

1. COMPANY ORGANISATION AND OPERATIONS

Compass Pacific Holdings Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company is an investment holding company and its subsidiaries are mainly engaged in the operation of indoor game centres and the manufacture and sale of automobile axles. The directors consider Daiweldo Group Limited (“DWD”), a company incorporated in the British Virgin Islands to be the ultimate holding company.

On 21st July, 2000, the Company announced the sale of 53,438,000 existing shares of HK\$0.10 each of the Company at a price of HK\$0.30 per share (the “Placing”) by Brilliance China Automotive Holdings Limited (“Brilliance”) to an independent third party and at the same time the subscription for 80,592,000 new shares of HK\$0.10 each of the Company at a price of HK\$0.30 per share (the “Subscription”) by Brilliance. On completion of the Placing and Subscription, the Company raised approximately HK\$24.2 million before expenses. The Placing and the Subscription represented approximately 13.26% and 16.66% of the enlarged issued share capital of the Company. Brilliance, on completion of the Placing and the Subscription, continued to hold approximately 33.69% of the enlarged issued share capital of the Company. The Placing and the Subscription were completed on 4th August, 2000.

On 30th August, 2000, the Company announced the subscription of 780,000,000 new shares of HK\$0.10 each of the Company at a price of HK\$0.30 per share totalling HK\$234,000,000 by DWD (a party acting in concert with Brilliance). DWD is wholly-owned by DWD Foundation Ltd., which is wholly and beneficially owned by certain directors of the Company (the “Management”). Upon completion of the subscription on 5th October, 2000, DWD held approximately 61.73% of the enlarged share capital of the Company. DWD and parties acting in concert with it were interested in a total of 942,951,000 shares representing approximately 74.62% of the issued share capital of the Company as enlarged by the subscription shares. Under Rule 26 of the Takeover Code, DWD was required to make an unconditional general offer (the “general offer”) for all the issued shares (other than those already owned or subscribed by it or any parties acting in concert with it) and outstanding options (other than those held by the Management). The basis for the general offer was an unconditional cash offer of HK\$0.30 per share for offer shares and an unconditional cash offer of HK\$0.01 per offer option. On 30th October, 2000, the general offer was completed under which DWD has received two valid acceptance in respect of 304,400 shares, representing 0.02% of the issued share capital of the Company. At completion of the general offer, DWD and Brilliance were interested in 780,304,400 shares and 162,951,000 shares, representing 61.75% and 12.90% of the issued share capital of the Company respectively.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. COMPANY ORGANISATION AND OPERATIONS *(Cont'd)*

On 22nd January, 2001, DWD disposed of 50,000,000 shares to an independent third party.

Pursuant to a special resolution passed on 5th October, 2000, the Company has changed its name from Whimsy Entertainment Co., Limited to Compass Pacific Holdings Limited with effect from 12th October, 2000.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:

(a) Basis of consolidation

The financial statements are prepared under the historical cost convention, as modified by the revaluation of investment properties, and in accordance with Hong Kong Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and the accounting principles generally accepted in Hong Kong.

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries for the year ended 31st December, 2000. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intra-group transactions and balances have been eliminated on consolidation.

(b) Subsidiaries

A company is a subsidiary company if more than 50% of the issued voting capital is held long-term, directly or indirectly. Investments in subsidiaries are carried at cost less provision for impairment in value, where considered necessary by the directors. The results of the subsidiaries are included in the Company's income statement to the extent of dividends declared by the subsidiaries.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Joint ventures

The Group's investments in joint ventures in the People's Republic of China ("PRC") are in the form of Sino-foreign co-operative or Sino-foreign equity joint ventures. For Sino-foreign co-operative joint ventures, the partners' profit-sharing ratios and share of net assets upon the expiration of the joint venture years may not be in proportion to their equity ratio but are as defined in the respective joint venture contracts. For Sino-foreign equity joint ventures, the partners' profit-sharing ratios and share of net assets upon the expiration of the joint venture years are in proportion to their equity contribution ratio.

