

1. GROUP REORGANISATION AND BASIS OF PRESENTATION**The Company**

The Company was incorporated in Bermuda as an exempted company with limited liability on 16 November 2000 under the Company Act 1981 of Bermuda (as amended). On incorporation, the Company had an authorised share capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each. All shares of which were allotted and issued on 7 December 2000. Apart from the foregoing, no other transactions were carried out by the Company during the period from 16 November 2000 (date of incorporation) to 31 December 2000. Accordingly, the Company has not recorded any profits or losses for the period.

Comparative amounts have not been presented for the Company's balance sheet because the Company was not in existence at 31 December 1999.

Group Reorganisation

Pursuant to a reorganisation scheme (the "Group Reorganisation"), the Company became the holding company of the companies now comprising the Group on 4 April 2001. This was accomplished by acquiring the entire issued share capital of Luks Industrial Company Limited ("LICL"), which is, at the date of this report, the intermediate holding company of the other subsidiaries as set out in note 18 to the financial statements, in consideration of and in exchange for the allotment and issue of 336,096,964 shares of HK\$0.01 each in the share capital of the Company credited as fully paid.

Further details of the Group Reorganisation are set out in note 35 and in the Company's circular dated 13 February 2001.

Basis of presentation

The Group Reorganisation involved companies under common control. Because the Group Reorganisation took place on 4 April 2001, according to the Statement of Standard Accounting Practice ("SSAP") No. 2.127, "Accounting for Group Reconstructions", the Company together with its subsidiaries should only be regarded and accounted for as a continuing group in the preparation of the Group's financial statements commencing the year ending 31 December 2001. Nevertheless, for the benefit of shareholders, pro forma combined financial statements for the current year and the related notes thereto have also been presented in these financial statements on the basis that the Company is treated as the holding company of its subsidiaries for the financial years presented rather than from the subsequent date of acquisition of the subsidiaries on 4 April 2001. The pro forma combined results of the Group for the years ended 31 December 1999 and 2000 include the results of the Company and its subsidiaries with effect from 1 January 1999 or since their respective dates of incorporation, where this is a shorter period. The pro forma combined balance sheets as at 31 December 1999 and 2000 have been prepared on the basis that the current Group structure was in place at those dates.

1. GROUP REORGANISATION AND BASIS OF PRESENTATION (Cont'd)

Basis of presentation (Cont'd)

All significant transactions and balances among the companies comprising the Group have been eliminated on combination.

Although the Group Reorganisation had not been completed and, accordingly, the Group did not legally exist until April 2001, in the opinion of the directors, the presentation of such pro forma combined financial statements prepared on the aforesaid basis is necessary to apprise the Company's shareholders of the Group's loss and its state of affairs as a whole.

2. CORPORATE INFORMATION

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

- manufacture and sale of electronic products
- manufacture and sale of cement
- manufacture and sale of plywood and other wood products
- property investment
- investment holding

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, subject to the pro forma basis presentation as set out in note 1 above, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties and certain equity investments, as further explained below.

Subsidiaries

A subsidiary is a company 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Associates

An associate is a company, not being a subsidiary or a joint venture, 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 post-acquisition results and reserves of associates is included in the pro forma combined profit and loss account and pro forma combined reserves, respectively. The Group's interests in associates are stated in the pro forma combined balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values other than temporary in nature deemed necessary by the directors.

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the pro forma combined profit and loss account and pro forma combined reserves, respectively. The Group's interests in jointly-controlled entities are stated in the pro forma combined balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values other than temporary in nature deemed necessary by the directors.

Goodwill and capital reserve arising on consolidation

Goodwill arising on consolidation of subsidiaries and on acquisition of associates and jointly-controlled entities represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition.

A capital reserve on consolidation of subsidiaries and on acquisition of associates and jointly-controlled entities represents the excess of fair values ascribed to the net underlying assets of the subsidiaries, associates and jointly-controlled entities over the purchase consideration paid.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**Goodwill and capital reserve arising on consolidation (Cont'd)**

On disposal of subsidiaries, associates or jointly-controlled entities, the relevant portion of attributable goodwill or capital reserve previously eliminated against or credited to reserves is realised and included in the calculation of the gain or loss on disposal.

Fixed assets and depreciation

Fixed assets, other than investment properties and construction in progress, are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation 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:

Leasehold land and buildings	Over the lease terms
Plant and machinery	4% – 15%
Furniture, fixtures and office equipment	9% – 20%
Motor vehicles	14% – 25%
Launch	15%
Computer equipment	18% – 20%
Leasehold improvements	18% – 20%

Construction in progress represents a building under construction and is stated at cost and is not depreciated. Cost comprises direct costs of construction and interest charges on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amounts of the relevant asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease, and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased assets is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Properties under development

Properties under development are stated at cost which includes the cost of land, construction, financing and other directly related expenses, plus, in the case of pre-sold properties or a portion thereof, any attributable profit received on the contracted sales less any provision for foreseeable losses deemed necessary by the directors.

Development properties where construction has not yet commenced or has been deferred, are included as land held for development and are stated at cost less any provisions considered necessary by the directors.

Investment security

Investment security is equity investment which is intended to be held on a long term basis for strategic business reasons and is stated at cost less any impairment in value which is expected to be other than temporary, on an individual investment basis. The amount of such impairment is charged to the profit and loss account for the period in which it arises.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**Other investments**

Investments in listed securities are classified as other investments and they may be held for investment or trading purpose.

