

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Forefront International Holdings Limited (“the Company”) was incorporated in the Cayman Islands on 10 September 1998 as an exempted company with limited liability under the Companies Law (Revised). Its shares have been listed on The Stock Exchange of Hong Kong Limited since 12 July 2001.

Pursuant to a group reorganisation scheme which included exchanges of shares (“the Reorganisation”) in preparation for the listing of the Company’s shares, the Company became the holding company of the other companies comprising the group. The Reorganisation involved companies under common control, and the Company and its subsidiaries (“the Group”) resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting. The consolidated income statements include the results of the Company and its subsidiaries as if the group structure resulting from the Reorganisation had been in existence throughout the years ended 31 December 2000 and 2001 or since the dates of incorporation of the respective group companies where these were a shorter period. The consolidated balance sheet of the Group as at 31 December 2000 has been prepared to present the assets and liabilities of the Group as at those dates as if the group structure resulting from the Reorganisation had been in existence as at 31 December 2000.

The Company is an investment holding company. Its subsidiaries are principally engaged in the trading of motor trucks, coaches and vehicle accessories, provision of motor vehicle repair and maintenance services, sale of fuel, provision of other motor vehicle related services, and the motor vehicle financing business.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised below:

a. Basis of measurement

The financial statements are prepared on the historical cost basis, as modified by the revaluation of land and buildings.

b. Adoption of new/revised Statements of Standard Accounting Practice

Effective from the year ended 31 December 2001, the Group has adopted, for the first time, the following SSAPs issued by the HKSA:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 10 (revised):	Accounting for investment in associates
SSAP 14 (revised):	Leases
SSAP 26:	Segment reporting
SSAP 28:	Provisions, contingent liabilities and contingent assets
SSAP 29:	Intangible assets
SSAP 30:	Business combinations
SSAP 31:	Impairment of assets
SSAP 32:	Consolidated financial statements and accounting for investments in subsidiaries

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (*continued*)

b. Adoption of new/revised Statements of Standard Accounting Practice (*continued*)

The adoption of the above SSAPs has no material impact on the Group's financial statements, other than those described below:

i. SSAP 9 (revised) – Events after the balance sheet date

In accordance with SSAP 9 (revised), dividends proposed or declared after the balance sheet date in respect of the financial year ended on the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of shareholders' equity on the face of the balance sheet. This change in accounting policy has been applied retrospectively as a prior year adjustment, resulting in an increase of \$24,901,000 in shareholders' equity as at 1 January 2001, representing the proposed final dividend for the year ended 31 December 2000.

ii. SSAP 14 (revised) – Leases

Disclosures for leasing arrangements have been modified so as to comply with SSAP 14 (revised) – see Note 13.

iii. SSAP 26 – Segment reporting

Segment information has been disclosed in Note 24 to the financial statements in accordance with SSAP 26.

In addition, the Group has adopted the consequential changes made to SSAP 10 – Accounting for investments in associates, SSAP 17 – Property, plant and equipment, SSAP 18 – Revenue, and SSAP 21 – Accounting for interests in joint ventures. These consequential changes do not have a material impact on the Group's financial statements.

The 2000 comparative figures presented herein have incorporated the effect of adjustments, where applicable, resulting from the adoption of new SSAPs.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (*continued*)

c. **Basis of consolidation**

The consolidated financial statements of the Group include the accounts of the Company and its subsidiaries. Except for the Reorganisation as described in Note 1, the results of subsidiaries acquired or disposed of during the year are recorded from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

d. **Subsidiaries**

A subsidiary is a company in which the Group can exercise control, which is normally evidenced when the Group has the power to govern its financial and operating policies so as to obtain benefits from its activities. In the Company's financial statements, investment in subsidiaries is stated at cost less any impairment loss, while income from subsidiaries is recorded to the extent of dividends received and receivable.

