

# Notes to Financial Statements

31 December 2000

## 1. GENERAL

The principal activity of the Company is investment holding. The subsidiaries are principally engaged in the manufacture of steel cans and plastic bottles for use in the beverage, food and chemical industries and the provision of tinplate processing, lacquering and printing services. There were no changes in the nature of the Company's and the Group's principal operations during the year.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements are prepared under historical cost convention.

In preparing the financial statements, the directors have given careful consideration to the going concern status of the Group in light of the weak financial position of the Group during the year ended 31 December 2000 .

After completion of an assignment agreement signed between JHY International Inc. ("JHY"), the Company and certain subsidiaries and a group of Hong Kong bank creditors dated 13 October 1999, JHY became the Company's largest Hong Kong creditor. As at the date of approval of these financial statements by the directors of the Company, the Company was still engaged in ongoing negotiations with JHY on reorganizing the Group's affairs and no agreement had been reached.

Since the Group continues to face a severe liquidity problem and an unsatisfactory business environment, the ability of the Group to continue to trade through the existing difficult period depends on the successful outcome of any further restructuring measures to be implemented to secure new or restructured funding for the Group and on the successful turnaround of its business.

On the basis that the directors are expected to succeed in reorganising the Group's affairs, they have adopted the going concern basis of presentation for these financial statements. Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(continued)*

Subsequent to 15 October 1999, the Group ceased to exercise significant influence over the Kisco (B.V.I.) Limited and its subsidiary (the "Kisco Group"). As a result, the financial statements have not equity accounted for the Group's share of results of Kisco Group during the year ended 31 December 2000. No reliable financial information for the Kisco Group was available.

## 3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that no ageing analysis of trade payables was disclosed in note 18 to the financial statements. A summary of the significant accounting policies adopted by the Group is set out below.

### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries made up to 31 December 2000. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

### (b) Revenue recognition

Revenue from the sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time apportionment basis, taking into account the principal amounts outstanding and the interest rates applicable.

## Notes to Financial Statements

31 December 2000

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (c) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation.

Leasehold land is depreciated over the period of the lease while other property, plant and equipment are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight line basis. The principal annual rates are as follows:-

Buildings	5%
Leasehold improvements	20%
Plant and machinery	5-10%
Furniture, equipment and motor vehicles	20%

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalized and depreciated over their expected useful lives to the Group.

The carrying amounts of property, plant and equipment are reviewed regularly to assess whether their recoverable amount have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets, and is recognised in the income statement.

Construction in progress represents the cost of factory buildings under construction in the People's Republic of China and the cost of plant and machinery under installation and not yet ready for its intended use. Cost included capitalised interest incurred from loans borrowed for financing the construction in progress. Construction in progress is stated at cost and depreciation is provided upon transfer to other fixed asset accounts when such fixed assets are ready for their intended use.

### 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### (d) A subsidiary

A subsidiary is a company in which the Company holds more than 50% of the equity, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost less provision for diminution in value so as to recognise any decline, other than temporary, in the value of individual investment.

#### (e) An associate

An associate is a company, not being a subsidiary, 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 interests in its associates are stated in the consolidated balance sheet at the Group's share of the net assets of associates less any provisions for diminution in values considered necessary by the directors. The consolidated income statement includes the Group's share of the post-acquisition result of associates.

#### (f) Leased assets

Leases that substantially transfer to the Company all the rewards and risks of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

Lease payments represent capital and finance charges. Finance charges are debited to the income statement in proportion to the capital balances outstanding.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or lease periods.

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease term.

## Notes to Financial Statements

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### 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### (g) Taxation

The charge for taxation is based on the results for the period as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the period based on the assessable profit for the period less allowable losses, if any, brought forward.

The PRC enterprise income tax is provided at the rate prevailing for the period based on the assessable profit for the period less allowable losses, if any, brought forward.

Deferred taxation is provided using the liability method on all material timing differences, other than those which are not expected to crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

#### (h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

#### (i) Capital reserve

The capital reserve arising on consolidation of subsidiaries represents the excess fair values ascribed to the net underlying assets at the date of acquisition over the purchase consideration paid for such companies. Upon disposal of these companies, the relevant portion of the capital reserve is released to the income statement to arrive at the gain or loss on sales of the investments.