Other investments are stated at fair value 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 for the period in which they arise.

Warranty provision

A provision for warranty costs is accrued based on the total sales of all television sets which are covered by the Group's warranty scheme.

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 realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 its employees who are eligible to participate in the MPF Scheme. The MPF Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employee's 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 administrated fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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) on 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; and
- (d) dividends, when the shareholders' right to receive payment is established.

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.

4. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

Analysis of the Group's turnover is as follows:

	2000 HK\$'000	1999 HK\$'000
Sale of electronic products	2,734	14,827
Sales of cement	117,995	87,731
Sales of plywood and other wood products	1,220	1,067
	<u>121,949</u>	<u>103,625</u>

5. OTHER REVENUE

	2000 HK\$'000	Group 1999 HK\$'000
Dividend income from unlisted equity investment	–	7,000
Gross rental income	10,914	9,477
Interest income	25,237	18,805
Others	851	1,215
	<u>37,002</u>	<u>36,497</u>

6. OTHER OPERATING EXPENSES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Goodwill and exchange fluctuation reserve released on loss		
on disposal of unlisted equity investment	–	13,497
Loss on disposal of interest in an associate	–	20,837
Loss on disposal of subsidiaries	201	–
Deficit arising from revaluation of investment properties	699	–
Provision for impairment in investment security	12,179	–
Provision for doubtful debts	28,774	5,018
Provision against interests in associates	3,726	12,470
Provision against interests in jointly-controlled entities	29,853	1,938
Provision against properties under development	–	42,291
Provision for claim on cost of land use right	10,586	–
	86,018	96,051

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2000	1999
	HK\$'000	HK\$'000
Depreciation:		
Owned assets	22,966	33,790
Assets held under finance leases	–	28
	22,966	33,818
Cost of inventories sold	78,992	67,638
Salary and wages expenses (exclude directors' remuneration, note 9)	12,190	14,289
Auditors' remuneration	819	809
Foreign exchange losses, net	9,061	3,556
Provision against construction in progress	–	6,462
Provision for slow-moving and obsolete stock	50	1,292
(Gains)/losses on disposal of fixed assets	144	(181)
Net rental income	(10,289)	(8,883)

8. FINANCE COSTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest expense on:		
Bank loans and overdrafts repayable within five years	10,443	17,392
Loans repayable within five years from:		
Directors	4,256	2,937
Related company	1,979	2,440
Others	5,431	1,456
Guaranteed notes	1,116	4,176
Finance leases	71	202
	<u>23,296</u>	<u>28,603</u>

9. DIRECTORS' REMUNERATION

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

	Group	
	2000	1999
	HK\$'000	HK\$'000
Fees	<u>350</u>	<u>400</u>
Other emoluments:		
Salaries and allowances	6,155	6,141
Bonuses	<u>6,850</u>	<u>6,871</u>
	<u>13,005</u>	<u>13,012</u>
	<u>13,355</u>	<u>13,412</u>

Fees include HK\$100,000 (1999: HK\$150,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (1999: HK\$Nil).

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

9. DIRECTORS' REMUNERATION (Cont'd)

No value is included in directors' remuneration in respect of share options granted in the year of 1999 because, in the absence of a readily available market value for the options on LICL'S shares, the directors are unable to arrive at an accurate assessment of the value of the options granted. Details of the options granted to the directors are set out in the section "Directors' rights to acquire shares" in the Report of the Directors on page 17.

The remuneration of the directors fell within the following bands:

	Number of directors	
	2000	1999
HK\$Nil – HK\$1,000,000	5	6
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$10,000,001 – HK\$10,500,000	1	1
	<u>7</u>	<u>8</u>

10. HIGHEST PAID EMPLOYEES

Among the six highest paid employees during the year included four (1999: four) directors, details of whose remuneration are set out in note 9 above. The details of the remuneration of the remaining two (1999: two) non-directors, highest paid employees are as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Salaries	<u>1,057</u>	<u>1,019</u>

The remuneration of the non-director, highest paid employees fell within the following band of HK\$Nil – HK\$1,000,000.

11. TAX

No Hong Kong and overseas profits tax had been provided as the Group had no assessable profit arisen in or derived from Hong Kong and elsewhere during the year. Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong for the year of 1999. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the areas in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2000	1999
	HK\$'000	HK\$'000
PRC:		
Hong Kong	–	16
Elsewhere	–	1,952
Tax charge for the year	–	1,968

12. PRIOR YEAR ADJUSTMENTS

- (i) Deferred expenditure represented pre-operating expenses incurred by the Group in relation to its joint venture projects in Vietnam and the PRC. In prior years, these expenses were amortised using the straight-line method over an eight-year period starting from the date of commencement of active business operations by the joint ventures. The policy of accounting for deferred expenditure was changed in the year 1999 as a result of the adoption of revised SSAP1 which was subsequently clarified by Interpretation No. 9 "Accounting for Pre-operating Costs" issued by Hong Kong Society of Accountants. Under the new accounting policy, such deferred expenditure was charged to the profit and loss account in the year in which it arose. This new accounting policy had been applied retrospectively, resulting in the restatement of prior years' results.

The effect of the write-off of deferred expenditure of HK\$112,902,000 related to 1998 and earlier years had been debited against the Group's accumulated losses at 1 January 1999.