e. **Contractual joint ventures**

A contractual joint venture is an entity established between the Group and one or more other parties for a pre-determined period of time, with the rights and obligations of the joint venture partners being governed by a contract. If the Group is able to control and govern the financial and operating policies of the contractual joint venture so as to obtain benefits from its activities, such joint venture is considered as a de facto subsidiary and is accounted for as a subsidiary. If the Group is only be able to exercise significant influence over the contractual joint venture, such joint venture is accounted for as an associate.

f. **Turnover and revenue recognition**

Turnover represents (i) the net invoiced value of merchandise sold after allowances for returns and discounts, (ii) service fees from provision of repair and maintenance services and other services, and (iii) interest income from finance leases.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Sales revenue is recognised when the significant risks and rewards of ownership of the merchandise have been transferred to the buyers. Service fees are recognised when the services are rendered. Interest income is recognised on a time-proportion basis on the principal outstanding and at the rates applicable.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (*continued*)

g. **Taxation**

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

Deferred taxation is provided for 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.

h. **Advertising and promotion costs**

Costs of advertising and promotion are expensed as incurred.

i. **Employee retirement benefits**

Costs of employee retirement benefits are recognised as an expense in the period in which the employees' services are rendered.

j. **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset at rates based on the actual cost of the specific borrowings. All other borrowing costs are recognised as an expense in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

k. Property and equipment and depreciation

Property and equipment are stated at cost or valuation less accumulated depreciation and accumulated impairment losses. Major expenditures on modifications and betterments of property and equipment which will increase their future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost or the revalued amount less estimated residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Leasehold land	2%
Buildings	4%
Leasehold improvements	20% to 25%
Furniture and office equipment	10% to 50%
Motor vehicles	20% to 30%

The depreciation methods and useful lives are reviewed periodically to ensure that the methods and rates of depreciation are consistent with the expected pattern of economic benefits from property and equipment.

Properties are subject to independent valuations on a regular basis, with the last valuation performed on 31 December 2001. Any increase in valuation on properties is credited to the property revaluation reserve; and any decrease is firstly offset against any earlier increase in valuation in respect of the same asset and is thereafter charged to the income statement.

Gains and losses on disposals of property and equipment are recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets. Upon disposal of revalued properties, the relevant portion of revaluation reserve recognised in respect of previous revaluations is released from the property revaluation reserve to retained profits.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (*continued*)

i. Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for cash-generating units.

Reversal of an impairment loss recognised in prior periods is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is recorded in the income statement.

m. Inventories

Inventories are stated at the lower of cost and net realisable value. For motor vehicles, cost is determined on the specific identification basis, while for other inventories, cost is determined on the weighted average basis. Net realisable value is based on estimated normal selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period 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 period 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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (*continued*)

n. Finance leases

A lease is classified as a finance lease where substantially all the risks and rewards of ownership of the underlying assets are transferred to the lessee. The amount due from the lessee under a finance lease is recorded in the balance sheet as receivable at the amount of the Group's net investments in the lease, being the total of the minimum lease rentals less earnings allocated to future periods, less bad and doubtful rental receivable. The total gross earnings (interest income) under a finance lease is allocated to accounting periods to give a constant periodic rate of return on the Group's net investment in the lease in each period. Initial direct costs are recognised as expense at the commencement of the lease.

o. Operating leases

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are recognised as an expense on a straight-line basis over the period of the relevant leases.

p. Provisions and contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligations. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

q. Subsequent events

Post-year-end events that provide additional information about financial position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (*continued*)

r. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations (“functional currencies”). In the accounts of the individual companies, transactions in other currencies during the year are translated into functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains and losses are dealt with in the income statement in the period in which they arise.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, all of the assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; all of the income and expense items of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the average applicable exchange rates during the year. Exchange differences arising from such translations are dealt with as movements of cumulative translation adjustments.

