



Notes to Financial Statements *(Cont'd)*

31 December 2001

28. PROVISIONS

Group

Compensation payments HK\$'000

At 1 January 2001 –

Provision and at 31 December 2001 3,000

In respect of the Group's decision in August 2001 to curtail the operations of a subsidiary in Mainland China due to its continuing losses, the fixed assets of the subsidiary mainly representing plant and machinery for the production of leather with a carrying value amounting to HK\$8,559,000 were impaired. In addition, a compensation of HK\$3,000,000 has been accrued at the year end which comprised HK\$2,000,000 redundancy payment to the subsidiary workers and HK\$1,000,000 compensation to the PRC joint venture partner for the early termination of joint venture agreement. The amounts of the provisions for the compensation payments are estimated based on the relevant employment contracts and the guaranteed returns to the PRC joint venture partner, respectively, which are expected to be paid in the following year.

29. SHARE CAPITAL

Shares

	2001 HK\$'000	2000 HK\$'000
Authorised:		
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 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.



Notes to Financial Statements (Cont'd)

31 December 2001

29. SHARE CAPITAL (Cont'd)

Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share Option Scheme" in the Report of the Directors on page 24.

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 2001	Cancelled during the year	At 31 December 2001	
15 January 1997	1.3936	7,300,000	(2,900,000)	4,400,000	14 January 2002
27 May 1997	2.2240	2,000,000	–	2,000,000	26 May 2002
24 July 1997	2.1440	4,600,000	(4,600,000)	–	23 July 2002
		<u>13,900,000</u>	<u>(7,500,000)</u>	<u>6,400,000</u>	

During the year, share options with the right to subscribe for 7,500,000 shares of HK\$0.10 each of the Company were cancelled upon the resignation of the holders who were employees of the Group.

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 6,400,000 ordinary shares of the Company of HK\$0.10 each, and cash proceeds before the related issue expenses of approximately HK\$10,580,000.

Subsequent to the balance sheet date and up to the date of the financial statements as approved by the board of directors, 4,400,000 share options were cancelled upon expiration.



Notes to Financial Statements (Cont'd)

31 December 2001

30. 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	Accumulated losses HK\$'000	Total HK\$'000
At 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 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 and 1 January 2001	412,116	12,478	445	553	487	39,626	(107,670)	358,035
Loss for the year	-	-	-	-	-	-	(72,283)	(72,283)
Release of goodwill in respect of impairment of an investment in a subsidiary	-	21,919	-	-	-	-	-	21,919
Deficit arising on revaluation of properties attributable to subsidiaries	-	-	-	-	-	(1,448)	-	(1,448)
Release on disposal of leasehold land and buildings	-	-	-	-	-	(1)	1	-
Release of revaluation reserve arising from impairment of an investment in an associate	-	-	-	-	-	(2,554)	-	(2,554)
Exchange adjustments	-	-	-	-	292	-	-	292
At 31 December 2001	412,116	34,397	445	553	779	35,623	(179,952)	303,961
Reserves retained by:								
Company and subsidiaries	412,116	34,397	445	553	786	35,623	(178,025)	305,895
Associates	-	-	-	-	(7)	-	(1,927)	(1,934)
At 31 December 2001	412,116	34,397	445	553	779	35,623	(179,952)	303,961
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



Notes to Financial Statements *(Cont'd)*

31 December 2001

30. RESERVES (Cont'd)

Company

	Share premium account <i>HK\$'000</i>	General reserve fund <i>HK\$'000</i> <i>(Note)</i>	Capital redemption reserve <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2000	412,116	167,746	445	48,724	629,031
Loss for the year	—	—	—	(76,544)	(76,544)
At 31 December 2000 and 1 January 2001	412,116	167,746	445	(27,820)	552,487
Loss for the year	—	—	—	(119,695)	(119,695)
At 31 December 2001	<u>412,116</u>	<u>167,746</u>	<u>445</u>	<u>(147,515)</u>	<u>432,792</u>

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

On 25 November 1996, a court order confirming the reduction of the share premium account by HK\$133,349,000 was registered by the Registrar of Companies in Hong Kong and the credit arising therefrom was transferred to the other reserve account against which goodwill arising on the acquisition of a subsidiary company was eliminated in the consolidated financial statements.