#### (j) Goodwill

Goodwill arising on consolidation of subsidiaries represents the excess purchase consideration paid for such companies over their fair values ascribed to the net underlying assets at the date of acquisition and is eliminated against the reserves in the year in which it arises.

### 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### (j) **Goodwill** *(continued)*

On disposal of subsidiaries, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

#### (k) **Foreign currency translation**

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

On consolidation, the financial statements of PRC subsidiaries are translated into Hong Kong dollars at the rate of exchange ruling at the balance sheet date. Exchange differences arising are taken directly to the exchange translation reserve.

#### (l) **Pension costs**

The subsidiaries of the Group established in the PRC participate in pension plans managed by local governmental institutions whereby the Group pays annual premiums to the plans and the local governmental institutions have agreed to take over the retirement benefit obligations of all local existing and future retired employees of the said subsidiaries in the PRC. Contributions are made based on a percentage of the eligible employees' salaries and are charged to the income statement as they become payable in accordance with the rules of schemes.

#### (m) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. To the extent that funds are borrowed to finance the acquisition and installation of plant and machinery, the borrowing costs are capitalised as part of the Group's property, plant and equipment. All other borrowing costs are recognised as expenses in the period in which they are incurred.

## Notes to Financial Statements

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### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (n) Related parties

For the purpose of these statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

#### (o) Cash equivalents

Cash equivalents represent short-term liquid investments which are readily convertible into known amounts of cash without notice and which are within three months of maturity when acquired less advances from banks repayable within three months from the date of the advance.

### 4. TURNOVER

Turnover represents the invoiced value of goods sold, net of discounts and returns, and processing charges invoiced to customers during the year.

	The Group	
	2000 HK\$'000	1999 HK\$'000
Sales of steel cans, tinplate processing, lacquering and printing	141,708	195,983
Sales of plastic bottles	66,747	62,924
	<u>208,455</u>	<u>258,907</u>

## Notes to Financial Statements

31 December 2000

### 5. SEGMENTAL INFORMATION

The analysis of the principal activities of the operations of the Company and its subsidiaries during the year are as follows:-

	Group turnover		Contribution to profit from operations	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Principal activities</b>				
Sales of steel cans, tinplate processing, lacquering and printing	<b>141,708</b>	195,983	<b>(276)</b>	7,163*
Sales of plastic bottles	<b>66,747</b>	62,924	<b>15,864</b>	18,344*
	<b>208,455</b>	258,907	<b>15,588</b>	25,507
Other group expenses net of other income			<b>(13,994)</b>	—*
			<b>1,594</b>	25,507

No geographic analysis is shown as the principal activities of the Group took place in the People's Republic of China (the "PRC").

\* Comparative figures have not been reclassified to conform with current year's presentation.



## Notes to Financial Statements

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### 6. INCOME

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Other revenue		
Bank interest income	<b>380</b>	158
Sales of scrap	<b>3,660</b>	131
	<u><b>4,040</b></u>	<u>289</u>
Other net income		
Provision for doubtful debts written back	–	2,282
Net exchange gain	–	2,762
Net gain on disposals of property, plant and equipment	–	4,729
Other income	<b>733</b>	1,109
	<u><b>733</b></u>	<u>10,882</u>

## Notes to Financial Statements

31 December 2000

### 7. PROFIT FROM OPERATIONS

The profit from operations is stated after crediting and charging the following:–

	<b>2000</b> <b>HK\$'000</b>	1999 HK\$'000
<b>Crediting</b>		
Net exchange gain	–	2,762
Provision for doubtful debts written back	–	2,282
Net gain on disposal of property, plant and equipment	–	4,729
Bank interest income	<b>380</b>	158
Scrap sale income	<b>3,660</b>	131
	<hr/>	<hr/>
<b>Charging</b>		
Auditors' remuneration	<b>550</b>	800
Bad debts written off	<b>9,600</b>	–
Depreciation:		
Owned property, plant and equipment	<b>36,021</b>	46,231
Leased plant and equipment	–	7,700
	<b>36,021</b>	53,931
Directors' emolument (Note 10)	<b>1,171</b>	416
Operating leases:		
Land and building	<b>95</b>	1,456
Staff costs (including pension contributions of HK\$468,000 (1999:HK\$675,000))	<b>11,974</b>	20,239
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## Notes to Financial Statements