- (ii) In prior years, the Group's other investments held on a long term basis were stated at cost less any provision for impairment in values thereof deemed necessary by the directors. The Group firstly adopted SSAP 24, and in the year of 1999 and all other investments were now 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 were credited or charged to the profit and loss account for the period in which they arose. This new accounting policy had been applied retrospectively, resulting in the restatement of prior years' results.

The effect of re-stating the Group's other investment at fair value of HK\$19,242,000 related to 1998 and earlier years had been credit against the Group's accumulated losses at 1 January 1999.

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

The Group's share of aggregate profits less losses retained by the associates and jointly-controlled entities for the year amounted to net loss of HK\$1,763,000 and HK\$23,040,000, respectively (1999: HK\$Nil and losses of HK\$21,419,000, respectively).

14. EARNINGS/(LOSS) PER SHARE

The calculation of pro forma basic earnings/(loss) per share is based on the pro forma combined net loss from ordinary activities attributable to shareholders for the year of HK\$666,142,000 (1999: net profit of HK\$794,434,000) and the pro forma weighted average of 340,094,000 (1999: 312,168,000) ordinary shares in issue during the year.

The pro forma diluted earnings/(loss) per share for the years ended 31 December 2000 and 31 December 1999 have not been calculated as the company's share options would have resulted in an anti-dilutive effect.

Notes To Financial Statements (Cont'd)

31 December 2000

15. FIXED ASSETS

Group

	1999	Exchange	Transfer		Disposals	Realization	Transfer to	
	realignment	in progress	from	Additions		on disposal of	investment	2000
	(note 17)	(note 16)				subsidaries	properties	
	(note 37)	(note 16)						
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:								
Leasehold land and buildings	100,507	(2,135)	34	39,951	-	(5,290)	(2,209)	130,858
Plant and machinery	390,768	(13,116)	155	860	(609)	(13,842)	-	364,216
Furniture, fixtures and office equipment	9,836	(77)	-	110	-	(1,997)	-	7,872
Motor vehicles	9,220	(85)	-	1,733	(1,923)	(1,757)	-	7,188
Launch	2,251	-	-	-	-	-	-	2,251
Computer equipment	5,098	-	-	7	-	-	-	5,105
Leasehold improvements	1,430	-	-	-	-	-	-	1,430
	519,110	(15,413)	189	42,661	(2,532)	(22,886)	(2,209)	518,920
Accumulated depreciation:								
Leasehold land and buildings	18,897	(412)	-	3,150	-	(2,826)	(193)	18,616
Plant and machinery	66,097	(2,205)	-	16,364	(352)	(12,017)	-	67,887
Furniture, fixtures and office equipment	8,199	(62)	-	311	-	(1,474)	-	6,974
Motor vehicles	7,757	(55)	-	370	(1,923)	(1,183)	-	4,966
Launch	2,187	-	-	24	-	-	-	2,211
Computer equipment	5,065	-	-	23	-	-	-	5,088
Leasehold improvements	1,053	-	-	192	-	-	-	1,245
	109,255	(2,734)	-	20,434	(2,275)	(17,500)	(193)	106,987
Net book value	409,855							411,933

The net book value of the fixed assets of the Group held under finance leases included in the total amount of plant and machinery at 31 December 2000 amounted to HK\$Nil (1999: HK\$37,000).

15. FIXED ASSETS (Cont'd)

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

	Group	
	2000	1999
	HK\$'000	HK\$'000
Situated in Hong Kong:		
Long term leases	52,082	14,340
Situated elsewhere:		
Medium term leases	13,818	60,048
Short term leases	64,958	26,119
	130,858	100,507

At 31 December 2000, certain of the Group's leasehold land and buildings situated in Hong Kong, with a net book value of approximately HK\$49,865,000 (1999: HK\$10,192,000) and certain of the Group's plant and machinery, with a net book value of approximately HK\$150,744,000 (1999: HK\$163,208,000), were pledged to secure general banking facilities granted to the Group (note 39).

16. INVESTMENT PROPERTIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Valuation:		
Balance at beginning of year	136,179	133,100
Transfer from fixed assets (<i>note 15</i>)	2,016	6,827
Deficit on revaluation	(9,284)	(3,748)
Balance at end of year	128,911	136,179
Accumulated depreciation:		
Balance at beginning of year	9,879	–
Provided during the year	2,532	9,879
Balance at end of year	12,411	9,879
Net book value:		
At end of year	116,500	126,300

16. INVESTMENT PROPERTIES (Cont'd)

The investment properties are held under the following lease terms:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Situated in Hong Kong:		
Long term leases	4,000	6,900
Medium term leases	72,800	75,500
Situated elsewhere:		
Short term leases	39,700	43,900
	<u>116,500</u>	<u>126,300</u>

The investment properties were revalued on 31 December 2000 by A A Property Services Limited, an independent professional valuer, at an aggregate open market value based on their existing use. The details of the investment properties, which are 100% attributable to the Group, were as follows:

