefits in kind	5,896	6,101
Bonuses	368	389
Compensation for loss of office	1,650	—
	<u>7,914</u>	<u>6,490</u>
	<u>8,414</u>	<u>6,490</u>

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

	Number of directors	
	2001	2000
Nil — HK\$1,000,000	8	10
HK\$1,000,001 — HK\$1,500,000	1	1
HK\$3,000,001 — HK\$3,500,000	2	1
	<u>11</u>	<u>12</u>

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2000: three) executive directors, details of whose remuneration are set out in note 8 to the financial statements above. Details of the remuneration of the remaining one (2000: two) non-director, highest paid employee are as follows:

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	<b>HK\$'000</b>
Salaries, allowances and benefits in kind	<b>633</b>	1,326
Bonuses	<b>600</b>	56
	<u><b>1,233</b></u>	<u>1,382</u>

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

	<b>Number of employees</b>	
	<b>2001</b>	2000
Nil — HK\$1,000,000	—	2
HK\$1,000,001 — HK\$1,500,000	<b>1</b>	—
	<u><b>1</b></u>	<u>2</u>

### 10. TAX

	<b>2001</b>	2000
	<b>HK\$'000</b>	<b>HK\$'000</b>
Group:		
People's Republic of China:		
Hong Kong — provision for the year	<b>(553)</b>	(2,544)
Elsewhere — overprovision for the year and prior years, net	<b>1,126</b>	1,119
	<b>573</b>	(1,425)
Share of tax attributable to:		
An associate	<b>(153)</b>	(135)
Jointly-controlled entities	<b>76</b>	(112)
	<u><b>496</b></u>	<u>(1,672)</u>
Tax credit/(charge) for the year		



### 10. TAX (continued)

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. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the places in which the Group operates based on existing legislation, practices and interpretations thereof.

No provision for deferred tax has been made for the year as the net effect of all timing differences was immaterial at the balance sheet date (2000: Nil).

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

The net loss from ordinary activities attributable to shareholders for the year dealt with in the financial statements of the Company is HK\$98,689,000 (2000: net profit of HK\$2,125,000).

The Group's share of aggregate profits less losses retained by the associates and jointly-controlled entities for the year amounted to aggregate profits of HK\$1,062,000 and losses of HK\$4,096,000, respectively (2000: profits of HK\$1,029,000 and losses of HK\$13,820,000, respectively).

### 12. EARNINGS/(LOSS) PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$74,319,000 (2000: net profit of HK\$8,017,000) and 564,433,557 (2000: weighted average of 562,843,393) shares in issue during the year.

No diluted loss per share for the year ended 31 December 2001 has been presented because the Company's share options did not have a dilutive effect during the year.

For the year ended 31 December 2000, the calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$8,017,000. The weighted average number of shares used in the calculation is 562,843,393 shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 14,538,585 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all exercisable options during the year.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 13. FIXED ASSETS

#### Group

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:					
At 1 January 2001	6,855	2,341	4,595	3,119	16,910
Additions	—	—	—	22	22
Disposals	—	—	(729)	(85)	(814)
At 31 December 2001	<b>6,855</b>	<b>2,341</b>	<b>3,866</b>	<b>3,056</b>	<b>16,118</b>
Accumulated depreciation:					
At 1 January 2001	1,004	2,178	3,673	2,653	9,508
Provided during the year	153	140	326	255	874
Transfer to investment properties	(221)	—	—	—	(221)
Disposals	—	—	(729)	(85)	(814)
At 31 December 2001	<b>936</b>	<b>2,318</b>	<b>3,270</b>	<b>2,823</b>	<b>9,347</b>
Net book value:					
At 31 December 2001	<b>5,919</b>	<b>23</b>	<b>596</b>	<b>233</b>	<b>6,771</b>
At 31 December 2000	<b>5,851</b>	<b>163</b>	<b>922</b>	<b>466</b>	<b>7,402</b>