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### 8. FINANCE COSTS

	2000 HK\$'000	1999 HK\$'000
Interest on bank loans and other borrowings repayable within five years	7,600	40,089
Finance charges on obligation under finance leases	–	3,420
Interest on other loans	46,247	12,641
	<u>53,847</u>	<u>56,150</u>

### 9. TAXATION

The amount of taxation in the consolidated income statement represents:–

	2000 HK\$'000	1999 HK\$'000
Hong Kong profits tax		
– current	–	(64)
– over provision in previous year	55	28
	<u>55</u>	<u>(36)</u>

- (i) Hong Kong profits tax is provided at 16% based on the assessable profit for the year. No profits tax for the overseas subsidiaries is provided since they have no assessable profit for the year.
- (ii) In accordance with the applicable enterprises income tax law of the PRC, Fujian Sinocan Lianjian (Group) Co., Ltd. ("Lianjian"), a subsidiary of the Group, was exempt from income tax for the first three profitable years of operations, which started from 1991, and was entitled to a 50% relief on the income tax that would otherwise be charged for the succeeding four years.

**9. TAXATION** *(continued)**(ii) (continued)*

In 1994, an additional tax concession was granted by the local municipal tax bureau under which the assessable profits attributable to the second phase capital investment were exempt from income tax for the first two profitable years of operations from 1 January 1993 and were entitled to a 50% relief on the income tax that would otherwise be charged for the succeeding three years. Followed by a tax concession scheme implemented by the local municipal tax bureau in 1997, Lianjian is entitled to a 50% relief on the income tax for further three years (i.e., from 1998 to 2000) after all the above tax concessions had expired in 1997. In 1995, an additional tax concession was granted to Lianjian under which the tax rate applicable to Lianjian was reduced from 24% to 15% with effect from 1 September 1995 because the registered paid-up capital of Lianjian had exceeded US\$30 million. In 1998, Lianjian was entitled to a 50% relief on income tax in respect of its first and second phases of investment, at the effective rate of 7.5%, but it had no assessable profit for the year.

In accordance with the PRC tax laws, certain of the Group's other subsidiaries, including Desheng Lianfeng Tin Manufacture Co., Ltd., Fujian ("Lianfeng"), Putian Lianfa Tin Manufacture Co., Ltd., Fujian ("Lianfa"), Shanghai Sinocan Lianxing Metal Containers & Printing Co., Ltd. and Shanghai Sinocan Huaxing Plastic Containers Co., Ltd. ("Huaxing"), are exempt from income tax for the first two profitable years of operations after their commencement of operations and are entitled to a 50% relief on income tax that would otherwise be charged for the succeeding three years. In addition, Lianfeng and Lianfa are exempt from the 3% local income tax for five years from 1 January 1995. Apart from Huaxing, neither of these subsidiaries had assessable profit during the year. However, because Huaxing is exempt from income tax for its second profitable year of operations, as a result, no provision for income tax has been made in respect of all these subsidiaries.

## Notes to Financial Statements

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### 10. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

- (a) Details of the emoluments paid to the directors of the Company during the year are as follows:

	<b>2000</b> <b>HK\$'000</b>	1999 <i>HK\$'000</i>
Fees	-	-
Salaries and other emoluments	<b>1,171</b>	416
Discretionary bonuses	-	-
Retirement scheme contributions	-	-
	<u><b>1,171</b></u>	<u>416</u>

The number of directors of the Company whose emoluments fell within the following band is as follows:-

	<b>2000</b>	1999
Nil to HK\$1,000,000	<b>2</b>	6

No remuneration was paid to the independent non-executive directors of the Company during the year (1999:Nil).

