



Notes to the Financial Statements *(Cont'd)*

31 December 2000

21. DUE FROM/(TO) PRC JOINT VENTURE PARTNERS

Included in the amounts due from PRC joint venture partners are secured loans of HK\$2,765,000 which bear interest at approximately 7% per annum and have no fixed terms of repayment. The loans are secured by machinery and equipment of the PRC joint venture partner.

The remaining amounts due from the PRC joint venture partners are unsecured, interest-free and have no fixed terms of repayment.

The amounts due to PRC joint venture partners are unsecured, interest-free and have no fixed terms of repayment.

22. DUE FROM/(TO) MINORITY SHAREHOLDERS OF SUBSIDIARIES

The amount due from a minority shareholder of a subsidiary was unsecured, interest-free and was repaid during the year.

The amount due to a minority shareholder of a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

23. DUE TO IMMEDIATE HOLDING COMPANY

The amount due to immediate holding company was unsecured, interest-free and was repaid during the year.

Notes to Financial Statements (Cont'd)

31 December 2000

24. BANK AND OTHER INTEREST-BEARING BORROWINGS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Bank loans:		
Secured	18,204	17,392
Unsecured	208,291	252,401
	<hr/>	<hr/>
	226,495	269,793
Other loans, unsecured	–	2,818
	<hr/>	<hr/>
	<u>226,495</u>	<u>272,611</u>

The maturities of the above amounts are as follows:

Within one year or on demand	112,677	272,611
In the second year	44,000	–
In the third to fifth years, inclusive	69,818	–
	<hr/>	<hr/>
	226,495	272,611
Portion classified as current liabilities	(112,677)	(272,611)
	<hr/>	<hr/>
Long term portion	<u>113,818</u>	<u>–</u>

The unsecured other loans bore interest at rates ranging from 6% per annum to 7% per annum which was repaid during the year.

As at 31 December 1999, the Group had not complied with certain specific financial covenants under certain loan agreements in respect of credit facilities granted to the Group. Therefore, the relevant portion of the bank borrowings was classified as current liabilities.

As further detailed in note 1, on 22 December 2000, these banks and the Group entered into the TOA pursuant to which repayment of the relevant bank borrowings was rescheduled. Accordingly, the bank borrowings as at 31 December 2000 have been reclassified according to the repayment schedule as contained in the TOA.



Notes to Financial Statements (Cont'd)

31 December 2000

25. SHARE CAPITAL

Shares

	2000 HK\$'000	1999 HK\$'000
Authorised:		
700,000,000 (1999: 700,000,000) ordinary shares of HK\$0.10 each	<u>70,000</u>	<u>70,000</u>
Issued and fully paid:		
524,154,000 (1999: 524,154,000) ordinary shares of HK\$0.10 each	<u>52,415</u>	<u>52,415</u>

There were no changes in the ordinary share capital during the year.

Share options

Pursuant to the share option scheme of the Company adopted on 26 November 1996, the directors may, at their discretion, grant options to any director and/or employee of the Company and its subsidiaries to subscribe for shares in the Company. The maximum number of shares which may be granted under the scheme shall not exceed 10% of the issued share capital of the Company at the time of granting of the option. The subscription price of the option granted under the scheme is the higher of the amount which the directors may, at their discretion, determine to be, but not less than 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of offer of the option or the nominal value of the shares.

Notes to Financial Statements (Cont'd)

31 December 2000

25. SHARE CAPITAL (Cont'd)

Share options (Cont'd)

A summary of the share options granted under the Company's share option scheme is as follows:

Date of grant	Exercise price per share HK\$	Number of share options outstanding			Expiry date
		At 1 January 2000	Cancelled during the year	At 31 December 2000	
15 January 1997	1.3936	12,000,000	(4,700,000)	7,300,000	14 January 2002
27 May 1997	2.2240	3,000,000	(1,000,000)	2,000,000	26 May 2002
24 July 1997	2.1440	4,600,000	–	4,600,000	23 July 2002
		<u>19,600,000</u>	<u>(5,700,000)</u>	<u>13,900,000</u>	

If the expiry date is not a business day, then it will be the close of the business day preceding that date. The exercise in full of the outstanding options would result in the issue of an additional 13,900,000 ordinary shares of the Company of HK\$0.10 each, and cash proceeds before the related issue expenses of approximately HK\$24,484,000.