The cost of the Group's land and buildings, which are held under long term leases, is analysed as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Situated in:		
Hong Kong	3,726	3,726
Elsewhere	3,129	3,129
	<b>6,855</b>	<b>6,855</b>

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 13. FIXED ASSETS (continued)

Company	Furniture and equipment <i>HK\$'000</i>
Cost:	
At 1 January 2001	24
Additions	<u>3</u>
At 31 December 2001	<u>27</u>
Accumulated depreciation:	
At 1 January 2001	13
Provided during the year	<u>5</u>
At 31 December 2001	<u>18</u>
Net book value:	
At 31 December 2001	<u><u>9</u></u>
At 31 December 2000	<u><u>11</u></u>

### 14. INVESTMENT PROPERTIES

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
At valuation:		
Balance at beginning of year	45,000	40,000
Reclassification from fixed assets	(221)	11,877
Deficit on revaluation	<u>(14,699)</u>	<u>(6,877)</u>
Balance at end of year	<u><u>30,080</u></u>	<u><u>45,000</u></u>

In December 2001, the Group entered into a provisional sale and purchase agreement with an independent third party for the disposal of an investment property located at 13th Floor, Bank of East Asia Harbour View Centre (formerly known as "First Pacific Bank Centre"), 51-57 Gloucester Road, Wanchai, Hong Kong, for HK\$21,080,000. This investment property is held under a long term lease for commercial use.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 14. INVESTMENT PROPERTIES (continued)

The Group's other investment property is situated at Flat B1, 16th Floor, Block B and Carpark No. 119 at Carpark 4, Beverly Hill, No. 6, Broadwood Road, Happy Valley, Hong Kong. It is held under a long term lease for residential use. The investment property was revalued on 31 December 2001 by Centaline Surveyors Limited, an independent professionally qualified valuers, on an open market, existing use basis. The investment property is leased to a third party under operating lease, further summary details of which are included in note 29 to the financial statements.

The above properties and certain of the Group's leasehold land and buildings amounting to HK\$3,726,000 (2000: HK\$3,726,000) were pledged to the Group's bankers to secure facilities of HK\$280,800,000. At 31 December 2001, such facilities had not been utilised.

### 15. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	33,049	10
Due from subsidiaries	163,594	182,194
Due to subsidiaries	(1,926)	(1,662)
	<u>194,717</u>	<u>180,542</u>
Less: Provision against an amount due from a subsidiary	(100,194)	—
	<u><u>94,523</u></u>	<u><u>180,542</u></u>

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
K.P.B. Group Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US\$12	100	—	Investment holding
Asia Million Investment Limited	Hong Kong	Ordinary HK\$10,000	—	100	Investment holding
Charter Merit Limited	Hong Kong	Ordinary HK\$2	—	100	Holding of a club membership
Charter Paradise Limited	Hong Kong	Ordinary HK\$2	—	100	Holding of a club membership
Hualian K.P.I. Marketing Company Limited	Hong Kong	Ordinary HK\$7	—	100	Dormant
K.P.A. Company Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$2	—	100	Trading of chemical fertilisers
K.P.B. Asset Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US\$6	—	100	Investment holding
K.P.B. Marketing Limited	British Virgin Islands/ Hong Kong	Ordinary US\$2	—	100	Investment holding

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 15. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
K.P.B. Property Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	—	100	Investment holding
K.P.B. – T.C. Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	—	100	Investment holding
K.P.B. Trading Limited	British Virgin Islands/ Hong Kong	Ordinary US\$4	—	100	Investment holding
K.P.I. Development Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$10,000	—	100	Provision of internal financial services
K.P.I. Industries Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$2	—	100	Investment holding and property investment
K.P.I. International Trading Company Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$2	—	100	Trading of agricultural products
Malden Trading Limited	British Virgin Islands/Mainland China	Ordinary US\$2 Deferred US\$2	—	100	Provision of marketing services
Power Growth International Limited	British Virgin Islands/Mainland China	Ordinary US\$1	—	100	Provision of marketing services