## Notes to Financial Statements

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### 10. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES (continued)

- (b) Of the five individuals with the highest emolument, one is a director (1999: Nil) whose emoluments are disclosed in note 10 (a). The aggregate of the emoluments in respect of the other four (1999:five) individuals are as follows:-

	2000 HK\$'000	1999 HK\$'000
Salaries and other emoluments	2,639	3,040
Discretionary bonuses	79	–
Retirement scheme contributions	–	–
	<u>2,718</u>	<u>3,040</u>

The number of the highest paid individuals whose emoluments fell within the following band is as follows:

	2000	1999
Nil to HK\$1,000,000	4	5

### 11. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders dealt with in the financial statements of the Company is HK\$400,036,000 (1999:HK\$34,415,000).

### 12. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders for the year of HK\$57,663,000 (1999: HK\$36,607,000) and the 849,600,000 (1999: 849,600,000) ordinary shares in issue throughout the year.

There was no diluted loss per share shown for both years because the effects arising from the exercise of potential ordinary shares would have been anti-dilutive.

## Notes to Financial Statements

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### 13. PROPERTY, PLANT AND EQUIPMENT

#### The Group

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, equipment and motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost</b>						
At 1 January 2000	118,246	484	500,058	12,193	8,684	639,665
Exchange adjustments	(1,075)	–	(6,170)	(130)	(107)	(7,482)
Additions	4,993	–	3,110	626	–	8,729
Disposals	(6,302)	–	–	–	–	(6,302)
At 31 December 2000	115,862	484	496,998	12,689	8,577	634,610
<b>Accumulated depreciation</b>						
At 1 January 2000	38,779	479	63,484	6,938	8,684	118,364
Exchange adjustments	(176)	–	(802)	(53)	(107)	(1,138)
Charge for the year	3,672	5	31,249	1,095	–	36,021
Disposals	(4,702)	–	–	–	–	(4,702)
At 31 December 2000	37,573	484	93,931	7,980	8,577	148,545
<b>Net book value</b>						
At 31 December 2000	78,289	–	403,067	4,709	–	486,065
At 31 December 1999	79,467	5	436,574	5,255	–	521,301

## Notes to Financial Statements

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### 13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
In Hong Kong:		
Leases of between ten to fifty years	<b>24,758</b>	31,060
Outside Hong Kong:		
Leases of between ten to fifty years	<b>88,776</b>	84,829
Leases of less than ten years	<b>2,328</b>	2,357
	<b>115,862</b>	118,246

At 31 December 2000, certain leasehold land and buildings situated in Hong Kong with a net book value of approximately HK\$ 6,106,782 (1999:HK\$7,950,000) and certain buildings, plant and machinery situated in the PRC were pledged to secure bank loans granted to the Group.

### 14. INVESTMENTS IN SUBSIDIARIES

	<b>The Company</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>28,827</b>	28,827
Amounts due from subsidiaries	<b>851,031</b>	868,302
Amount due to a subsidiary	<b>(1,480)</b>	(1,480)
	<b>878,378</b>	895,649
Provisions	<b>(844,285)</b>	(488,270)
	<b>34,093</b>	407,379

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



## Notes to Financial Statements

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### 14. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the subsidiaries at 31 December 2000 are as follows:-

Company	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Sinocan Lianxing Limited	British Virgin Islands	US\$13,862,000	-	85	Investment holding
Shanghai Sinocan Lianxing Metal Containers & Printing Co., Ltd.	The People's Republic of China	HK\$260,000,000	-	85	Manufacture of cans
Shanghai Sinocan Huaxing Plastic Containers Co., Ltd.	The People's Republic of China	US\$16,600,000	-	61.8	Manufacture of plastic bottles
Sinocan (B.V.I.) Limited	British Virgin Islands	US\$3,750	100	-	Investment holding
Sinocan Purchasing Limited	British Virgin Islands/ Hong Kong	US\$1	-	100	Sourcing of spare parts
*Tianjin Sinocan Lianda Co., Ltd. **	The People's Republic of China	RMB40,376,000 (paid-up as to RMB39,397,000)	-	100	Manufacture of cans
Sinocan PET Investment Limited	British Virgin Islands	US\$1,000,000	-	65	Investment holding
Fore Great International Limited	Hong Kong	Ordinary HK\$100 #Deferred non -voting HK\$1,000,000	-	100	Investment holding and provision of administrative and accounting services