Where the Group's investments are made in the form of jointly controlled joint ventures, such investments are accounted for using the equity method in the Group's consolidated financial statements. A jointly controlled joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control over the economic activity.

In the Company's financial statements, the Company's interests in jointly controlled joint ventures are included as long-term investments and are stated at costs less provision for impairment in value. Results of jointly controlled joint ventures are accounted for by the Company on the basis of dividends received and receivable.

Investments made by means of joint venture structures which do not result in the Group having joint control with other ventures are accounted for as subsidiaries where the Group controls the board of directors or equivalent governing body and/or is in a position to exercise control over the financial and operating policies of the joint venture.

(d) Turnover

Turnover represents revenues from games, rides and other amusement facilities, and gross invoiced sale of automobile components, net of discounts and returns.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other revenues are recognised on the following bases:

(i) *Revenues from games, rides and other amusement facilities*

Revenues from games, rides and other amusement facilities is recognised upon the sale of token to customers.

(ii) *Sale of automobile components*

Sale of automobile components are recognised when the significant risks and rewards of ownership of the goods have been transferred to customers.

(iii) *Interest income*

Interest income from bank and other deposits is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

(f) Fixed assets and depreciation

Fixed assets, other than investment property, are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the year 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 the fixed asset.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Fixed assets and depreciation (Cont'd)

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost of each asset over its expected useful life. The annual rates are as follows:

Land use rights and buildings	Over the term of the lease or 50 years, whichever is shorter
Leasehold improvements, fixture and fittings and furniture and equipment	Over the terms of the leases or estimated useful lives, ranging from 5 years to 10 years, whichever is shorter
Game equipment	20%
Machinery	10%
Motor vehicles	20% to 25%

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the financial statements and any gain or loss resulting from their disposals is included in the income statement.

A write-down will be made if the recoverable amount of fixed assets is below the carrying amount. The write-down will be charged to the income statement as expense unless it reverses a previous revaluation increase, in which case, it is charged directly against any related revaluation reserve to the extent that the reduction does not exceed the amount held in the revaluation reserve in respect of the same item.

A subsequent increase in the recoverable amount of an asset carried at depreciated cost is written back when the circumstances that led to the write down cease to exist. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down not occurred.

(g) Investment property

Investment property is an interest in land and building in respect of which construction work and development have been completed and which are held for their investment potential and for the long-term.

Investment property is included in the balance sheet at its open market value, on the basis of an annual valuation by professionally qualified executives of the company and by independent valuers at intervals of not more than three years. Changes in the value of investment property are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a reduction in the open market value on a portfolio basis, the excess is charged to the income statement.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(g) Investment property (Cont'd)

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the property revaluation reserve to the income statement as part of the profit or loss on disposal of the investment property.

No depreciation is provided on investment property unless the unexpired lease term is 20 years or less, in which case depreciation is provided on their carrying value over the unexpired lease term.

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is based on the first-in, first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price or redemption value in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold or used for redemption, the carrying amount of those inventories is recognised as an expense in the year in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the year the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(j) Foreign currencies

Companies within the Group maintain their books and records in the primary currencies of their operations ("respective functional currencies").

In the financial statements of the individual companies, monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of the companies with functional currency other than Hong Kong dollars are translated into Hong Kong dollars using the closing rate method whereby assets and liabilities are translated at the applicable rates of exchange in effect at the balance sheet date. Income and expenses are translated at the average exchange rates of the year. Share capital and other reserves are translated into Hong Kong dollars at historical rates. Any resulting exchange differences arising on consolidation are recorded in the translation reserve.

(k) Operating leases

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

(l) Borrowing costs

Borrowing costs are recognised as an expense in the year incurred.

(m) Related parties

Related parties are those parties which have 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.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(n) Retirement benefit scheme

The costs of employee retirement benefits are recognised as an expense in the period in which they are incurred.