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 16. INTEREST IN AN ASSOCIATE

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	7,114	8,459
Due from an associate (Note)	2,122	3,441
	<u>9,236</u>	<u>11,900</u>
Less: Provision against an amount due from an associate	—	(187)
Provision for impairment	—	(2,407)
	<u>9,236</u>	<u>9,306</u>

Note: Except for a balance of HK\$1,873,000, which bears interest at 7.344% per annum, the remaining balance with the associate is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the associate, held indirectly through a subsidiary, is as follows:

Name	Business structure	Place of registration and operations	Percentage of equity attributable to the Group		Principal activities
			2001	2000	
Taicang Huifeng Chemical Fertilizer Co., Ltd.	Corporate	Mainland China	30	30	Processing and trading of chemical fertilisers

The associate is not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Notes	Group	
		2001 HK\$'000	2000 HK\$'000
Share of net assets	(i)	29,276	32,815
Due from jointly-controlled entities	(ii)	6,695	10,593
		<b>35,971</b>	43,408
Less: Provisions against amounts due from Jointly-controlled entities		(4,177)	(1,378)
		<b>31,794</b>	<b>42,030</b>

*Notes:*

- (i) At the balance sheet date, Langfang Huamei Grain and Oil Foods Co. Ltd., a jointly-controlled entity of the Group, was put into a creditor petitioned liquidation. Beijing Jia Shun Edible Oil Co., Ltd., another jointly-controlled entity of the Group, became dormant during the year following agreement by the joint venturers that its operations should cease due to the persistent losses it incurred. The directors have fully written off the Group's interests in these two jointly-controlled entities amounting to HK\$18,617,000, together with the released goodwill previously eliminated against consolidated reserves amounting to HK\$12,203,000 and trade receivables of HK\$4,123,000, in the Group's profit and loss account for the year ended 31 December 2001.
- (ii) Except for a balance due from Guangzhou K.P.I. Commercial Co., Ltd. of HK\$4,017,000, which included interest calculated at 7.62% per annum, the remaining balances with the jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.



## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Particulars of the jointly-controlled entities, all held indirectly through subsidiaries, are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity and profit attributable to the Group		Principal activities
			2001	2000	
Beijing Jia Shun Edible Oil Co., Ltd.#	Corporate	Mainland China	55	55	Dormant
China Growth Enterprises Limited#	Corporate	British Virgin Islands/ Hong Kong	50	50	Investment holding
Guangzhou K.P.I. Commercial Co., Ltd.*	Corporate	Mainland China	26	26	Investment holding
Guangzhou Yuexiu Beatrice Convenience Chain Stores Co., Ltd. (formerly known as Guangzhou Yue Xiu Supermarket Co., Ltd)	Corporate	Mainland China	20.5	13.5	Supermarket chain stores operation
Haikou K.P.I. Trading Co., Ltd.	Corporate	Mainland China	51	51	Investment holding
K.P.I. (BVI) Retail Management Company Limited	Corporate	British Virgin Islands/ Hong Kong	51	51	Investment holding
K.P.I. Beatrice Holdings Ltd.	Corporate	Cayman Islands/ Hong Kong	26	26	Investment holding
K.P.I. Star Holdings Ltd.#	Corporate	British Virgin Islands/ Hong Kong	50	50	Dormant
K.P.I. Star (China) Cyberpower Holdings Limited* #	Corporate	Mainland China	32.5	32.5	Dormant

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity and profit attributable to the Group		Principal activities
			2001	2000	
Langfang Huamei Grain and Oil Foods Co., Ltd.#	Corporate	Mainland China	40	40	In liquidation
Lantis Trading Corporation	Corporate	British Virgin Islands/ Hong Kong	26	26	Investment holding
Shanghai Hualian Economic Development Co., Ltd.*	Corporate	Mainland China	25.5	25.5	Supermarket chain stores operation
Shanghai Hualian K.P.I. Commercial Corporation#	Corporate	Mainland China	25	—	Investment holding
Shanghai Zhabei Hualian GMS Shopping Center Co., Ltd.*	Corporate	Mainland China	25.2	25.2	Supermarket chain stores operation

\* The English company names are direct translations of the registered names in Chinese.

# Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Extracts of the financial statements of the Group's material jointly-controlled entities are as follows:

	K.P.I. (BVI) Retail Management Company Limited		Langfang Huamei Grain and Oil Foods Co., Ltd.
	2001	2000	2000
	HK\$'000	HK\$'000	HK\$'000
<b>Profit and loss accounts</b>			
Turnover	<u>—</u>	<u>—</u>	<u>374,175</u>
Loss after tax	<u>(8,031)</u>	<u>(6,418)</u>	<u>(18,481)</u>
<b>Balance sheets</b>			
Non-current assets	<u>45,924</u>	<u>38,292</u>	<u>88,199</u>
Current assets	<u>12,975</u>	<u>3,243</u>	<u>127,514</u>
Current liabilities	<u>(1,778)</u>	<u>(13,696)</u>	<u>(169,171)</u>
Net assets	<u>57,121</u>	<u>27,839</u>	<u>46,542</u>

### 18. LONG TERM INVESTMENTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Unlisted equity investments, at cost	<u>773</u>	<u>2,272</u>
Less: Provision for impairment	<u>—</u>	<u>(1,200)</u>
	<u>773</u>	<u>1,072</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 19. MARKETABLE SECURITIES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Listed equity investments, at market value:				
Hong Kong	<u>771</u>	<u>1,705</u>	<u>771</u>	<u>1,705</u>

The market value of the Group's marketable securities at the date of approval of these financial statements was approximately HK\$1,232,000.

### 20. INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	<u>888</u>	<u>—</u>

### 21. TRADE AND BILLS RECEIVABLES

An ageing analysis of trade and bills receivables is as follows:

	Group			
	2001 Balance HK\$'000	Percentage	2000 Balance HK\$'000	Percentage
Less than 1 month	—	—	12,919	7
1 — 3 months	—	—	158,734	90
4 — 6 months	2,297	97	844	—
7 — 12 months	—	—	—	—
Over 1 year	<u>76</u>	<u>3</u>	<u>4,654</u>	<u>3</u>
	<u>2,373</u>	<u>100</u>	<u>177,151</u>	<u>100</u>

The Group's trade receivables are normally invoiced with credit terms of 0 to 90 days from the date of invoice.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 21. TRADE AND BILLS RECEIVABLES (continued)

An ageing analysis of trade and bills receivables due from jointly-controlled entities is as follows:

	2001		Group		2000	
	Balance HK\$'000	Percentage	Balance HK\$'000	Percentage	Balance HK\$'000	Percentage
Less than 1 month	—	—	1,799	5	1,799	5
1 — 3 months	—	—	33,834	89	33,834	89
4 — 6 months	—	—	212	1	212	1
7 — 12 months	—	—	93	—	93	—
Over 1 year	—	—	2,012	5	2,012	5
	<u>—</u>	<u>—</u>	<u>37,950</u>	<u>100</u>	<u>37,950</u>	<u>100</u>

### 22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	3,891	26,184	2,460	578
Time deposits	126,040	85,987	23,449	37,440
	<u>129,931</u>	<u>112,171</u>	<u>25,909</u>	<u>38,018</u>
Less: Pledged time deposits against short term bank loans and trust receipts	<u>(54,399)</u>	<u>(67,008)</u>	<u>(23,449)</u>	<u>(37,440)</u>
Cash and cash equivalents	<u>75,532</u>	<u>45,163</u>	<u>2,460</u>	<u>578</u>