## Notes to Financial Statements

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### 14. INVESTMENTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Sinocan Properties Company Limited	Hong Kong	HK\$2	–	100	Property holding
*Fujian Sinocan Lianjian (Group) Co., Ltd.**	The People's Republic of China	HK\$265,000,000	–	100	Manufacture of cans and provision of printing and lacquering services
*Desheng Lianfeng Tin Manufacture Co., Ltd., Fujian**	The People's Republic of China	HK\$425,000,000 (paid-up as to HK\$358,695,000)	–	100	Manufacture of cans
*Putian Lianfa Tin Manufacture Co., Ltd., Fujian **	The People's Republic of China	HK\$16,000,000 (paid-up as to HK\$13,438,000)	–	100	Manufacture of cans

\* Companies not audited by RSM Nelson Wheeler

# The non-voting deferred shares have no right to dividends and no right to vote at general meetings, but carry the right to receive one half of the balance of any surplus in a return of capital in a winding-up after the holders of the ordinary shares have received a total return of HK\$100,000,000,000,000. None of the non-voting deferred shares were held by members of the Group at the balance sheet date.

\*\* Substantially all assets of these subsidiaries were seized, and auctioned or applied by the Group's creditors in satisfaction of a portion of the indebtedness owed by these subsidiaries to them. Thereafter, these subsidiaries have ceased operations.

## Notes to Financial Statements

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### 15. INTERESTS IN ASSOCIATES

	<b>The Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	<b>HK\$'000</b>
Share of net deficiencies other than goodwill	<b>(3,662)</b>	(3,662)

Details of the associates at 31 December 2000 are as follows:

<b>Company</b>	<b>Form of business structure</b>	<b>Place of incorporation and operation</b>	<b>Percentage of equity interest attributable to the Group</b>	<b>Principal activities</b>
Kisco (B.V.I.) Limited	Corporate	British Virgin Islands	44.7	Investment holding
Kisco Steel Drum Co., Ltd. Fujian	Corporate	The People's Republic of China	29.8	Manufacture of cans

All the associates are indirectly held by the Company.

### 16. INVENTORIES

	<b>The Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	<b>HK\$'000</b>
Raw materials	<b>35,705</b>	21,726
Work in progress	<b>10,745</b>	7,547
Finished goods	<b>18,077</b>	12,533
	<b>64,527</b>	41,806

## Notes to Financial Statements

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### 17. TRADE RECEIVABLES

All of the trade receivables are expected to be recovered within one year. Included in trade receivables are trade debtors and note receivables (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	<b>The Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
1 to 90 days from the date of billing	<b>27,181</b>	32,706
91 to 120 days from the date of billing	<b>11,924</b>	–
More than 4 months but less than 12 months from the date of billing	<b>18,224</b>	14,264
	<b>57,329</b>	46,970

The Group does not have a uniform credit policy in relation to goods sold to customers. The credit terms granted by the Group to the customers are determined with respect to their creditability and relationship with the Group.

### 18. TRADE AND OTHER PAYABLES

	<b>The Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Trade payables	<b>38,340</b>	30,124
Other payables	<b>83,983</b>	64,721
Welfare payables	–	250
Advance from customers	<b>18,826</b>	16,076
Payroll payables	<b>956</b>	3,205
Accrual expenses	<b>5,609</b>	9,348
	<b>147,714</b>	123,724

All of the trade and other payables are expected to be settled within one year.

## Notes to Financial Statements

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### 19. SHORT TERM BORROWINGS

	The Group		The Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans				
Secured	<b>111,657</b>	35,387	<b>4,050</b>	5,610
Unsecured	—	41,351	—	—
	<u><b>111,657</b></u>	<u>76,738</u>	<u><b>4,050</b></u>	<u>5,610</u>

All of the above bank loans are repayable within one year.