For forward exchange contracts designated as a hedge of a firm commitment (i.e. these contracts limit the Group’s exposure to both favourable and unfavourable currency fluctuations), any gain or loss on the forward exchange contracts is offset against the hedged commitments and no gain or loss is recognised in the income statement. The discount or premium on forward contracts is deferred with the gain or loss on forward contracts.

s. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. RELATED PARTY TRANSACTIONS

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.

a. Particulars of significant transactions with related parties are summarised below:

	2001 \$'000	2000 \$'000
Sale to Sunshine Finance Co., Ltd. *	104,103	85,352
Sale to Forefront International Limited *	3,123	–
Rental expense in respect of office premises paid/payable to Forefront International Limited *	4,037	4,357
Fees in respect of a computer software license earned from Forefront International Limited *	100	–
Proceeds from disposal of a long-term investment to Cyber Resources and Technology Limited **	2,322	–

Notes:–

* Forefront International Limited is a substantial shareholder of the Company, and Sunshine Finance Co., Ltd. is a subsidiary of Forefront International Limited.

** Cyber Resources and Technology Limited is beneficially owned by Mr. Yang Kwn San, the Company's Honorary Chairman.

In the opinion of the Company's Directors, the above related party transactions were conducted in accordance with the respective arrangements entered into between the Group and the related parties.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. RELATED PARTY TRANSACTIONS (continued)

- b. Included in accounts receivable was an amount of approximately \$48,844,000 (2000 – Nil) due from Sunshine Finance Co., Ltd. resulting from sale of motor trucks and coaches. This balance was unsecured and non-interest bearing.
- c. Details of the amounts due from a director and a shareholder are as follows:

	2001 \$'000	2000 \$'000	Maximum balance outstanding during the year \$'000
Name of director			
Mr. Yang Chien Chi, Allen	–	2,910	2,910
Name of shareholder			
Forefront International Limited	–	10,429	10,429

- d. The amounts due to related companies and a minority shareholder of a subsidiary were unsecured, non-interest bearing and without pre-determined repayment terms.
- e. Certain of the Group's banking facilities amount to approximately \$22,604,000 were secured by listed securities owned by Mr. Yang Chien Chi, Allen, a director of the Company, and Mr. Yang Chien Nan, brother of Mr. Yang Chien Chi, Allen. Such collateral was subsequently released in March 2002.
- f. Forefront International Limited has indemnified the Group against any shortfall under the retirement plan of a group company which operates in Taiwan in respect of payments to employees who were transferred to the Group from Forefront International Limited in March 1999, up to an amount of approximately \$4,591,000 (see Note 26).

NOTES TO THE FINANCIAL STATEMENTS

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4. TURNOVER AND REVENUE

Analysis of turnover and revenue in the consolidated income statement is as follows:

	2001 \$'000	2000 \$'000
Sale of motor trucks, coaches and vehicle accessories	545,982	543,195
Provision of motor vehicle repair and maintenance services	136,279	150,726
Sale of fuel	43,003	1,500
Provision of other vehicle related services	2,240	1,235
Interest income in respect of finance leases	1,684	2,406
Total turnover	729,188	699,062
Others	4,499	3,509
Interest income from bank deposits	2,630	2,330
Total revenue	736,317	704,901

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5. PROFIT BEFORE TAXATION

Profit before taxation in the consolidated income statement was stated after charging and crediting the following:

	2001 \$'000	2000 \$'000
After charging –		
Cost of inventories sold and services rendered	585,373	529,373
Employment costs (include directors' emoluments)	59,824	55,543
Operating lease rental of premises	15,265	16,404
Provision for obsolete and slow-moving inventories	1,143	–
Provision for bad and doubtful debts	5,467	3,945
Depreciation of property and equipment	7,549	4,710
Loss on disposal of equipment	–	9
Interest expense on bank borrowings wholly repayable		
– within five years	12,813	6,880
– over five years	383	314
Net exchange loss	–	4,221
Auditors' remuneration	772	445
After crediting –		
Interest income from bank deposits	2,630	2,330
Gain on disposal of equipment	90	–
Net exchange gain	521	–
Gain on disposal of interest in a subsidiary *	10,484	–

Note:–

- * During the year, the Group disposed of a 4% and a 1% interest in U-Drive Company Limited, a subsidiary, to two independent parties at consideration of \$8,000,000 and \$2,000,000, respectively, and recognised an aggregated gain of approximately \$10,484,000.