Location	Use	Tenure
Store Rooms 4, 5 and 6 on Upper Basement Floor, Fu Hang Industrial Building, No. 1 Hok Yuen Street, Hung Hom, Kowloon, Hong Kong	Industrial building for rental	Medium term leases
G/F to 13/F, Luks Industrial Building, Tuen Mun Town Lot No. 145, No. 6 Tsun Wen Road, Tuen Mun, New Territories, Hong Kong	Industrial building for rental	Medium term leases
Flat A2, 3/F, Flat B, 4/F and Flat C, 7/F Cheong Wah Factory Building, Nos. 39 - 41 Sheung Heung Road, and No. 60 Cheung Ning Street, Tokwawan, Kowloon, Hong Kong	Industrial building for rental	Long term leases
Workshops E2 & F2, 7/F, Hang Fung Industrial Building, Phase II, No. 2G, Hok Yuen Street East, Hung Hom, Kowloon, Hong Kong	Industrial building for rental	Medium term leases

16. INVESTMENT PROPERTIES (Cont'd)

Location	Use	Tenure
Units A and B on G/F & 4/F and the whole floor of 1/F, Block 2, Xinghua Road, Hua Jian Industrial Building, Shekou Industrial Zone, Shenzhen, PRC	Industrial building for rental	Short term leases
The whole block of Luks Industrial Building and Dormitory, Xinan 3rd Road, Xinanban Zone No. 28, Bao An Area, Shenzhen, PRC	Industrial and residential building for rental	Short term leases
1st and 2nd Floors of the Dormitory, 2nd of 05A, Area 33, Bao An Area, Shenzhen, PRC	Residential building for rental	Short term leases

At 31 December 2000, certain of the Group's investment properties with a value of HK\$74,150,000 (1999: HK\$81,000,000) were pledged to secure general banking facilities granted to the Group (note 39).

17. CONSTRUCTION IN PROGRESS

	Group	
	2000 HK\$'000	1999 HK\$'000
Balance at beginning of year	–	8,900
Exchange realignments	–	(27)
Additions	275	2,460
Transfer to fixed assets (<i>note 15</i>)	(189)	(4,871)
Provision for diminution in value	–	(6,462)
Balance at end of year	86	–

18. PARTICULARS OF SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2000	1999	
Luks Holdings (BVI) Limited	British Virgin Islands	US\$50,000	100	100	Investment holding
Luks Industrial Company Limited*	Hong Kong	HK\$168,276,482	100	100	Property investment and investment holding
Luks Electrical Appliance Manufactory Limited	Hong Kong	HK\$300,000	100	100	Trading of printed circuit boards
Luks Industrial (Bao An) Company Limited	PRC	HK\$39,000,000	100	100	Property investment
Fortune City Investments Limited	Hong Kong	HK\$10,000	65	65	Property development
Luks Vietnam Holdings Limited	Bermuda	US\$120,000	100	100	Investment holding
Luks Vietnam Company Limited*	British Virgin Islands	US\$3	100	100	Investment holding
Luks International Company Limited*	Hong Kong	HK\$6,000,000	100	100	Investment holding
Luks Timber Investments Limited	Hong Kong	HK\$2	100	100	Investment holding
Luks – Vaxi Company Limited*	Vietnam	VND329,356,867,000	68.1	68.1	Manufacture and sale of cement
Happy Mate Development Limited	Hong Kong	HK\$1,000,000	68	68	Investment holding
Luks – Lavi Company Limited*	Vietnam	VND74,520,000,000	71	71	Sale of plywood
Luks Industrial(Yi Chang) Company Limited*	PRC	RMB4,400,000	100	100	Property development

18. PARTICULARS OF SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2000	1999	
Dongguan Fortune City Business Residential Development Limited*	PRC	RMB23,733,500	58.5	58.5	Property development
Luks Land Company Limited*	British Virgin Islands	US\$100	100	100	Investment holding
Luks Cement Company Limited*	British Virgin Islands	US\$50,000	87.5	87.5	Investment holding
Luxway Management Limited	British Virgin Islands	US\$2	100	100	Investment holding
Tai Kong International Trading Company Limited*	Hong Kong	HK\$500,000	60	60	Investment holding

* *Held through subsidiaries*

The above table lists those subsidiaries which, in the opinion of the directors, principally affected the pro forma combined results of the year or formed a substantial portion of the pro forma combined net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	2000 HK\$'000	Group 1999 HK\$'000 (restated)
Share of net assets/(liabilities)	(17,002)	11,460
Loans to jointly-controlled entities	295,528	276,740
Loan from a jointly-controlled entity	(21,654)	(20,486)
	256,872	267,714
Provision for impairment in values	(44,874)	(15,021)
	211,998	252,693

Except for the loan to Luks - Lavico Company Limited of HK\$267,393,000 (1999: HK\$248,605,000), which bears interest at 7% per annum, the remaining loan from/to jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

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

Name	Business structure	Place of incorporation/ registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Zhuhai Yuki Computer Equipment Factory #	Corporate	PRC	77	60	77	Manufacture and sale of computer monitors
Chengdu Leming House Development Company Limited *	Corporate	PRC	75	57	75	Property development
Luks - Lavico Company Limited @	Corporate	Vietnam	75	75	75	Property development and management

Held through a 78% owned subsidiary

* Held through a 68% owned subsidiary

@ Held through a wholly-owned subsidiary

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Cont'd)

Extracts of the summary financial information of the major jointly-controlled entity, Luks - Lavico Company Limited, are as follows:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Turnover	<u>21,184</u>	<u>13,940</u>
Loss after tax	<u>(30,728)</u>	<u>(28,566)</u>
Group's proportionate share of loss for the year	<u>(23,040)</u>	<u>(21,419)</u>
Non-current assets	272,493	304,573
Current assets	4,980	3,597
Current liabilities	(92,273)	(87,251)
Non-current liabilities	<u>(215,053)</u>	<u>(207,083)</u>
Net assets/(liabilities)	<u>(29,853)</u>	<u>13,836</u>