3. TURNOVER

Revenues recognised during the year were as follows:

	2000 HK\$'000	1999 HK\$'000
(a) From continuing operations:		
Turnover		
Revenues from games, rides and other amusement facilities	18,166	18,027
Sale of automobile components	13,836	23,198
	32,002	41,225
Other revenues		
Interest income	3,293	201
Miscellaneous	753	460
	4,046	661
Total revenues	36,048	41,886

3. TURNOVER (Cont'd)

	2000	1999
	HK\$'000	HK\$'000
(b) From discontinued operations:		
Turnover		
Revenues from games, rides and other amusement facilities	–	15,832
Other revenues		
Write-back of net liabilities of subsidiaries under liquidation	813	29,772
Miscellaneous	–	1,532
	<u>813</u>	<u>31,304</u>
Total revenues	<u>813</u>	<u>47,136</u>

On 18th July, 2000, the directors of Cyber World Company Limited ("CWCL"), a 51%-owned subsidiary of the Company, passed a resolution to wind up CWCL on the basis that CWCL could not, by reason of its liabilities, continue its business. On 15th August, 2000, Kennic Lai Hang Lui and Leung Mun Yee, Ruby, both of Kennic L. H. Lui & Co., were appointed as the Joint and Several Liquidators of CWCL. As a result, the net liabilities of approximately HK\$813,000 of CWCL previously taken up by the Group were written back to other revenues during the year. In 1999, certain subsidiaries of the Group were under liquidation and the net liabilities approximately HK\$29,772,000 of these subsidiaries previously taken up by the Group were written back to other revenues.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. TURNOVER (Cont'd)

An analysis of the Group's turnover and contribution to loss before taxation for the year by principal activities and principal markets was as follows:

	Turnover		Contribution to loss before taxation	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Principal activities:				
Operation of indoor game centres	18,166	33,859	(8,072)	(16,201)
Manufacture and sale of automobile axles	13,836	23,198	2,680	5,546
Investment holding	-	-	(10,207)	-
	<u>32,002</u>	<u>57,057</u>	<u>(15,599)</u>	<u>(10,655)</u>
Principal markets:				
PRC	32,002	41,225	(5,392)	(6,701)
Hong Kong	-	15,832	(10,207)	(3,954)
	<u>32,002</u>	<u>57,057</u>	<u>(15,599)</u>	<u>(10,655)</u>

The Group's operation in Hong Kong has changed from the operation of indoor game centres to investment holding.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. OPERATING LOSS BEFORE TAXATION

Loss before taxation in the consolidated income statement was determined after charging or crediting the following items:

	2000	1999
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
After charging:		
Staff costs (including directors' emoluments)	10,034	12,469
Auditors' remuneration	500	500
Depreciation	12,822	15,008
Revaluation deficit on investment property	1,417	–
Interest expense	3,690	4,049
Loss on disposal of fixed assets	–	1,888
Operating lease rentals in respect of rented premises	5,722	18,304
Pension costs:		
Hong Kong	11	74
PRC	486	411
Assumption of liabilities as a result of guarantees provided to a liquidated subsidiary		
Provision for costs of redemption	–	1,024
Provision for doubtful debts	–	3,124
Provision for impairment in value of trademarks	–	4,332
Realisation of translation reserve	–	3,494
	<u> </u>	<u> </u>
After crediting:		
Gain on disposal of fixed assets	51	–
Interest income from bank deposits	3,198	216
Interest income from a related company	95	–
Write-back of net liabilities of subsidiaries under liquidation (Note 3b)	813	29,772
	<u> </u>	<u> </u>

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. OPERATING LOSS BEFORE TAXATION (Cont'd)

(a) Interest expense

	2000	1999
	HK\$'000	HK\$'000
Interest on bank loans and other borrowings:		
Wholly repayable within five years	–	504
Not wholly repayable within five years	234	59
Interest on loan from a former shareholder	1,304	1,424
Interest on loan from a shareholder	2,089	1,946
Interest on loan from a former related company	63	116
	<u>3,690</u>	<u>4,049</u>

5. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

	2000	1999
	HK\$'000	HK\$'000
Directors		
The directors' emoluments for the year are analysed as follows:		
Fees:		
Executive	–	–
Independent non-executive	120	–
	<u>120</u>	<u>–</u>
Other emoluments - executive directors		
Salaries and other benefits in kind	1,663	563
Pension contribution	2	4
Bonus paid and payable	–	–
	<u>1,665</u>	<u>567</u>
	<u>1,785</u>	<u>567</u>

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (Cont'd)

Emoluments of the directors were within the following band:

	Number of directors	
	2000	1999
Up to HK\$1,000,000	<u>12</u>	<u>15</u>

During the year, no director waived or agreed to waive any emoluments.