Notes to Financial Statements (Cont'd)

31 December 2000

26. RESERVES

Group

	Share premium account HK\$'000	General reserve fund HK\$'000 (Note)	Capital redemption reserve HK\$'000	Other reserve fund HK\$'000	Exchange translation reserve HK\$'000	Property revaluation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 1999	412,116	-	445	-	802	45,073	42,533	500,969
Loss for the year	-	-	-	-	-	-	(65,117)	(65,117)
Transfer to general reserve fund	-	-	-	553	-	-	(553)	-
Surplus/(deficit) arising on revaluation of properties attributable to:								
Subsidiaries	-	-	-	-	-	1,244	-	1,244
An associate	-	-	-	-	-	(7,925)	-	(7,925)
Exchange adjustments	-	-	-	-	442	-	-	442
At 31 December 1999 and 1 January 2000	412,116	-	445	553	1,244	38,392	(23,137)	429,613
Loss for the year	-	-	-	-	-	-	(84,550)	(84,550)
Release of goodwill in respect of impairment in value of an investment in a subsidiary	-	12,478	-	-	-	-	-	12,478
Surplus arising on revaluation of properties attributable to subsidiaries	-	-	-	-	-	1,251	-	1,251
Release on disposal of leasehold land and buildings	-	-	-	-	-	(17)	17	-
Exchange adjustments	-	-	-	-	(757)	-	-	(757)
At 31 December 2000	412,116	12,478	445	553	487	39,626	(107,670)	358,035
Reserves retained by:								
Company and subsidiaries	412,116	12,478	445	553	487	37,072	(105,897)	357,254
Associates	-	-	-	-	-	2,554	(1,773)	781
At 31 December 2000	412,116	12,478	445	553	487	39,626	(107,670)	358,035
Company and subsidiaries	412,116	-	445	553	1,215	35,838	(22,329)	427,838
Associates	-	-	-	-	29	2,554	(808)	1,775
At 31 December 1999	412,116	-	445	553	1,244	38,392	(23,137)	429,613

Notes to Financial Statements (Cont'd)

31 December 2000

26. RESERVES (Cont'd)

Company

	Share premium account HK\$'000	General reserve fund HK\$'000 (Note)	Capital redemption reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 1999	412,116	167,746	445	22,852	603,159
Profit for the year	—	—	—	25,872	25,872
At 31 December 1999 and 1 January 2000	412,116	167,746	445	48,724	629,031
Loss for the year	—	—	—	(76,544)	(76,544)
At 31 December 2000	412,116	167,746	445	(27,820)	552,487

Note: The general reserve fund of the Company is an undistributable reserve and shall not be treated as realised profits.

Pursuant to a special resolution passed in the Company's extraordinary general meeting held on 23 January 1998 and confirmed by the Order of the High Court of Hong Kong dated 2 March 1998, the share premium account was reduced by the amount of HK\$34,397,000 and, as undertaken by the Company, a general reserve fund was credited in the books of account of the Company in the same amount for the purpose of setting off, in the consolidated accounts of the Company and its subsidiaries, goodwill arising on consolidation in 1997.

The release of goodwill of HK\$12,478,000 during the year in respect of impairment in value of an investment in a subsidiary is related to the goodwill arising from acquisition of that subsidiary in 1997.

Notes to Financial Statements (Cont'd)

31 December 2000

27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2000 HK\$'000	1999 HK\$'000
Loss from operating activities	(92,196)	(43,753)
Interest income	(8,248)	(7,598)
Depreciation on fixed assets	21,024	21,697
Amortisation of trademarks	2,000	2,000
Deferred bank borrowing costs written off	–	2,016
Provisions for impairment of trademarks	26,000	–
Provisions against loans to an associate	18,767	–
Release of goodwill in respect of impairment in value of an investment in a subsidiary	12,478	–
Provisions for doubtful debts net of recovery from possession of shares in Gastor	35,674	4,564
Provision against inventories	4,669	8,394
Deficit arising on revaluation of properties, net	10,421	3,248
Loss on disposal of fixed assets, net	122	3,445
Decrease in inventories	680	11,328
Decrease in trade receivables	38,660	25,614
(Increase)/decrease in bills receivable	4,320	(4,175)
(Increase)/decrease in prepayments, deposits and other debtors	(2,901)	15,995
Decrease in an amount due from a then minority shareholder of a subsidiary	1,161	1,142
Increase/(decrease) in trade and bills payable	(16,893)	20,728
Increase/(decrease) in accruals and other liabilities	10,101	(2,869)
Decrease in amounts due to PRC joint venture partners	(405)	(186)
Increase/(decrease) in an amount due to a minority shareholder of a subsidiary	(5)	813
Increase/(decrease) in an amount due to immediate holding company	(217)	27
Decrease in trust receipt loans	–	(40,781)
Increase/(decrease) in amounts due to associates	(2,015)	2,048
Net cash inflow from operating activities	63,197	23,697