20. INTERESTS IN ASSOCIATES

	2000 <i>HK\$'000</i>	Group 1999 <i>HK\$'000</i>
Unlisted shares:		
Share of net liabilities	(4,387)	(2,686)
Loans to associates	30,855	27,129
Loan from an associate	<u>(31)</u>	<u>–</u>
	26,437	24,443
Provision for impairment in values	<u>(28,169)</u>	<u>(24,443)</u>
	<u>(1,732)</u>	<u>–</u>

The loans from/(to) associates are unsecured, interest-free and have no fixed terms of repayment.

20. INTERESTS IN ASSOCIATES (Cont'd)

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Group		Principal activities
			2000	1999	
Luks Electronic Company Limited*	Corporate	Hong Kong	40	40	Investment holding
Hainan I Chang International Property Development Corporation#	Corporate	PRC	40	40	Property development
China Travel Online Limited*	Corporate	British Virgin Islands	40	–	Investment holding

The associate is indirectly held through an associate.

* The associates are indirectly held through a subsidiary.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the pro forma combined results of the year or formed a substantial portion of the pro forma combined net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

21. PROPERTIES UNDER DEVELOPMENT

	Group	
	2000 HK\$'000	1999 HK\$'000
Land held for development	3,054	3,054

The Group's properties under development comprise land held for development situated outside Hong Kong and are held under medium term leases.

22. INVESTMENT SECURITY

	Group	
	2000	1999
	HK\$'000	HK\$'000
At cost:		
Listed equity investment in overseas, at cost	23,878	23,878
Provision for impairment in value	(12,179)	–
Market value at 31 December	<u>11,699</u>	<u>23,878</u>

The market value of the investment security at the date of approval of these financial statements were approximately HK\$4,680,000.

23. OTHER INVESTMENTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
At fair value:		
Listed equity investments in PRC:		
Hong Kong	178,000	981,000
Elsewhere	32,034	32,034
	<u>210,034</u>	<u>1,013,034</u>

At 31 December 2000, other investments with a carrying value of approximately HK\$Nil (1999: HK\$522,584,000) were pledged to secure loan facilities granted to the Group (note 39).

23. OTHER INVESTMENTS (Cont'd)

Particulars of the principal other investments are as follows:

Name	Place of incorporation	Class of shares held	Proportion of shares held	
			2000	1999
TCL International Holdings Limited ("TCL")	Cayman Islands	Ordinary	4.17%	7.5%

As at year end, the Group has other investment in Shenzhen Huafa Electronics Co., Ltd. ("Huafa"), which is listed on the Shenzhen Stock Exchange, PRC. The shares held by the Group in Huafa are founder shares, which are not freely transferable or available for trade in the Shenzhen Stock Exchange, PRC. Therefore, the market value is not presented as it is not meaningful.

The market value of the other investments listed in Hong Kong at the date of approval of these financial statements was approximately HK\$121,000,000.

24. INVENTORIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Raw materials	3,856	4,493
Work in progress	1,227	3,590
Finished goods	1,320	5,012
	<u>6,403</u>	<u>13,095</u>

The carrying amount of inventories carried at net realisable value included in the above is HK\$71,000 (1999: HK\$97,000).

25. TRADE RECEIVABLES

The trade receivables aging analysis are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
0 – 30 days	3,462	2,075
31 – 60 days	189	1,968
61 – 90 days	425	1,345
Over 120 days	–	84
Over 1 year	–	24
	4,076	5,496

Trading terms with customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are regularly reviewed by senior management.

26. DUE TO DIRECTORS

The amounts due to directors bear interest at the rate of 2.75% (1999: 2.5%) over the Hong Kong prime rate, are unsecured and have no fixed terms of repayment.

27. DUE FROM/(TO) RELATED COMPANY

The balances due from/(to) related company are unsecured, interest-free and have no fixed terms of repayment.

28. CASH AND CASH EQUIVALENTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Cash and bank balances	9,991	9,372
Time deposits	15,631	–
	25,622	9,372

29. TRADE PAYABLES

The trade payables aging analysis are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
0 – 30 days	2,718	2,068
31 – 60 days	462	952
61 – 90 days	346	8,138
Over 120 days	650	4,425
Over 1 year	27,217	41,261
	<u>31,393</u>	<u>56,844</u>

30. GUARANTEED NOTES, SECURED

	Group	
	2000	1999
	HK\$'000	HK\$'000
At beginning of year	29,725	49,578
Redeemed during the year	<u>(29,725)</u>	<u>(19,853)</u>
At the end of year	<u>–</u>	<u>29,725</u>

The guaranteed notes ("Notes") were unconditionally and irrevocably guaranteed by the wholly-owned subsidiary and bore interest at the rate of 12% per annum. The Notes were also secured by the equity interest in a subsidiary, Luks Cement Company Limited. Upon the full redemption of the Notes during the year, the guarantee and pledged security were released.