Employees

The five highest paid individuals of the Group included two (1999 : one) directors, details of whose remuneration are set out above. The remuneration of the remaining three (1999 : four) highest paid employees during the year was as follows:

	2000	1999
	HK\$'000	HK\$'000
Salaries and other benefits in kind	1,230	1,459
Pension contribution	3	–
Bonus paid and payable	<u>–</u>	<u>–</u>
	<u>1,233</u>	<u>1,459</u>

Benefits in kind represents the estimated monetary value of accommodation and other benefits provided to the directors and employees of the Company.

Remuneration of these employees was within the following band:

	Number of directors	
	2000	1999
Up to HK\$1,000,000	<u>3</u>	<u>4</u>

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join the Company or as compensation for loss of office.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the companies within the Group incurred tax losses for the year.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

Details of the provision for taxation are as follows:

	2000 HK\$'000	1999 HK\$'000
Write-back of deferred taxation	-	(526)
Tax refund	-	(7)
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
	-	(533)

7. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Approximately HK\$9,918,000 (1999 : HK\$9,126,000) of the consolidated loss attributable to shareholders was dealt with in the financial statements of the Company.

8. DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31st December, 2000 (1999: Nil) and the Company has not paid any interim dividend during the year under review.

9. LOSS PER SHARE

The calculation of loss per share is based on the loss attributable to shareholders of HK\$16,912,000 (1999 : HK\$12,524,000) and on the weighted average number of 625,153,869 (1999 : 397,918,762) ordinary shares in issue during the year.

No diluted loss per share has been presented as the effect of the potential ordinary shares outstanding is anti-dilutive.

10. INVESTMENT PROPERTY

	2000	1999
	HK\$'000	HK\$'000
Transfer from fixed assets, at net book value	4,217	–
Deficit on revaluation	<u>(1,417)</u>	<u>–</u>
	<u>2,800</u>	<u>–</u>
Revalued balance	<u>2,800</u>	<u>–</u>

The investment property was revalued as at 31st December, 2000 by Chesterton Petty Ltd., an independent firm of professional chartered surveyors, on an open market value and a vacant possession basis.

As at 31st December, 2000, the investment property was vacant.

Details of the investment property are as follows:

Description	Approximate gross area	Type
Units A, B & C on 23rd Floor No. 77 Sheung On Street Chai Wan, Hong Kong	386 sq. meters	Office building

The investment property is mortgaged as collateral for the long-term borrowing of the Group (see Note 19).

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. FIXED ASSETS

The movements in fixed assets of the Group for the year were as follows:

	2000						1999	
	Leasehold							
	Land use improvements,							
	rights and	fixture and	Furniture and	Game	Machinery	Motor	Total	Total
	Building	fittings	equipment	equipment		vehicles		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost								
Beginning of year	11,855	14,514	1,422	55,950	5,641	1,958	91,340	242,424
Additions	-	1,900	325	4,934	29	1,163	8,351	18,966
Transfer to investment								
property	(4,288)	-	-	-	-	-	(4,288)	-
Disposal	-	-	-	(82)	-	(218)	(300)	(176,297)
Translation adjustment	-	-	-	-	-	-	-	6,247
End of year	<u>7,567</u>	<u>16,414</u>	<u>1,747</u>	<u>60,802</u>	<u>5,670</u>	<u>2,903</u>	<u>95,103</u>	<u>91,340</u>
Accumulated depreciation								
Beginning of year	329	12,077	727	47,098	54	954	61,239	206,315
Charge for the year	386	1,304	550	9,553	609	420	12,822	15,008
Transfer to investment								
property	(71)	-	-	-	-	-	(71)	-
Written back on disposal	-	-	-	(68)	-	(173)	(241)	(164,321)
Translation adjustment	-	-	-	-	-	-	-	4,237
End of year	<u>644</u>	<u>13,381</u>	<u>1,277</u>	<u>56,583</u>	<u>663</u>	<u>1,201</u>	<u>73,749</u>	<u>61,239</u>
Net book value								
End of year	<u>6,923</u>	<u>3,033</u>	<u>470</u>	<u>4,219</u>	<u>5,007</u>	<u>1,702</u>	<u>21,354</u>	<u>30,101</u>
Beginning of year	<u>11,526</u>	<u>2,437</u>	<u>695</u>	<u>8,852</u>	<u>5,587</u>	<u>1,004</u>	<u>30,101</u>	<u>36,109</u>