### 20. LOANS FROM MINORITY SHAREHOLDERS OF A SUBSIDIARY

The loans from minority shareholders of a subsidiary are unsecured, bear interest at the Hong Kong dollar best lending rate and have no fixed terms of repayment.

### 21. LOANS FROM A SHAREHOLDER

The loans from a shareholder are unsecured, bear interest at the rates ranging from 6.75% to 10.75% per annum and have no fixed terms of repayment.

## Notes to Financial Statements

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### 22. DEFERRED TAXATION

There were no significant potential tax liabilities for which provision has not been made as at 31 December 2000 (1999: Nil).

The potential assets for unprovided deferred taxation for the year amounted to:-

	<b>The Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Tax losses	<b>693</b>	473
Accelerated depreciation allowances	<b>7</b>	84
	<b><u>700</u></b>	<u>557</u>

Tax losses relating to subsidiaries established in the PRC which have ceased operations have not been included in the unprovided deferred tax assets above because it is highly unlikely that these subsidiaries will recommence operations and generate adequate profits to utilise such tax losses.

### 23. SHARE CAPITAL

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Authorised:		
1,200,000,000 ordinary shares of HK\$0.1 each	<b><u>120,000</u></b>	<u>120,000</u>
Issued and fully paid:		
849,600,000 ordinary shares of HK\$0.1 each	<b><u>84,960</u></b>	<u>84,960</u>

## Notes to Financial Statements

31 December 2000

### 23. SHARE CAPITAL *(continued)*

#### Share options

The Company has a share option scheme under which the directors of the Company may, at their discretion, grant to employees, including directors, of any member of the Group, options to subscribe for the Company's shares. The subscription price for the Company's shares under such scheme is determined by the board of directors of the Company and will not be less than 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the option or the nominal value of the Company's shares, whichever is higher. The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding) under such a scheme may not exceed 10% of the issued share capital of the Company, excluding any shares issued on exercise of options from time to time. The scheme became effective on 20 June 1994 and will remain in force for a period of 10 years. At 31 December 2000, no individual has entitlement on the share option scheme.

## Notes to Financial Statements

31 December 2000

### 24. RESERVES

	The Group					
	Share premium	Capital reserve/ (goodwill)	Exchange translation reserve	Legal reserves	Accum- ulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 1999	321,180	(945)	(2,549)	35,939	(491,175)	(137,550)
Net exchange gain not recognised in consolidated income statement	-	-	2,192	-	-	2,192
Net loss for the year	-	-	-	-	(36,607)	(36,607)
At 31 December 1999 and at beginning of year	321,180	(945)	(357)	35,939	(527,782)	(171,965)
Net exchange translation differences	-	-	-	-	10,590	10,590
Net exchange loss not recognised in consolidated income statement	-	-	(11,937)	-	-	(11,937)
Net loss for the year	-	-	-	-	(57,663)	(57,663)
At 31 December 2000	<u>321,180</u>	<u>(945)</u>	<u>(12,294)</u>	<u>35,939</u>	<u>(574,855)</u>	<u>(230,975)</u>
Retained by:						
Company and subsidiaries	321,180	(945)	(12,294)	35,939	(567,706)	(223,826)
Associates	-	-	-	-	(7,149)	(7,149)
	<u>321,180</u>	<u>(945)</u>	<u>(12,294)</u>	<u>35,939</u>	<u>(574,855)</u>	<u>(230,975)</u>



## Notes to Financial Statements

31 December 2000

### 24. RESERVES (continued)

	The Company			
	Share	Con-	Accum-	Total
	premium	tributed	lated	
	HK\$'000	surplus	losses	HK\$'000
At 1 January 1999	321,180	28,227	(486,957)	(137,550)
Net loss for the year	<u>—</u>	<u>—</u>	<u>(34,415)</u>	<u>(34,415)</u>
At 31 December 1999 and at beginning of year	321,180	28,227	(521,372)	(171,965)
Net loss for the year	<u>—</u>	<u>—</u>	<u>(400,360)</u>	<u>(400,360)</u>
At 31 December 2000	<u>321,180</u>	<u>28,227</u>	<u>(921,732)</u>	<u>(572,325)</u>

The legal reserves are the statutory reserves of foreign investment enterprises operating in the PRC. The transfers to these reserves are governed by relevant laws and regulations of the PRC and the articles of association of the relevant subsidiaries operating in the PRC. No transfer was made to legal reserves for the year.