## • NOTES TO FINANCIAL STATEMENTS

31 December 2001

### • 23. INTEREST-BEARING BANK BORROWINGS

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	<b>HK\$'000</b>
Bank loans, secured	—	4,110
Trust receipts, secured	—	140,027
	<u>—</u>	<u>144,137</u>
Portion classified as current liabilities	—	(144,137)
	<u>—</u>	<u>—</u>
Long term portion	<u>—</u>	<u>—</u>

• The Group's bank loans are secured by:

- (i) A pledge over the Group's certain leasehold land and buildings and investment properties with cost and revalued amount of HK\$3,726,000 (2000: HK\$3,726,000) and HK\$30,800,000 (2000: HK\$45,000,000) respectively;
- (ii) A pledge on the Group's fixed deposits of HK\$54,399,000 (2000: HK\$67,008,000); and
- (iii) A personal guarantee by a director of the Company amounting to HK\$226,200,000 (2000: HK\$327,600,000).

### • 24. DEFERRED TAX

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	<b>HK\$'000</b>
Balance at beginning and end of year	<u>150</u>	<u>150</u>

• The provision for deferred tax represents timing differences arising from accelerated depreciation allowances.

• The revaluation of the Group's investment property is not deemed to constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

• The Group and the Company had no significant unprovided deferred tax at the balance sheet date.

25. SHARE CAPITAL

Shares

	<b>Company</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each	<u><b>200,000</b></u>	<u>200,000</u>
Issued and fully paid:		
564,433,557 ordinary shares of HK\$0.10 each	<u><b>56,443</b></u>	<u>56,443</u>

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 14 of the annual report.

At the beginning of the year, there were 48,800,000 options granted to the executive directors of the Company outstanding under the Scheme, which entitled the holders to subscribe for shares of the Company during the period from 18 November 1999 to 17 May 2004. The subscription price payable upon the exercise of these options was HK\$0.163 per share. During the year, a total of 5,200,000 share options lapsed.

At the beginning of the year, there were also 1,000,000 outstanding share options granted to an employee of the Group outstanding under the Scheme, which entitled the holders to subscribe for shares of the Company at HK\$0.218 per share during the period from 8 January 2000 to 7 July 2004.

No share options were granted or exercised during the year.

At the balance sheet date, the Company had 44,600,000 share options outstanding under the Scheme, with an exercise period from 18 November 1999 to 7 July 2004. The exercise in full of the outstanding share options as at 31 December 2001 would, under the present capital structure of the Company, result in the issue of 44,600,000 additional ordinary shares of HK\$0.10 each in the Company for gross cash proceeds of approximately HK\$7,325,000.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 26. RESERVES

#### Group

	Share premium account <i>HK\$'000</i>	Capital reserve** <i>HK\$'000</i>	Expansion fund* <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Reserve funds* <i>HK\$'000</i>	Retained profits/ losses) <i>HK\$'000</i> <i>(note 27)</i>	Total <i>HK\$'000</i>
At 1 January 2000	108,285	53,490	—	3,003	30	30,879	195,687
Issue of new shares	378	—	—	—	—	—	378
Net profit for the year	—	—	—	—	—	8,017	8,017
Share of movements in reserves of a jointly- controlled entity	—	60	—	—	—	—	60
Transfer	—	—	74	—	74	(148)	—
At 31 December 2000 and 1 January 2001	108,663	53,550	74	3,003	104	38,748	204,142
Net loss for the year	—	—	—	—	—	(74,319)	(74,319)
Impairment of goodwill in jointly-controlled entities	—	14,128	—	—	—	—	14,128
Negative goodwill recognised on Write-off of interest in a subsidiary	—	(23)	—	—	—	—	(23)
Transfer	—	—	99	—	99	(198)	—
At 31 December 2001	<b><u>108,663</u></b>	<b><u>67,655</u></b>	<b><u>173</u></b>	<b><u>3,003</u></b>	<b><u>203</u></b>	<b><u>(35,769)</u></b>	<b><u>143,928</u></b>

\* Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's associate in Mainland China has been transferred to reserve funds and expansion fund which are restricted as to use.