All the land use rights of the Group are related to land located in the PRC where no individual land ownership rights exist.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

12. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	94,802	94,802
Amounts due from subsidiaries	177,671	136,978
Less : Provision for impairment and doubtful debts	(115,199)	(116,430)
	<u>157,274</u>	<u>115,350</u>

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.

The directors are of the opinion that the underlying value of the subsidiaries is not less than their carrying value as at 31st December, 2000.

Details of the Company's subsidiaries as at 31st December, 2000 are as follows:

Name of subsidiary	Place of incorporation and principal operations	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			directly	indirectly	
			%	%	
Bluebell Fields Limited	British Virgin Islands	Ordinary US\$ 1	100	-	Inactive
Bright Skies Limited	British Virgin Islands	Ordinary US\$ 1	100	-	Investment holding
Dawes Investments Limited	British Virgin Islands	Ordinary US\$ 1	-	100	Inactive
Hemsby Investments Limited	British Virgin Islands	Ordinary US\$ 200	100	-	Investment holding
Kristal Profits Limited	British Virgin Islands	Ordinary US\$ 1	-	100	Investment holding

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

12. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation and principal operations	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			directly	indirectly	
			%	%	
Nara Profits Limited	British Virgin Islands	Ordinary US\$ 1	–	100	Investment holding
Upward Trend Profits Limited	British Virgin Islands	Ordinary US\$ 1	–	100	Investment holding
Whimsy International Trading Limited	British Virgin Islands	Ordinary US\$ 1	–	100	Inactive
Yaohan Whimsy International Limited	British Virgin Islands	Ordinary US\$ 1	–	100	Inactive
Asian Rose Holdings Limited	Hong Kong	Ordinary HK\$ 2	–	100	Property holding
Cyber World Company Limited	Hong Kong	Ordinary HK\$ 100	–	51	Under liquidation
Global Gold Trading Limited	Hong Kong	Ordinary HK\$ 2	–	100	Inactive
Maxipar Company Limited	Hong Kong	Ordinary HK\$ 4,000,001	–	100	Under liquidation
Parkwell (Hong Kong) Ltd.	Hong Kong	Ordinary HK\$ 2	100	–	Leasing
Stingray Company Limited	Hong Kong	Ordinary HK\$ 4,000,000	–	100	Under liquidation
United Kam Wah Development Limited	Hong Kong	Ordinary HK\$ 2	–	100	Investment holding
Whimsy Company Limited	Hong Kong	Ordinary HK\$ 100	–	100	Under liquidation
		Non-voting deferred HK\$ 6,000,000			

12. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation and principal operations	Issued and paid up share capital/ registered capital		Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
				directly	indirectly	
				%	%	
Yaohan Whimsy Co., Limited	Hong Kong	Ordinary HK\$ 1,000 Non-voting deferred HK\$ 1,000		–	100	Investment holding
*成都歡樂天地有限公司 (Chengdu Happy World Co., Limited)	Chengdu, PRC	RMB 10,000,000		–	97	Operation of indoor entertainment centre
*河南歡樂天地兒童遊樂有限公司 (Henan Whimsy Amusement Company Limited)	Henan, PRC	US\$ 2,000,000		–	100	Operation of indoor entertainment centre
*上海歡樂天地兒童遊樂有限公司 (Shanghai Whimsy Amusement Co., Limited)	Shanghai, PRC	US\$ 2,100,000		–	85.71	Operation of indoor entertainment centre
*沈陽遼華汽車車橋有限公司 (Shenyang Liao Hua Automobile Axles Co. Ltd.)	Shenyang, PRC	RMB 30,000,000		–	51	Manufacture of automobile axles
*蘇州運時家庭電子娛樂有限公司 (Suzhou Whimsy Family Electronic Recreation Co., Limited)	Suzhou, PRC	US\$ 1,050,000		–	95	Operation of indoor entertainment centre
*無錫歡樂天地遊樂有限公司 (Wuxi Whimsy Amusement Co., Limited)	Wuxi, PRC	US\$ 2,720,000		–	95	Operation of indoor entertainment centre

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

12. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation and principal operations	Issue and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			directly	indirectly	
			%	%	
Whimsy Japan Company Limited	Japan	Ordinary JPY 10,000,000	-	100	Inactive
台灣歡樂天地股份有限公司 (Whimsy Taiwan Company Limited)	Taiwan	Ordinary NT\$ 70,000,000	-	100	Under liquidation
Whimsy USA, Inc.	United States of America	Ordinary US\$ 10	100	-	Inactive

* These subsidiaries are in the form of Sino-foreign co-operative joint ventures.

This subsidiary is in the form of Sino-foreign equity joint ventures.

The deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.

None of the subsidiaries had any loan capital outstanding as at 31st December, 2000 or at any time during the year.

13. INVENTORIES

Inventories of the Group comprised:

	2000 HK\$'000	1999 HK\$'000
Plush toys	424	480
Automotive components, spare parts and other consumables	<u>1,148</u>	<u>867</u>
	<u><u>1,572</u></u>	<u><u>1,347</u></u>

The cost of inventories recognised as an expense during the year was approximately HK\$11,825,000 (1999 : HK\$21,984,000). The amount of inventories (included above) carried at net realisable value is HK\$811,000 (1999 : HK\$739,000).

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. ACCOUNTS RECEIVABLE

The balances were resulted from sale of automobile components, which were on an average credit period of 90 days.

At 31st December, 2000, the aging analysis of the accounts receivable of the Group was as follows:

	2000	1999
	HK\$'000	HK\$'000
Current	272	2,929
31-60 days	-	2,921
61-90 days	-	2,642
Over 90 days	2,776	4,315
	3,048	12,807
Provision for doubtful debts	-	(3,124)
	3,048	9,683

15. ACCOUNTS PAYABLE

As at 31st December, 2000, the aging analysis of the accounts payable of the Group was as follows:

	2000	1999
	HK\$'000	HK\$'000
Current	63	116
31-60 days	61	78
61-90 days	-	-
Over 90 days	476	488
	600	682

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. RELATED PARTY TRANSACTIONS

- (a) Amounts due to a related company and subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.
- (b) Amount due from a related company was unsecured, carried interest at 6% per annum, and was repayable within six months from the date of advance. All the outstanding balance and related interest were fully settled subsequent to 31st December, 2000.
- (c) During the year, the Group entered into the following significant transactions with related companies:

	2000 HK\$'000	1999 HK\$'000
Interest expense on loan from a shareholder	2,089	1,946
Purchases from a related company of a joint venture partner	9,364	16,436
Interest income earned from a related company of a shareholder	<u>95</u>	<u>-</u>

The above transactions were carried out after negotiations between the Group and the related companies in the ordinary course of business and on the basis of estimated market value as determined by the Directors.

- (d) A personal guarantee was provided by a director of a subsidiary company to enable the subsidiary to obtain a mortgage loan from a third party (*Note 10*).