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\$21,919,000 (2000: HK\$12,478,000) during the year in respect of impairment of an investment in a subsidiary relates to the goodwill arising from acquisition of that subsidiary in 1997 (note 14 to the financial statements for details).



Notes to Financial Statements *(Cont'd)*

31 December 2001

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2001 HK\$'000	2000 HK\$'000
Loss from operating activities	(62,571)	(92,196)
Interest income	(2,290)	(8,248)
Depreciation on fixed assets	20,542	21,024
Amortisation of trademarks	1,400	2,000
Provision for impairment of trademarks	4,100	26,000
Provision for impairment of fixed assets	19,417	–
Impairment of an investment in an associate	907	–
Provision against loans to an associate	4,716	18,767
Release of goodwill in respect of impairment of an investment in a subsidiary	21,919	12,478
Provisions for doubtful debts, net	1,598	35,674
Provisions against inventories	10,872	4,669
Deficit arising on revaluation of properties, net	19,169	10,421
Write-off of fixed assets	1,109	–
Loss on disposal of fixed assets, net	247	122
Decrease in inventories	19,386	680
Decrease in trade receivables	2,972	38,660
Decrease in bills receivable	1,170	4,320
(Increase)/decrease in prepayments, deposits and other debtors	4,854	(2,901)
Decrease in an amount due from a then minority shareholder of a subsidiary	–	1,161
Increase in an amount due from a fellow subsidiary	(196)	–
Increase in provisions	3,000	–
Decrease in trust receipt loans	(21,909)	–
Decrease in trade and bills payables	(30,740)	(16,302)
Increase/(decrease) in accruals and other liabilities	(215)	10,101
Decrease in amounts due to PRC joint venture partners	(161)	(405)
Decrease in an amount due to a minority shareholder of a subsidiary	(310)	(5)
Decrease in an amount due to immediate holding company	–	(217)
Decrease in an amount due to an associate	(33)	(2,015)
Net cash inflow from operating activities	18,953	63,788



Notes to Financial Statements (Cont'd)

31 December 2001

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

(b) Analysis of changes in financing during the year

	Issued capital HK\$'000	Bank borrowings HK\$'000	Minority interests HK\$'000
At 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 and 1 January 2001	52,415	176,740	9,716
Net cash outflow from financing	–	(44,257)	–
Exchange realignment	–	451	–
Share of loss for the year	–	–	(5,575)
Share of exchange translation reserve	–	–	30
At 31 December 2001	52,415	132,934	4,171

(c) Major non-cash transactions

- (i) There were no attributable cash flows during the year in respect of the provisions for impairment in respect of the Group's trademarks and fixed assets, the provisions for doubtful debts and inventories, the deficit arising on revaluation of properties, the provision for impairment of an associate and the release of goodwill in respect of impairment of a subsidiary.
- (ii) The Group agreed to assign a receivable from a customer of HK\$40,874,000, of which full provision was made in prior year, by instalments to an independent third party for a consideration of HK\$302 as a result of a conditional sale and purchase agreement entered into between the Group and the independent third party dated



Notes to Financial Statements *(Cont'd)*

31 December 2001

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

(c) Major non-cash transactions (Cont'd)

(ii) (Cont'd)

9 April 2001 in connection with the Group's disposal of a 25% interest in Chapel Hill Development Limited ("Chapel Hill", a wholly-owned subsidiary of the Company). Chapel Hill holds the Group's trademarks and the customer used to be the sole distributor of leather ware products in Mainland China using the Group's trademarks. During the year, the Group assigned its receivable amounting to HK\$13,625,000 from the customer to the independent third party.

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group and the Company lease investment properties (note 12 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 4 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2001, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with their tenants falling due as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year	1,613	806	954	—
In the second to fifth years, inclusive	960	1,380	260	—
	<u>2,573</u>	<u>2,186</u>	<u>1,214</u>	<u>—</u>



Notes to Financial Statements (Cont'd)

31 December 2001

32. OPERATING LEASE ARRANGEMENTS (Cont'd)

(b) As lessee

The Group and the Company lease certain of their office properties and retail units under operating lease arrangements. Leases for properties and retail units are negotiated for terms arranging from 1 to 2 years, whereby certain leases for retail units are calculated at the higher of certain percentage of the monthly sale or monthly minimum lease payment. The contingent rent payments are the portion exceed the minimum lease payment.