\*\* The amounts of goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisitions of subsidiaries and jointly-controlled entities, were HK\$67,618,000 (negative goodwill), and HK\$14,068,000 (negative goodwill of HK\$60,000 and goodwill of HK\$14,128,000), respectively, as at 1 January 2001, and HK\$67,595,000 (negative goodwill) and HK\$60,000 (negative goodwill), respectively, as at 31 December 2001. Such goodwill is stated at cost.

### 27. RETAINED PROFITS/(ACCUMULATED LOSSES)

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Retained by:		
Company and its subsidiaries	(21,061)	87,849
An associate	3,465	(2,645)
Jointly-controlled entities	(18,173)	(46,456)
	<b><u>(35,769)</u></b>	<b><u>38,748</u></b>



## 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Profit/(loss) from operating activities	(34,403)	44,760
Interest income	(6,439)	(24,799)
Depreciation	874	1,651
Dividend income from long term unlisted investments	(316)	(561)
Dividend income from investments in marketable securities	(147)	—
Write-back of long outstanding payables	(4,793)	(453)
Gain on disposal of fixed assets	(5)	—
Unrealised (gain)/loss on changes in fair value of marketable securities	(381)	43
Gain on disposal of marketable securities	(1,407)	(4)
Provisions against amounts due from jointly-controlled entities	4,177	1,378
Write-off of amounts due from jointly-controlled entities	1,831	—
Provision for impairment of a golf club membership	105	—
Write-off and impairment of long term unlisted investments	299	1,200
Provisions for doubtful debts	10,239	1,604
Revaluation deficit on investment properties	14,699	6,877
Decrease/(increase) in inventories	(888)	288
Decrease in trade and bills receivables	171,777	106,074
Decrease in trade receivables due from jointly-controlled entities	33,827	81,157
Decrease in other receivables	9,397	3,263
Decrease in other payables and accruals	(20,058)	(22,246)
Decrease in deferred income	(990)	(2,136)
Negative goodwill recognised on write-off of interest in a subsidiary	(23)	—
Decrease in bills payables	—	(100,765)
Provision against an amount due from an associate	—	187
Impairment of an investment in an associate	—	2,407
Loss on disposal of equity interest in an associate	—	767
Loss on disposal of a property	—	487
Fixed assets written off	—	8
	<hr/>	<hr/>
Net cash inflow from operating activities	<b><u>177,375</u></b>	<b><u>101,187</u></b>

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (b) Analysis of changes in financing during the year

	Issued capital (including share premium account) HK\$'000	Bank loans HK\$'000
Balance at 1 January 2000	164,128	15,606
Cash inflow/(outflow) from financing, net	<u>978</u>	<u>(11,496)</u>
Balance at 31 December 2000 and 1 January 2001	165,106	4,110
Cash outflow from financing, net	<u>—</u>	<u>(4,110)</u>
Balance at 31 December 2001	<u><u>165,106</u></u>	<u><u>—</u></u>

### 29. OPERATING LEASE ARRANGEMENTS

#### (a) As lessor

The Group leases its investment properties (note 14 to the financial statements) and golf club membership under operating lease arrangements, with leases negotiated for terms ranging from one to three years for investment properties and one to two years for golf club membership. The terms of the leases generally also require the lessees to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Within one year	278	1,888
In the second to fifth years, inclusive	<u>16</u>	<u>231</u>
	<u><u>294</u></u>	<u><u>2,119</u></u>

## 29. OPERATING LEASE ARRANGEMENTS (continued)

### (b) As lessee

The Group leases certain of its office properties and golf club membership under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years, and those for golf club membership for a term of one year.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000 (Restated)	2001 HK\$'000	2000 HK\$'000 (Restated)
Within one year	1,714	2,828	1,631	1,636
In the second to fifth years, inclusive	1,012	2,676	1,012	2,593
	<u>2,726</u>	<u>5,504</u>	<u>2,643</u>	<u>4,229</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.