17. SHARE CAPITAL

	2000		1999	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised	<u>3,000,000,000</u>	<u>300,000</u>	<u>800,000,000</u>	<u>80,000</u>
Issued and fully paid	<u>1,263,634,000</u>	<u>126,363</u>	<u>403,042,000</u>	<u>40,304</u>

17. SHARE CAPITAL (Cont'd)

On 21st July, 2000, the issued share capital was increased to HK\$48,363,400 by the issuance of 80,592,000 new ordinary shares at a price of HK\$0.30 per share. Hence the Company raised net proceeds of approximately HK\$24 million.

By a special resolution passed on 5th October, 2000, the authorised share capital was increased from HK\$80,000,000 to HK\$300,000,000 by the creation of 2,200,000,000 shares of HK\$0.10 each.

On 5th October, 2000, the issued share capital was increased to HK\$126,363,400 by the issuance of 780,000,000 new ordinary shares at a price of HK\$0.30 per share. Hence the Company raised net proceeds of approximately HK\$231 million.

Under the terms of the share option scheme which became effective on 15th March, 1995, the board of directors of the Company may offer to executive directors and certain employees of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company.

On 16th February, 2000 and 2nd November, 2000, pursuant to the Company's share option scheme, executive directors and certain employees of the Company were granted options to subscribe for ordinary shares of HK\$0.10 each of the Company. The exercise price was set at HK\$0.690 and HK\$0.382 respectively, representing 80% of the average closing prices of the Company's shares of HK\$0.858 and HK\$0.477 respectively on the Stock Exchange on the five trading days immediately preceding the date of grant. The options are exercisable within a period of ten years from the date of grant.

A summary of the movements of the share options granted under the share option scheme is as follows:-

	<u>HK\$0.690</u>	<u>HK\$0.382</u>	<u>Total</u>
Exercise price per share	<u>HK\$0.690</u>	<u>HK\$0.382</u>	
Beginning of year	-	-	-
Granted during the year	40,000,000	86,300,000	126,300,000
Exercised during the year	<u>-</u>	<u>-</u>	<u>-</u>
End of year	<u>40,000,000</u>	<u>86,300,000</u>	<u>126,300,000</u>

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. RESERVES

(a) The Group

	Share premium <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Capital surplus <i>HK\$'000</i>	Accumu- lated deficits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 1999	85,593	(6,733)	1,297	(128,016)	(47,859)
Premium on issuance of ordinary shares	5,816	-	-	-	5,816
Write-off of capital surplus	-	-	(1,297)	-	(1,297)
Realisation of translation reserve of a liquidating subsidiary	-	3,494	-	-	3,494
Loss for the year	-	-	-	(12,524)	(12,524)
Exchange difference arising from translation of financial statements of overseas subsidiaries	-	1,002	-	-	1,002
At 31st December, 1999	91,409	(2,237)	-	(140,540)	(51,368)
Premium on issuance of ordinary shares	169,183	-	-	-	169,183
Loss for the year	-	-	-	(16,912)	(16,912)
Exchange difference arising from translation of financial statements of overseas subsidiaries	-	(79)	-	-	(79)
At 31st December, 2000	<u>260,592</u>	<u>(2,316)</u>	<u>-</u>	<u>(157,452)</u>	<u>100,824</u>

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. RESERVES (Cont'd)

(b) The Company

	Share premium	Contributed surplus	Accumulated deficits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January, 1999	85,593	94,601	(147,274)	32,920
Premium on issuance of ordinary shares	5,816	–	–	5,816
Loss for the year	<u>–</u>	<u>–</u>	<u>(9,126)</u>	<u>(9,126)</u>
At 31st December, 1999	91,409	94,601	(156,400)	29,610
Premium on issuance of ordinary shares	169,183	–	–	169,183
Loss for the year	<u>–</u>	<u>–</u>	<u>(9,918)</u>	<u>(9,918)</u>
At 31st December, 2000	<u>260,592</u>	<u>94,601</u>	<u>(166,318)</u>	<u>188,875</u>

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1995.

Under the applicable laws of Bermuda, the contributed surplus account of a company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

The directors consider that the Company had no reserves available for distribution to shareholders as at 31st December, 2000 (1999 – Nil).