## Notes to Financial Statements

31 December 2000

### 25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operations to net cash inflow from operating activities

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Profit from operations	<b>1,594</b>	25,507
Depreciation	<b>36,021</b>	53,931
Bank interest income	<b>(380)</b>	(158)
Gain on disposals of property, plant and equipment	–	(4,729)
Provision for doubtful debts written back	–	(2,282)
(Increase)/decrease in inventories	<b>(23,236)</b>	22,454
Increase in trade receivables	<b>(5,765)</b>	(12,531)
(Increase)/decrease in prepayments, deposits and other receivables	<b>(5,234)</b>	26,807
Decrease in an amount due from an associate	–	3
Increase/(decrease) in trade and other payables	<b>12,587</b>	(21,359)
Decrease in trust receipt loans	–	(2,780)
Foreign exchange differences on non-operating assets	<b>4,964</b>	(1,459)
Net cash inflow from operating activities	<b>20,551</b>	83,404

## Notes to Financial Statements

31 December 2000

### 25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (b) Analysis of changes in financing

	Share capital (including share premium) HK\$'000	Bank loans and other borrowings* HK\$'000	Loans from minority shareholders of a subsidiary HK\$'000	Loans from a shareholder HK\$'000
At 1 January 1999	406,140	588,431	27,491	–
Net cash (outflow)/inflow from financing	–	(142,797)	–	740
Assignment of loans to a shareholder	–	(383,687)	–	383,687
Assignment of trust receipt loans to a shareholder	–	–	–	45,643
Accounts payable and accrued liabilities taken up by a shareholder	–	–	–	44,106
Interest payable	–	–	2,151	9,798
Foreign exchange adjustments	–	702	–	–
At 31 December 1999 and at beginning of year	406,140	62,649	29,642	483,974
Net cash inflow/(outflow) from financing	–	49,866	–	(11,972)
Interest payable	–	–	2,340	41,501
Foreign exchange adjustments	–	(858)	–	–
At 31 December 2000	<u>406,140</u>	<u>111,657</u>	<u>31,982</u>	<u>513,503</u>

\* Excluding bank loans and trust receipt loans repayable within three months from the draw down date totalling HK\$Nil (1999:HK\$14,089,000).

## Notes to Financial Statements

31 December 2000

### 26. COMMITMENTS

	<b>The Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Capital expenditure contracted, but not provided for	<b>176</b>	–

At 31 December 2000, the Group had outstanding capital commitments in respect of capital contributions to subsidiaries registered in the PRC in the amount of HK\$71 million (1999:HK\$71 million), which had not been included in capital expenditure contracted, but not provided for as shown above. These capital commitments are related to subsidiaries which have ceased operations.

### 27. CONTINGENT LIABILITIES

At 31 December 2000, the Company had given several guarantees in proportion to its shareholding interest in an associate, Kisco (B.V.I.) Limited, in respect of its bank borrowings of approximately HK\$44,124,000 (equivalent to US\$5,695,000) in total, which resulted in contingent liabilities of approximately HK\$19,757,000 (equivalent to US\$2,550,000) to the Company.

### 28. RELATED PARTY TRANSACTIONS

In the normal course of business the Group paid interests on loans advanced by the minority shareholders and a shareholder amounting to HK\$43,841,000 (1999: HK\$49,971,000).

### 29. POST BALANCE SHEET EVENTS

There were no significant matters which occurred since the balance sheet date to the date of this financial statements and which have had or may have a material effect on the financial position of the Group at 31 December 2000 or the results for the year then ended.

### 30. COMPARATIVE FIGURES

The comparative figures were audited by another firm of certified public accountants in Hong Kong. Certain comparative figures have been reclassified to conform with the current year's presentation.