At 31 December 2001, the Group and the Company had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	Group HK\$'000	Company HK\$'000
Within one year	5,285	916
In the second to fifth years, inclusive	1,352	153
	<hr/>	<hr/>
	6,637	1,069
	<hr/>	<hr/>

At 31 December 2001, the Group and the Company had total future minimum sublease payments expected to be recorded under a non-cancellable sublease amounting to HK\$287,000 (2000: Nil).

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required.

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:



Notes to Financial Statements *(Cont'd)*

31 December 2001

32. OPERATING LEASE ARRANGEMENTS (Cont'd)

(b) As lessee (Cont'd)

	Group HK\$'000
Within one year	807
In the second to fifth years, inclusive	1,011
	<hr/> 1,818 <hr/>

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

33. COMMITMENTS

(a) Capital commitments

In addition to the operating lease commitments detailed in note 32(b) above, the Group had outstanding contracted capital commitments in respect of property, plant and equipment amounting to HK\$259,000 (2000: HK\$504,000).

At the balance sheet date, the Company did not have any capital commitments (2000: Nil).

- (b) 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 HK\$808,000 (2000: HK\$10,869,000) and HK\$471,000 (2000: HK\$10,506,000), respectively.

34. CONTINGENT LIABILITIES

- (a) In January 2001, Guangdong Enterprises (North America) Fur Holdings Limited ("GDNA") and Harbour Hill International Limited ("Harbour Hill"), wholly-owned subsidiaries of the Company, commenced an action in the Southern District of New York against a company called Hennessy International Group, Inc. ("HIGI") and its owners/controllers. HIGI is one-third held by GDNA and is an associate of the Group. GDNA and Harbour Hill are



Notes to Financial Statements *(Cont'd)*

31 December 2001

34. CONTINGENT LIABILITIES (Cont'd)

(a) (Cont'd)

attempting to recover from the corporate defendant and the individual defendants approximately US\$2.25 million in financing that GDNA and Harbour Hill provided to HIGI. Defendants have counterclaimed for US\$2 million amount, claiming that GDNA and Harbour Hill wrongly terminated HIGI's financing. Both plaintiffs and defendants are moving for summary judgment, which motions have been fully submitted to the court by 8 March 2002.

The Directors, based on legal advice, do not believe there is a strong reason for any claim brought against the Group. Accordingly, no provision was made in respect thereof as at 31 December 2001.

- (b) 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 HK\$154,679,000 (2000: HK\$215,923,000) and HK\$6,100,000 (2000: HK\$10,572,000), respectively.

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

35. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

		Group	
		2001	2000
	Notes	HK\$'000	HK\$'000
Annual fee paid to PRC joint venture partners	(a)	10,735	10,527
Interest income from a PRC joint venture partner	(b)	84	247
Interest income from directors and an officer of the Company	(c)	80	138
Gain arising on the possession of an additional interest in a subsidiary from a then minority shareholder as compensation for an uncollectible receivable	(d)	—	12,697
Office rental paid to a fellow subsidiary	(e)	660	—



Notes to Financial Statements (Cont'd)

31 December 2001

35. RELATED PARTY TRANSACTIONS (Cont'd)

Notes:

- (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 and the details of nature of transactions are disclosed in notes 24 and 15, respectively, to the financial statements.
- (b) The interest income from a PRC joint venture partner arose from loans advanced to it. Further details of the loans, including the terms, are disclosed in note 24 to the financial statements.
- (c) 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 23 to the financial statements.
- (d) 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 Pledged 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 receivable due to the Group. 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 been a wholly-owned subsidiary of the Company.
- (e) Office rental is charged by a fellow subsidiary at approximately HK\$73,000 per month in accordance with the terms of a rental agreement between the Company and a fellow subsidiary. Further details of the balance, including the terms, are disclosed in note 25 to the financial statements.