NOTES TO THE FINANCIAL STATEMENTS

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6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of emoluments of the Company's directors are:

	2001 \$'000	2000 \$'000
Fees for executive directors	38	–
Fees for non-executive directors	215	–
Other emoluments for executive directors		
– Basic salaries and allowances	4,051	3,598
– Pension scheme contributions	78	50
	4,382	3,648

No directors waived any emoluments during the year. No incentive payment nor compensation for loss of office was paid or payable to any directors for the year ended 31 December 2001.

The number of directors whose remuneration fall within the following bands is as follows:

	2001	2000
Executive directors		
– Nil to \$1,000,000	2	2
– \$1,000,001 to \$1,500,000	1	1
– \$1,500,001 to \$2,000,000	1	1
Non-executive directors		
– Nil to \$1,000,000	4	–
	8	4

NOTES TO THE FINANCIAL STATEMENTS

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6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (*continued*)

- b. Details of emoluments of the five highest paid individuals (including directors and other employees) are:

	2001	2000
	\$'000	\$'000
Basic salaries and allowances	5,310	4,583
Pension scheme contributions	96	52
	<u>5,406</u>	<u>4,635</u>
Number of directors	3	2
Number of employees	2	3
	<u>5</u>	<u>5</u>

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

The number of the five highest paid individuals whose remuneration falls within the following bands is as follows:

	2001	2000
Nil to \$1,000,000	3	3
\$1,000,001 to \$1,500,000	1	1
\$1,500,001 to \$2,000,000	1	1
	<u>5</u>	<u>5</u>

NOTES TO THE FINANCIAL STATEMENTS

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7. TAXATION

Taxation in the consolidated income statement consisted of:

	2001 \$'000	2000 \$'000
Current taxation		
– Hong Kong profits tax	248	3,854
– Taiwan income tax	10,728	13,681
	<u>10,976</u>	<u>17,535</u>

Hong Kong profits tax was provided at the rate of 16% (2000 – 16%) on estimated assessable profit arising in or derived from Hong Kong. Taiwan income tax was provided at the rate of 25% (2000 – 25%) on estimated taxable profit in Taiwan.

There was no significant unprovided deferred taxation as at 31 December 2001. No deferred tax on the revaluation surplus of land and buildings was provided because the revaluation does not constitute a timing difference as the Group intends to hold the land and buildings for long-term and management has no intention to dispose of these land and buildings in the foreseeable future.

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a profit of approximately \$32,686,000 (2000 – \$24,906,000) dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

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9. DIVIDENDS

	2001 \$'000	2000 \$'000
Dividends proposed/declared during the year		
– Special, paid to shareholders of the Company prior to Reorganisation	48,573	–
– Interim, \$0.023 per share	9,373	–
	57,946	–
Dividends proposed after year end		
– Final, \$0.008 per share	3,550	24,901
	61,496	24,901

10. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2001 is based on the consolidated profit attributable to shareholders of approximately \$26,137,000 (2000 – \$56,123,000) and on the weighted average number of approximately 350,918,000 shares (2000 – 300,000,000 shares) deemed to be issued throughout the year.

No diluted earnings per share is presented as there were no dilutive potential ordinary shares in existence during the years ended 31 December 2000 and 2001.

NOTES TO THE FINANCIAL STATEMENTS

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11. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries consisted of:

	2001	2000
	\$'000	\$'000
Unlisted shares, at cost	74,934	101,068
Due from subsidiaries	146,684	25,011
Due to subsidiaries	(9,996)	(74)
	<u>211,622</u>	<u>126,005</u>

The balances with subsidiaries are unsecured, non-interest bearing and not repayable within the next twelve months.

The underlying value of investment in subsidiaries is, in the opinion of the Company's Directors, not less than its carrying value as at 31 December 2001.