31. INTEREST-BEARING BANK LOANS AND OTHER LOANS

		Group	
		2000	1999
	Notes	HK\$'000	HK\$'000
Current portion of bank loans, overdrafts and other loans	32	62,591	115,907
Current portion of finance lease payables	33	<u>–</u>	<u>1,320</u>
		<u>62,591</u>	<u>117,227</u>

32. INTEREST-BEARING BANK LOANS, OVERDRAFTS AND OTHER LOANS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Bank overdrafts, secured	–	4,929
Bank loans, secured:		
Short term	49,696	54,153
Long term	38,360	23,276
Other loans, secured	–	50,800
	88,056	133,158
Portion classified as current liabilities (<i>note 31</i>):		
Bank overdrafts	–	4,929
Short term bank loans	49,696	54,153
Long term bank loans within one year	12,895	6,025
Other loans	–	50,800
	(62,591)	(115,907)
Long term portion	25,465	17,251
The interest-bearing bank loans, overdrafts and other loans are repayable as follows:		
Within one year	62,591	115,907
In the second year	7,928	10,536
In the third to fifth year, inclusive	17,537	6,715
	88,056	133,158

33. FINANCE LEASE PAYABLES

There were obligations under finance leases at the balance sheet date as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Amounts payable		
Within one year	–	1,320
In the second year	–	21
Total finance lease payables	–	1,341
Portion classified as current liabilities (<i>note 31</i>)	–	(1,320)
Long term portion	–	21

34. DEFERRED TAX

The provision for deferred tax relates to timing differences arising from accelerated capital allowances for fixed assets which are expected to crystallise in the foreseeable future.

There were no significant potential deferred tax liabilities for which provision had not been made at the balance sheet date.

35. ISSUED CAPITAL

The following changes in the Company's authorised and issued share capital took place during the period from 16 November 2000 (date of incorporation) to the date of this report:

- (a) On incorporation, the Company had an authorised share capital of HK\$100,000 divided into 10,000,000 ordinary shares of HK\$0.01 each.
- (b) On 7 December 2000, the Company allotted and issue nil paid 10,000,000 ordinary shares of par value HK\$0.01 each.
- (c) Pursuant to the terms of the Group Reorganisation, the authorised share capital of the Company was increased from HK\$100,000 to HK\$7,600,000 by the creation of an additional 750,000,000 shares of HK\$0.01 each.

35. ISSUED CAPITAL (Cont'd)

- (d) On 4 April 2001, a total of 336,096,964 shares of HK\$0.01 each were allotted as fully paid to the shareholders on the register of members of Luks Industrial Company Limited at the close of business on 3 April 2001 in the proportion of one share in the Company for one share in Luks Industrial Company Limited. The dealing in the Company's share on the Stock Exchange was commenced on 4 April 2001.

The following is a summary of the movement in the pro forma issued share capital of the Company:

	Number of shares	Par value HK\$'000
Balance at 1 January 1999	296,526,964	2,965
New shares issued	44,660,000	447
Balance at 31 December 1999	341,186,964	3,412
New shares issued	740,000	7
Shares re-purchased	(5,374,000)	(53)
Balance at 31 December 2000	336,552,964	3,366

Share options

At 1 January 2000, the subsidiary, Luks Industrial Company Limited ("LICL") had 15,230,000 and 5,800,000 outstanding share options which entitled the holders to subscribe in cash for fully paid ordinary shares in LICL at a subscription price of HK\$0.65 per share and HK\$0.98 per share, respectively. A total of 740,000 share options at a subscription price of HK\$0.65 per share were exercised during the year.

35. ISSUED CAPITAL (Cont'd)**Share options (Cont'd)**

At the balance sheet date, LICL had the following outstanding share options:

Date of options granted	Option price	Number of shares	Exercisable period
29 June 1999	HK\$0.65	14,490,000	23 June 1999 to 22 June 2002
30 December 1999	HK\$0.98	5,800,000	15 January 2000 to 22 June 2002

The outstanding share options of LICL as at 31 December 2000 were cancelled and replaced by the same number of new share options of the Company granted under the new share option scheme, the details of which are set out below, and the exercise prices and exercisable period remain unchanged.

Pursuant to a new share option scheme adopted by the Company on 4 April 2001, the board of directors may, on or before 3 October 2004, at its discretion invite any full-time employees, including executive directors, of the Company or any of its subsidiaries, to take up options to subscribe for shares in the Company. The subscription price will be the higher of 80% of the average of the official closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option and the nominal value of the shares. The consideration for the grant of an option is HK\$1.00 and will entitle the holder of such option to subscribe for the Company share.

The maximum number of shares in respect of which options may be granted under the new share option scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time. The maximum number of shares in respect of which options may be granted to any one employee or director may not exceed 25% of the aggregate number of shares in respect of which options are issued and issuable under the new share option scheme.

The new share option scheme will remain in force for a period of three and a half years from the date of its adoption.