Notes to Financial Statements (Cont'd)

31 December 2000

27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(b) Analysis of changes in financing during the year

	Share capital HK\$'000	Bank and other loans HK\$'000	Minority interests HK\$'000
At 1 January 1999	52,415	185,653	52,949
Net cash inflow from financing	–	37,285	–
Share of loss for the year	–	–	(1,502)
Share of revaluation surplus of leasehold land and buildings for the year	–	–	185
Share of exchange translation reserve	–	–	26
At 31 December 1999 and 1 January 2000	52,415	222,938	51,658
Net cash outflow from financing	–	(45,489)	–
Exchange realignment	–	(709)	–
Interest in a subsidiary compensated to the Company	–	–	(12,697)
Share of loss for the year	–	–	(29,195)
Share of exchange translation reserve	–	–	(50)
At 31 December 2000	52,415	176,740	9,716

- (c) There were no attributable cash flows during the year in respect of the provisions for impairment in respect of the Group's trademarks, provisions for doubtful debts and inventories, the deficit arising on revaluation of properties and the release of goodwill in respect of an investment in a subsidiary.



Notes to Financial Statements (Cont'd)

31 December 2000

28. COMMITMENTS

(a) Capital commitments

As at 31 December 2000, the Group had outstanding contracted capital commitments in respect of property, plant and equipment amounting to HK\$504,000 (1999: HK\$348,000).

At the balance sheet date, the Company did not have any capital commitments.

(b) Commitments under operating leases

At 31 December 2000, the Group had commitments under non-cancellable operating leases in respect of land and buildings expiring in the following year as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Within one year	807	2,065
In the second to fifth years, inclusive	1,011	1,504
Over five years	–	159
	<u>1,818</u>	<u>3,728</u>

At the balance sheet date, the Company did not have any commitments under operating leases.

- (c) In addition, the Group and the Company had commitments to make annual fee payments to certain of its PRC joint venture partners. The amounts payable by the Group and the Company in the following year amounted to approximately HK\$10,869,000 (1999: HK\$10,853,000) and HK\$10,506,000 (1999: HK\$10,390,000), respectively.

Notes to Financial Statements (Cont'd)

31 December 2000

29. CONTINGENT LIABILITIES

At the balance sheet date, the Company had given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by wholly-owned subsidiaries and non wholly-owned subsidiaries amounted to approximately HK\$215,923,000 (1999: HK\$241,844,000) and HK\$10,572,000 (1999: HK\$18,556,000), respectively.

The Group had no significant contingent liabilities as at the balance sheet date.

30. RELATED PARTY TRANSACTIONS

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

		Group	
		2000	1999
	Notes	HK\$'000	HK\$'000
Annual fee paid to PRC joint venture partners	(a)	10,527	12,195
Interest income from a PRC joint venture partner	(b)	247	374
Compensation of profit guaranteed from minority shareholders of subsidiaries	(c)	–	10,877
Interest income from directors and an officer of the Company	(d)	138	143
Gain on possession of additional interest in a subsidiary from a then minority shareholder as compensation for an uncollectible receivable	(e)	<u>12,697</u>	<u>–</u>

(a) The annual fees paid to PRC joint venture partners are in accordance with the respective Sino-foreign co-operative joint venture agreements. Balances with PRC joint venture partners are set out in note 21.

(b) The interest income from a PRC joint venture partner arose from loans advanced to it. Details of the loans, including the terms, are disclosed in note 21.



Notes to Financial Statements (Cont'd)