NOTES TO THE FINANCIAL STATEMENTS

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11. INVESTMENT IN SUBSIDIARIES (continued)

Details of the subsidiaries as at 31 December 2001 were as follows:

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest held (i)	Principal activities
Allen Motor Co. Limited	Hong Kong	\$2	95%	Provision of agency services for insurance and financing of motor vehicles
Cybergear Limited	British Virgin Islands	US\$1	100%	Investment holding
Cyber Centre Holdings Limited	Hong Kong	\$2	100%	Inactive
Cyber Centre Limited	Hong Kong	\$2	100%	Property holding
Digital Cyber Technologies Group Ltd.	British Virgin Islands	US\$1	100%	Property holding
Forefront Automotive Services Company Limited	Hong Kong	\$20	100%	Trading of motor vehicle accessories and provision of motor repair and maintenance services
Forefront (China) Company Limited	Hong Kong	\$20	100%	Investment holding
Forefront Finance Co. Limited	Hong Kong	\$2	95%	Provision motor vehicle financing business

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11. INVESTMENT IN SUBSIDIARIES (continued)

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest held (i)	Principal activities
Forefront International Automotive Limited	British Virgin Islands/ Taiwan	US\$3,254,681	100%	Trading of motor trucks, coaches and vehicle accessories and provision of motor repair and maintenance services
Forefront International (Hong Kong) Limited	Hong Kong	\$100,000 ordinary shares \$6,000,000 non-voting deferred shares (ii)	100% —	Trading of motor trucks and coaches
Forefront International Trading (Shanghai) Co., Ltd. (iii)	Mainland China	US\$200,000	100%	Trading of motor trucks and vehicle accessories
Forefront Investment Holdings Limited	British Virgin Islands	US\$47,252	100%	Investment holding
Forefront (Macau) Automotive Limited	Macau	MOP25,000	100%	Trading of coaches and vehicle accessories and provision of motor repair and maintenance services

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11. INVESTMENT IN SUBSIDIARIES (continued)

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest held (i)	Principal activities
Forefront Science and Technology Company Limited	Hong Kong	\$2	100%	Inactive
Forerunner (China) Development Co. Limited	Hong Kong	\$10,000	63.75%	Investment holding
Pureland Development Corporation	British Virgin Islands	US\$1	100%	Investment holding
Scantle Management Limited	British Virgin Islands	US\$2	100%	Investment holding
Shenzhen Forerunner Automotive Services Limited (iv)	Mainland China	RMB2,000,000	51%	Provision of vehicle repair and maintenance services
Stareast International Limited	British Virgin Islands	US\$2	100%	Investment holding
U-Drive Company Limited	Hong Kong	\$1,000	95%	Provision of chain services to vehicle customers
U-Drive Company (B.V.I.) Limited	British Virgin Islands	US\$10	95%	Investment holding
V-Guard Technology Limited	Hong Kong	\$100	95%	Provision of telematic services

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11. INVESTMENT IN SUBSIDIARIES (*continued*)

Notes –

- i. Cybergear Limited, Forefront International Automotive Limited, Forefront Investment Holdings Limited and Scantle Management Limited are held directly by the Company, while the other subsidiaries are held indirectly.
- ii. Holders of deferred shares have no rights to vote at general meetings or receive any dividend. Upon winding-up, they are entitled to one half of the balance of the company's assets after \$100,000,000,000 has been distributed to holders of ordinary shares.
- iii. Forefront International Trading (Shanghai) Co., Ltd. is a wholly foreign owned enterprise established in Mainland China to be operated for a period of 50 years up to May 2050.
- iv. Shenzhen Forerunner Automotive Services Limited is a sino-foreign equity joint venture established in the Mainland China to be operated for a period of 20 years up to September 2019.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2001.