36. RESERVES
Group

	Contributed surplus*	Capital reserve	Reserve funds**	Investment property revaluation reserve	Exchange fluctuation reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(note 1)	(note 1)	(note 1)	(note 1)	(note 1)	(note 1)
At 1 January 1999	908,069	15,419	12,807	12,333	(77,074)	871,554
Exchange realignments	-	(1)	-	-	(1,173)	(1,174)
Realization on disposal of unlisted equity investment	-	17,574	-	-	(4,077)	13,497
Arising from acquisition of an additional interest in a subsidiary	-	543	-	-	-	543
Deficit on revaluation of investment properties	-	-	-	(3,748)	-	(3,748)
Arising from issue of shares	31,096	-	-	-	-	31,096
At 31 December 1999 and beginning of year	939,165	33,535	12,807	8,585	(82,324)	911,768
Exchange realignments	-	1	(7)	-	(9,627)	(9,633)
Realization on disposal of subsidiaries	-	1,064	(172)	-	5,445	6,337
Realization on disposal of other investment	-	(2,285)	(1,725)	-	1,811	(2,199)
Deficit on revaluation of investment properties	-	-	-	(8,585)	-	(8,585)
Arising from repurchase of shares	(4,648)	-	-	-	-	(4,648)
At 31 December 2000	934,517	32,315	10,903	-	(84,695)	893,040
Reserves retained in:						
Company and subsidiaries	934,517	11,810	-	-	(51,078)	895,249
Jointly-controlled entities	-	-	-	-	(25,133)	(25,133)
Associates	-	(872)	-	-	-	(872)
Investee companies	-	21,377	10,903	-	(8,484)	23,796
31 December 2000	934,517	32,315	10,903	-	(84,695)	893,040
Company and subsidiaries	939,165	10,745	180	8,585	(52,419)	906,256
Jointly-controlled entities	-	-	-	-	(19,610)	(19,610)
Associates	-	(872)	-	-	-	(872)
Investee companies	-	23,662	12,627	-	(10,295)	25,994
31 December 1999	939,165	33,535	12,807	8,585	(82,324)	911,768

36. RESERVES (Cont'd)

- * The contributed surplus of the Group derives from the difference between the nominal value of the Company's shares issued to acquire the issued share capital of Luks Industrial Company Limited pursuant to the Group Reorganisation, and the consolidated net asset value of Luks Industrial Company Limited so acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain prescribed circumstances.*
- ** Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's associates and jointly-controlled entities in the PRC has been transferred to various reserve funds which may only be utilised by the Group in accordance with the relevant legislation.*

37. NOTES TO PRO FORMA COMBINED CASH FLOW STATEMENT

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

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Profit/(loss) from operating activities	(620,407)	824,643
Interest income	(25,237)	(18,805)
Dividend income from unlisted equity investment	–	(7,000)
Depreciation	22,966	33,818
Exchange adjustment	8,189	–
(Gain)/loss on disposal of fixed assets	144	(181)
Goodwill and exchange fluctuation reserve released		
on loss on disposal	–	13,497
Provision for doubtful debts	28,774	5,018
Provision for claim on cost of land use right	10,586	–
Loss on disposal of interest in an associate	–	20,837
Loss on disposal of subsidiaries	201	–
Loss on disposal of other investment	172,236	–
Provision for slow-moving and obsolete stock	50	1,292
Provision against interest in a jointly-controlled entity	29,853	1,938
Provision against interests in associates	3,726	12,470
Provision against construction in progress	–	6,462
Provision against properties under development	–	42,291
Deficit arising from revaluation of investment properties	699	–
Provision for impairments in investment security	12,179	–
Unrealised holding (gains)/losses for other investments	367,000	(924,080)
Changes in current assets and liabilities, net of effect of disposal of certain equity interests in subsidiaries:		
Decrease/(increase) in trade receivables	140	(1,704)
Decrease/(increase) in other receivables, prepayments and deposits	(40,920)	19,647
Decrease/(increase) in inventories	333	(6,205)
Decrease in amounts due to associates	(3,695)	(471)
Decrease in trust receipts and bills payable, secured	(53,891)	(30,613)
Decrease in trade payable	(17,573)	(4,933)
Increase/(decrease) in other payable and accruals	222	(8,854)
Increase in amount due to a related company	40	2,806
Decrease in warranty provision	(40)	(101)
Net cash outflow from operating activities	<u>(104,425)</u>	<u>(18,228)</u>

Notes To Financial Statements (Cont'd)

31 December 2000

37. NOTES TO PRO FORMA COMBINED CASH FLOW STATEMENT (Cont'd)

(b) Analysis of changes in financing during the year

	Share capital and contributed surplus HK\$'000	Bank loans and other loans HK\$'000	Guaranteed notes HK\$'000	Due to directors HK\$'000	Minority interests HK\$'000
Balance at 1 January 1999	911,034	70,850	49,578	55,303	27,223
Exchange realignments	–	240	–	–	(1,464)
Net cash inflow/(outflow) from financing activities	7,665	35,480	(19,853)	(46,424)	3,444
Shares issued for acquisition of other investments	23,878	–	–	–	–
Interest payable	–	–	–	4,497	–
Acquisition of addition interest in a subsidiary	–	–	–	–	(543)
Share of loss after tax of subsidiaries	–	–	–	–	(21,781)
Balance at 31 December 1999	<u>942,577</u>	<u>106,570</u>	<u>29,725</u>	<u>13,376</u>	<u>6,879</u>
Balance at 1 January 2000	942,577	106,570	29,725	13,376	6,879
Exchange realignments	–	(1,587)	–	–	–
Net cash inflow/(outflow) from financing activities	(4,694)	(6,798)	(29,725)	(13,376)	824
Disposal of a subsidiary	–	–	–	–	1,204
Proceeds from disposal of a subsidiary	–	(10,129)	–	–	–
Share of loss after tax of subsidiaries	–	–	–	–	(2,364)
Balance at 31 December 2000	<u>937,883</u>	<u>88,056</u>	<u>–</u>	<u>–</u>	<u>6,543</u>

(c) Major non-cash transactions

During the year, the Group disposed the entire equity interests in Luks Technology Development Company Limited to TCL Overseas Holdings Limited at a total consideration of HK\$10,690,000 which was satisfied by the setting off the loan due to it.