36. CONNECTED TRANSACTIONS

In addition to the transactions detailed in note 35 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 2001 amounted to HK\$5,321,000 (2000: HK\$11,445,000). The guarantee fee charged by the immediate holding company during the year in respect of this guarantee was HK\$32,330, which is based on 0.2375% of the 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 2001 amounted to HK\$6,100,000 (2000: HK\$10,572,000).
- (c) At balance sheet date, the Group advanced an aggregate amount of HK\$1,490,000 (2000: HK\$3,609,000) to Fonno to finance its operations. The balances are unsecured, interest-free and have no fixed terms of repayment.



Notes to Financial Statements *(Cont'd)*

31 December 2001

37. PLEDGE OF ASSETS

At 31 December 2001, certain of the Group's leasehold land and buildings, investment properties and bank deposits with a total net book value of HK\$31,162,000 (2000: HK\$62,653,000) 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\$4,581,000 (2000: HK\$8,604,000) related to pledged leasehold land and buildings.

38. POST BALANCE SHEET EVENTS

- (a) On 30 January 2002, the Group utilised a bank loan facility amounting to HK\$50,000,000 granted by a bank on 24 January 2002 to discharge the outstanding non-PRC bank debts prescribed in the TOA. This bank loan, which is secured by certain amount of debt securities held by an intermediate holding company of the Company, is repayable by six equal semi-annual instalments commencing on 30 June 2002, at nil consideration.

On the following day, 31 January 2002, the Group repaid the entire outstanding non-PRC bank debts prescribed in the TOA which amounted to approximately HK\$108,000,000 as at 31 December 2001 under the TOA by the above new bank loan of HK\$50,000,000 and the Group's internal resources. The TOA was then terminated and all the provisions prescribed in the TOA were released.

- (b) In January 2002, Shenzhen Guangdong Hotel Enterprise Ltd. and Yue Hai Hotel Zhuhai, fellow subsidiaries of the Company, pursuant to entrusted loan agreements, advanced unsecured loans to the Group of RMB8,000,000 and RMB12,000,000, respectively, to partially refinance the PRC bank loans outstanding as at 31 December 2001. The loans of RMB8,000,000 and RMB12,000,000 bear interest at 4.2% per annum and are repayable in September 2002 and January 2003, respectively.
- (c) From February to April 2002, Guangdong Investment Limited, the immediate holding company of the Company, advanced unsecured loans amounting in aggregate to RMB61,000,000 to refinance the remaining PRC bank loans as at 31 December 2001. The loans bear interest at 3.8% per annum and are repayable in November 2002. The charge on the investment property of net book value of HK\$8,760,000 after the repayment of the PRC bank loans was then released.
- (d) In April 2002, the Group borrowed two new bank loans from a PRC bank amounting in aggregate to RMB36,000,000 to partially repay the loans advanced from Guangdong Investment Limited. The two loans are secured by certain leasehold land and buildings of net book value of HK\$88,000,000 and are repayable within one year.



Notes to Financial Statements *(Cont'd)*

31 December 2001

38. POST BALANCE SHEET EVENTS (Cont'd)

- (e) On 28 January 2002, a bank agreed to provide banking facilities of US\$5,000,000 to the Group for one year whereby the Group is required to place at least a 30% deposit for any application of facilities.
- (f) In January 2002, the Group entered into two sale and purchase agreements with the liquidation committees, which were set up by order of the court, to handle the liquidation related matters of the PRC joint venture partners of Xuzhou Tannery and Xuzhou Gangwei, for the purchase of their plant and machinery at consideration totalling RMB13,000,000.
- (g) In February and April 2002, the Group entered into several provisional sale and purchase agreements with independent third parties for the disposal of certain leasehold land and buildings and investment properties at cash consideration of HK\$7,850,000 and HK\$8,950,000, respectively. These disposals have not yet completed on the date when these financial statements was approved and authorised by the directors for issue. However, they would not result in any significant gain or loss to the Group.

39. COMPARATIVE AMOUNTS

In addition to the reclassifications of prior year balances to better reflect the underlying nature of the transactions detailed in note 6, the time deposits with original maturity of less than three months when acquired, pledged as security for letter of credit facilities were classified as an outflow from investing activities in the consolidated cash flow statement in the prior year, have now been reclassified under cash and cash equivalents in the current year, in accordance with the Interpretation 8 issued by the Hong Kong Society of Accountants.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12 April 2002.