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12. PROPERTY AND EQUIPMENT

Movements of property and equipment (consolidated) were:

	2001				Total \$'000	2000 Total \$'000
	Land and buildings \$'000	Leasehold improvements \$'000	Furniture and equipment \$'000	Motor vehicles \$'000		
Cost or valuation						
Beginning of year	46,578	9,341	15,625	3,784	75,328	31,514
Additions	13,880	6,354	10,533	207	30,974	45,612
Deficit on revaluation, net	(5,028)	–	–	–	(5,028)	–
Disposals	–	–	(1,029)	(834)	(1,863)	(1,407)
Translation adjustments	–	(410)	(245)	(71)	(726)	(391)
End of year	55,430	15,285	24,884	3,086	98,685	75,328
Representing –						
At cost	–	15,285	24,884	3,086	43,255	75,328
At professional valuation in December 2001	55,430	–	–	–	55,430	–
	55,430	15,285	24,884	3,086	98,685	75,328
Accumulated depreciation						
Beginning of year	2,679	835	8,402	1,907	13,823	10,524
Provision for the year	987	2,170	3,829	563	7,549	4,710
Disposals	–	–	(883)	(834)	(1,717)	(1,363)
Revaluation	(3,666)	–	–	–	(3,666)	–
Translation adjustments	–	(74)	(107)	(27)	(208)	(48)
End of year	–	2,931	11,241	1,609	15,781	13,823
Net book value						
End of year	55,430	12,354	13,643	1,477	82,904	61,505
Beginning of year	43,899	8,506	7,223	1,877	61,505	20,990

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12. PROPERTY AND EQUIPMENT (continued)

Analysis of land and buildings by geographical locations is as follows:

	2001 \$'000	2000 \$'000
Hong Kong	53,500	40,378
Mainland China	1,930	3,521
	<u>55,430</u>	<u>43,899</u>

Land and buildings in Hong Kong are held under medium-term leases on the basis of the rights of extension provided by the New Territories Leases (Extension) Ordinance. Approximately \$370,000 (2000 – \$592,000) of the land and buildings in Mainland China are held under land use rights for 70 years up to 2055, approximately \$800,000 (2000 – \$1,492,000) of the land and buildings in Mainland China are held under land use rights for 45 years up to 2042, and approximately \$760,000 (2000 – \$1,437,000) of land and buildings in Mainland China are held under land use rights without specified land use period.

Land and buildings are stated at open market value as at 31 December 2001 of approximately \$55,430,000 as determined by DTZ Debenham Tie Leung Limited, independent qualified valuers. Had all land and buildings been carried at cost less depreciation, the net book value of the Group's land and buildings as at 31 December 2001 would have been approximately \$56,792,000 (2000 – \$43,899,000).

Land and buildings with a net book value of approximately \$49,300,000 (2000 – Nil) were mortgaged as collateral for the Group's banking facilities (see Note 27).

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. FINANCE LEASE RECEIVABLES

Finance lease receivables (consolidated) are analysed as follows:

	2001	2000
	\$'000	\$'000
Finance lease rental receivables within a period		
– not exceeding one year	9,332	8,027
– of more than one year but not exceeding five years	8,497	10,727
	<u>17,829</u>	<u>18,754</u>
Less: Earnings allocated to future periods	(1,780)	(2,520)
Present value of minimum lease rental receivables	16,049	16,234
Less: Bad and doubtful rental receivables	(1,212)	–
	<u>14,837</u>	<u>16,234</u>
Present value of minimum lease rental receivables, less provision for bad and doubtful amounts, is analysed as follows		
– not exceeding one year	7,146	5,783
– more than one year but not exceeding five years	7,691	10,451
	<u>14,837</u>	<u>16,234</u>

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVENTORIES

Inventories (consolidated) consisted of:

	2001	2000
	\$'000	\$'000
Motor trucks and coaches	105,314	110,017
Vehicle accessories	54,856	53,022
	160,170	163,039
Less: Provision for obsolete and slow-moving inventories	(2,057)	(914)
	<u>158,113</u>	<u>162,125</u>

As at 31 December 2001, no inventories were stated at net realisable value.

Certain inventories were held under trust receipts bank loans (see Note 27).