## 30. COMMITMENTS

In addition to the operating lease commitments detailed in note 29(b) above, the Group and the Company had the following commitments at the balance sheet date:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Capital commitments:				
Contracted, but not provided for in respect of capital contributions to a jointly-controlled entity	<u>—</u>	<u>74,915</u>	<u>—</u>	<u>—</u>
Authorised, but not contracted for in respect of capital contributions to a subsidiary	<u>1,402</u>	<u>—</u>	<u>—</u>	<u>—</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 30. COMMITMENTS (continued)

In addition, the Group's share of capital commitments of jointly-controlled entities not included in the above was as follows:

	2001 HK\$'000	2000 HK\$'000
Contracted, but not provided for	<u>5,484</u>	<u>9,412</u>

### 31. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had contingent liabilities not provided for in these financial statements as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bills discounted with recourse	—	136,466	—	—
Guarantees given to banks in connection with facilities granted and utilised by the subsidiaries	<u>—</u>	<u>—</u>	<u>—</u>	<u>144,137</u>
	<u>—</u>	<u>136,466</u>	<u>—</u>	<u>144,137</u>

### 32. POST BALANCE SHEET EVENT

On 28 December 2001, the Group entered into a provisional sale and purchase agreement with an independent third party to dispose of an investment property situated in Hong Kong for a cash consideration of HK\$21,080,000. The transaction was completed on 18 March 2002. A loss on disposal of approximately HK\$13,920,000, before expenses, has been recognised as part of the revaluation deficit charged to the profit and loss account for the year ended 31 December 2001.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 33. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties other than those disclosed elsewhere in the financial statements:

	<i>Notes</i>	<b>Group</b> <b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Loan interest income from the Group's jointly-controlled entities	<i>(i)</i>	<b>1,817</b>	523
Loan interest income from an associate	<i>(ii)</i>	<b>203</b>	245
Rental expenses to companies controlled by directors	<i>(iii)</i>	<b>1,236</b>	1,393
Loan interest expense to the Group's jointly-controlled entity	<i>(iv)</i>	<b>798</b>	—
Loan from a director	<i>(v)</i>	<b>43,726</b>	—
Loan interest expense paid to a director	<i>(v)</i>	<b>128</b>	—
Fund advanced a close family member of a director	<i>(vi)</i>	<b>374</b>	—
Sales to the Group's jointly-controlled entities		—	117,468
Trade interest income from the Group's jointly-controlled entities		<u>—</u>	<u>2,105</u>

*Notes:*

- (i) Loan interest income was charged to the Group's jointly-controlled entities on loans advanced to those jointly-controlled entities during the year at a rate of 7.62% per annum.
- (ii) Loan interest income was charged to an associate on loans advanced during the year at a rate of 7.344% per annum. As at the balance sheet date, the principal amount of loans advanced of HK\$1,873,000 remained unsettled.
- (iii) Rental expenses for two directors were paid to companies controlled by them. The monthly rentals of HK\$83,000 and HK\$40,000, respectively, were calculated by reference to open market rentals.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 33. RELATED PARTY TRANSACTIONS *(continued)*

- (iv) Loan interest expense was charged by the Group's jointly-controlled entity on a loan advanced to the Group during the year at interest rates ranging from 1.75% to 3.75% per annum.
- (v) The interest paid was charged on a loan advanced from a director at an interest rate of 4.38% per annum. The loan advanced was unsecured and was fully repaid during the year.
- (vi) The advance is interest-free, unsecured and has no fixed terms of repayment.

### 34. 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 comparative amounts have been reclassified to conform with the current year's presentation.

In addition, hedging gains of approximately HK\$3,630,000 and dispatch income of approximately HK\$1,472,000 have been reclassified from other revenue and gains to cost of sales for the 2000 comparative amounts to match with the loss on actual purchases and dispatch expenses paid or payable during 2000. In the opinion of the directors, the reclassification provides a better presentation of the cost of sales of the Group and is consistent with the presentation adopted for the current year.

### 35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2002.