31 December 2000

30. RELATED PARTY TRANSACTIONS (Cont'd)

- (c) The compensation on profit guaranteed was calculated in accordance with the agreements relating to the acquisitions of the subsidiaries involved. Pursuant to the acquisition agreements, the minority shareholders guaranteed that the audited consolidated net profit after tax of those subsidiaries would be not less than certain agreed amounts. Balances with these minority shareholders are set out in note 22.
- (d) The interest income from directors and an officer of the Company arose from staff housing loans granted to them for the purchase of their individual main residence, further details of which, including terms, are disclosed in note 20.
- (e) On 16 November 1999, a then minority shareholder of Gastor and the Company entered into a share pledge agreement (the "Share Pledged Agreement"). Pursuant to the Share Pledge Agreement, the then minority shareholder pledged its entire interest in Gastor (the "Pledged Shares") to the Company as security for the collection of trade receivables from a customer of the Group. The Company had right to possess the Pledged Shares if the customer failed to settle the Group's receivable. On 31 December 2000, the Group made full provision for the outstanding balance due from the customer and the Company exercised the right to possess the Pledged Shares valued at HK\$12,697,000 to reduce the provision made. Since that date, Gastor has become a wholly-owned subsidiary of the Company.
- (f) On 1 January 2000, the Company entered into a share allotment and transfer agreement (the "Agreement") with the then minority shareholders of Gastor to rationalise Gastor's organisation structure. Pursuant to the Agreement, the following transactions took place:
 - (i) A minority shareholder transferred its 13.33% interest in Gastor to another minority shareholder; and
 - (ii) Gastor transferred its entire 100% interest in Alpha to the Company and the minority shareholder (which transferred its 13.33% interest in Gastor in transaction (i) above) in proportion of 60% and 40% at considerations of US\$6 and US\$4, respectively.

On the same date, these transactions were completed. The Company's effective equity interests in Gastor and Alpha were not affected as a result of these transactions.



Notes to Financial Statements *(Cont'd)*

31 December 2000

31. CONNECTED TRANSACTIONS

In addition to the transactions detailed in note 30 above, additional connected transactions disclosed in accordance with Chapter 14 of the Listing Rules are as follows:

- (a) The immediate holding company, Guangdong Investment Limited, executed a guarantee in favour of a bank for credit facilities granted to the Group, and the extent of such facilities utilised by the Group at 31 December 2000 amounted to HK\$11,445,000 (1999: HK\$11,424,000). The guarantee fee charged by the immediate holding company during the year in respect of this guarantee was HK\$28,663, which is based on 0.25% of guarantee amount given to the bank.
- (b) The Company executed bank guarantees for banking facilities granted to Fonno, a 60% owned subsidiary. The extent of such facilities utilised by Fonno as at 31 December 2000 amounted to HK\$10,572,000.
- (c) At the balance sheet date, the Group advanced an aggregate of HK\$3,609,000 to Fonno to finance its operations. The balances are unsecured, interest-free and have no fixed terms of repayment.

32. PLEDGE OF ASSETS

At 31 December 2000, certain of the Group's leasehold land and buildings, investment properties and bank deposits with a total net book value of HK\$62,653,000 (1999: HK\$43,153,000) were pledged to secure general banking facilities granted to the Group.

Included in the above net book value of the pledged assets is an amount of HK\$8,604,000 (1999: HK\$12,570,000) related to pledged leasehold land and buildings.



Notes to Financial Statements *(Cont'd)*

31 December 2000

33. POST BALANCE SHEET EVENTS

- (a) In February 2001, Guangdong Enterprises (North America) Fur Holdings Limited ("GDNA") and Harbour Hill International Limited ("HHI"), wholly-owned subsidiaries of the Company, filed legal suit against Hennessy International Group Inc. ("HIGI", an associate of the Group) and others, including one of HIGI's shareholders (the "HIGI Shareholder") on account of a loan advanced by GDNA and HHI to HIGI amounting to US\$2.25 million which is guaranteed by the HIGI Shareholder. The HIGI Shareholder also brought a counterclaim against the Group for alleged breach of a shareholders' agreement of HIGI for US\$2 million.

The court has conducted a pre-trial status conference, and set a discovery schedule. Both GDNA and HHI are contesting the counterclaim.

Based on legal advice, the Directors are of the opinion that, at this stage of the proceedings, it is too early to comment on the likelihood of the outcome and consider that there would not have any significant financial impact at this stage.

- (b) On 9 March 2001, Chapel Hill Developments Limited ("Chapel Hill", a wholly-owned subsidiary of the Company), which holds the Group's trademarks, entered into a licence agreement with an independent third party for licensing its trademarks for two years at HK\$2,000,000 per annum. On 9 April 2001, the Group also entered into a conditional sale and purchase agreement with that independent third party regarding the disposal of the Group's 25% equity interest in Chapel Hill at a consideration of HK\$8,250,000.
- (c) On 12 March 2001, a PRC bank agreed to renew credit facilities of RMB100,000,000 currently granted to a wholly owned subsidiary of the Company for 2 years. As at the balance sheet date, the Group had utilised RMB31,000,000 of the facilities.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 20 April 2001.