37. NOTES TO PRO FORMA COMBINED CASH FLOW STATEMENT (Cont'd)

(d) Disposal of subsidiaries:	2000
	<u>HK\$'000</u>
Net assets disposed of:	
Fixed assets	5,386
Cash	561
Trade debtors	1,311
Other debtors	2,277
Inventories	6,087
Amount due from a related company	2,264
Trade creditors	(7,966)
Other creditors	(1,567)
Amount due to a related company	(4,957)
Minority interest	1,204
	<u>4,600</u>
Forfeiture of amount due from subsidiaries	773
Realisation of reserves attributable to the disposal of subsidiaries	<u>5,518</u>
	10,891
Loss on disposal of subsidiaries	<u>(201)</u>
	<u>10,690</u>
Satisfied by:	
Other loans	<u>10,690</u>

Analysis of net outflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2000
	<u>HK\$'000</u>
Cash and bank balances disposed of	<u>561</u>

The subsidiaries disposed of during the year contributed nil net operating cash inflows and had no impact in respect of the investing activities, financing activities, net returns in investments and servicing of finance and tax.

The results of the subsidiaries disposed of during the year had no impact on the turnover or the consolidated loss from operating activities for the year ended 31 December 2000.

38. COMMITMENTS

At the balance sheet date, the following capital commitments were outstanding:

(a) Capital commitments

	Group	
	2000	1999
	HK\$'000	HK\$'000
Capital commitments	1,084	–
Capital contributions to:		
Associates	3,218	2,276
Jointly-controlled entities	66,061	65,834
	69,279	68,110
Total capital commitments	70,363	68,110

The company did not have any capital commitments at the balance sheet date.

39. PLEDGES OF ASSETS

At the balance sheet date, the following assets were pledged to secure general banking/loan facilities and the other loans granted to the Group:

- (a) Certain of the Group's leasehold land and buildings situated in Hong Kong and the PRC, with a net book value of approximately HK\$49,865,000 (1999: HK\$10,192,000).
- (b) Certain of the Group's other investments, TCL International Holdings Limited and Shenzhen Huafa Electronics Company Limited, with carrying values of approximately HK\$Nil (1999: HK\$490,550,000) and HK\$Nil (1999: HK\$32,034,000), respectively.
- (c) Certain of the Group's investment properties, with a carrying value of approximately HK\$74,150,000 (1999: HK\$81,000,000).
- (d) Certain of the Group's plant and machinery, with a net book value of approximately HK\$150,744,000 (1999: HK\$163,208,000).

40. CONTINGENT LIABILITIES

At 31 December 2000, contingent liabilities not provided for in the financial statements were as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Guarantees for banking facilities granted to investee companies	<u>–</u>	<u>40,228</u>

The company did not have any contingent liabilities at the balance sheet date.

41. POST BALANCE SHEET EVENTS

- (i) On 18 January 2001, the wholly-owned subsidiary entered into a sales and purchase agreement with an independent third party to disposal of its 100% equity interest in Luxway Management Limited for a cash consideration of approximately HK\$1,600,000.
- (ii) In addition to the matters set out in note 35 to the financial statements, subsequent to the balance sheet date, the shares of the Company have been listed on the Stock Exchange on 4 April 2001.

42. RELATED PARTY TRANSACTIONS

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

		2000	1999
	<i>Notes</i>	HK\$'000	HK\$'000
Jointly-controlled entities:			
Interest income	(i)	<u>18,789</u>	<u>17,180</u>
Investee companies:			
Sales of raw materials	(ii)	505	1,418
Purchases of finished goods	(iii)	1,683	2,627
Purchase of raw materials	(iii)	–	7,954
Loans	(iv)	–	50,800
Interest expense	(iv)	<u>1,979</u>	<u>2,440</u>
Directors:			
Interest expense	(v)	4,256	2,937
Purchase of fixed assets	(vi)	<u>38,500</u>	<u>–</u>
Company beneficially held by a director	(vii)	<u>–</u>	<u>2,299</u>

42. RELATED PARTY TRANSACTIONS (Cont'd)

Details of the Group's loans from/(to) jointly-controlled entities, associates and directors are included in note 19, 20 and 26, respectively, to the financial statements.

Notes:

- (i) Interest income was charged to the Group's jointly-controlled entity for loans advanced to a jointly-controlled entity at 7% per annum.
- (ii) Sales of raw materials to investee companies were charged at cost plus a margin.
- (iii) Purchases of finished goods and raw materials from investee companies and a shareholder of a jointly-controlled entity were made according to the prices negotiated between the parties.
- (iv) Loans advanced from investee company bore interest at the rate of 2% over the Hong Kong prime rate.
- (v) Interest expense was paid to the directors on the amounts due to them at the rate of 2.75% (1999: 2.5%) over the Hong Kong prime rate.
- (vi) The purchase price was determined after arm's length negotiation by reference to independent professional valuation.
- (vii) Interest expense was paid for the guaranteed notes at 12% per annum to C C (Holdings) Limited, in which a director of the Company, Cheng Cheung, has a beneficial interest.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 23 April 2001.