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. LONG-TERM BORROWING

Long-term borrowing of the Group represents a mortgage loan which bears interest at the Hong Kong dollar prime rate plus 1% per annum and is repayable by 84 monthly installments. The mortgage loan is secured by an investment property with estimated open market value of HK\$2,800,000 (1999 : Land and building - HK\$4,260,000) and a personal guarantee provided by a director of a subsidiary.

	2000	1999
	HK\$'000	HK\$'000
The borrowing is repayable as follows:		
Within one year	290	270
Between one and two years	322	297
Between two and five years	1,197	1,081
Over five years	362	788
	2,171	2,436
Less: Amounts due within one year shown under current liabilities	(290)	(270)
Amounts due after one year	1,881	2,166

20. LOAN FROM A FORMER SHAREHOLDER

The loan from a former shareholder was unsecured, carried interest at the Hong Kong dollar prime rate plus 1% per annum and was repaid during the year.

21. LOAN FROM A SHAREHOLDER

The loan from a shareholder was unsecured, carried interest at the Hong Kong dollar prime rate plus 1% per annum and was repaid during the year.

22. DEFERRED TAXATION

As at 31st December, 2000, the major components of the deferred taxation liabilities (assets) unprovided by the Group were as follows:

	2000	1999
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Excess (Shortfall) of tax allowances over depreciation	114	(157)
Tax losses carried forward	(2,694)	(13,720)
	<u>(2,580)</u>	<u>(13,877)</u>

The amount of the unprovided deferred tax credit of the Group for the year was as follows:

	2000	1999
	HK\$'000	HK\$'000
Excess of tax allowances over depreciation	271	–
Tax losses carried forward	11,026	–
	<u>11,297</u>	<u>–</u>

No recognition of the deferred tax asset has been made in the financial statements as the related benefits are not expected to crystallise in the foreseeable future.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. OPERATING LEASE COMMITMENTS

Operating lease commitments as at 31st December, 2000 were approximately HK\$9,077,000 of which HK\$2,993,000 is payable in the next twelve months. The amount payable in the next twelve months, analysed according to the periods in which the leases expire, was as follows:

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Operating leases which expire:		
Within one year	104	457
In the second to fifth years inclusive	2,583	2,502
After the fifth year	306	–
	<u>2,993</u>	<u>2,959</u>

The operating lease commitments in respect of certain rented premises are subject to an additional premium based on a fixed percentage of the annual gross turnover and receipts in excess of a specific minimum rental amount.

24. RETIREMENT BENEFITS SCHEME

The employees employed in the subsidiaries located in the PRC are members of state-managed retirement benefits schemes operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes in the respective province to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under these schemes.

The Group's Hong Kong employees are covered by the new mandatory provident fund, which is managed by an independent trustee. The Group and its Hong Kong employees each makes monthly contributions to the scheme at 5% of the employees' cash income with the maximum contribution by each of the Group and the employees limited to HK\$1,000 per month.

The retirement benefit scheme cost charged to the income statement represents contributions paid/payable by the Company to the fund. During the year ended 31st December, 2000, the Group's contributions were approximately HK\$497,000 (1999 – HK\$485,000). There was no forfeited contribution used to offset the Group's contribution during the relevant period and there was no material forfeited contribution available to reduce the Group's contribution payable in future period.

25. POST BALANCE SHEET EVENTS

On 3rd January, 2001, the Company entered into an agreement with the Trustees of Columbia University in the City of New York ("Columbia") pursuant to which Columbia is to conduct research in the field of antigen/antibody microarrays for use in immunological diagnostic and functional genomic applications. The Company would have exclusive rights of the results of the said research. In exchange, the Company is to provide financial support for the said research. According to the agreement, during a five-year period beginning on the date the agreement was signed, the Company has to pay Columbia the annual sums set forth below, payable quarterly in advance.

Year	Amount (USD)
1	682,903
2	432,731
3	446,556
4	461,116
5	476,684

The Company has the right to exercise early termination in the first eighteen months after the date the agreement was signed, upon six months written notice to Columbia.

26. COMPARATIVE FIGURES

Certain of the 1999 comparative figures have been reclassified to conform to the current year presentation.