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. ACCOUNTS RECEIVABLE

The Group grants to its customers credit terms ranging from 1 to 3 months. Aging analysis of accounts receivable (consolidated) is analysed as follows:

	2001 \$'000	2000 \$'000
0 to under 3 months	147,056	58,573
3 to under 6 months	51,707	2,403
6 to under 9 months	6,180	1,558
9 to under 12 months	7,013	1,301
Over 12 months	4,148	4,959
	<hr/>	<hr/>
	216,104	68,794
Less: Provision for bad and doubtful debts	(6,353)	(2,098)
	<hr/>	<hr/>
	209,751	66,696

Accounts receivables of approximately \$42,213,000 (2000 – Nil) were pledged as collateral for certain of the Group's banking facilities granted to the subsidiary in Taiwan (see Note 27).

16. PLEDGED BANK DEPOSITS

As at 31 December 2001, the Group's bank deposits of approximately \$3,476,000 (2000 – \$12,326,000) were pledged as collateral for certain of the Group's banking facilities granted to the subsidiary in Taiwan (see Note 27).

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. SHORT-TERM BORROWINGS

Short-term borrowings (consolidated) consisted of:

	2001 \$'000	2000 \$'000
Trust receipts bank loans	57,955	74,670
Short-term bank loans		
– secured	144,753	12,840
– unsecured	41,947	23,563
Short-term loans from financial institutions	12,341	10,538
Long-term bank loans, current portion (Note 19)	6,001	1,399
	262,997	123,010

Short-term bank loans bear interest at rates ranging from HIBOR plus 1.125% per annum to HIBOR plus 1.5% per annum and short-term loans from financial institutions bear interest at rates ranging from HIBOR plus 1.5% per annum to HIBOR plus 2.5% per annum.

Refer to Note 27 for details of the Group's banking facilities.

18. BILLS AND ACCOUNTS PAYABLE

Aging analysis of bills and accounts payable (consolidated) is analysed as follows:

	2001 \$'000	2000 \$'000
0 to under 3 months	29,392	31,841
3 to under 6 months	5,743	1,705
6 to under 9 months	320	24
9 to under 12 months	1	–
Over 12 months	105	120
	35,561	33,690

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. LONG TERM BANK LOANS

Long-term bank loans (consolidated) consisted of:

	2001	2000
	\$'000	\$'000
Amounts repayable within a period		
– not exceeding one year	6,001	1,399
– more than one year but not exceeding two years	4,639	1,419
– more than two years but not exceeding five years	4,683	4,372
– over five years	571	1,714
	15,894	8,904
Less: Amounts repayable within one year included under current liabilities (Note 17)	(6,001)	(1,399)
	9,893	7,505

Long-term bank loans bear interest at HIBOR plus 1.5% per annum. Refer to Note 27 for details of the Group's banking facilities.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

20. SHARE CAPITAL

Movements were:

	2001		2000	
	Number of shares '000	Nominal value \$'000	Number of shares '000	Nominal value \$'000
Authorised – ordinary shares of \$0.10 each				
Beginning of year	3,500	350	3,500	350
Increase in authorised share capital (i)	996,500	99,650	–	–
End of year	1,000,000	100,000	3,500	350
Issued and fully paid – ordinary shares of \$0.10 each				
Beginning of year	207	21	207	21
Issue of shares in connection with the Reorganisation described in Note 1 (ii)	61	6	–	–
Issue of shares through public offering and placing (iii)	107,500	10,750	–	–
Capitalisation of share premium (iv)	299,732	29,973	–	–
End of year	407,500	40,750	207	21

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

20. SHARE CAPITAL (*continued*)

Notes:

- i. On 21 June 2001, the authorised share capital of the Company was increased from \$350,000 to \$100,000,000, by the creation of an additional 996,500,000 shares with a par value of \$0.10 each, ranking *pari passu* with the then existing shares in all respects.
- ii. On 31 January 2001, the Company issued 60,846 shares of \$0.1 each for the acquisition of certain assets, liabilities and business as part of the Reorganisation described in Note 1.
- iii. On 11 July 2001, 100,000,000 shares of \$0.10 each were issued to the public at \$1.08 per share through a public offering and placing (the "New Issue"). On 27 July 2001, 7,500,000 shares of \$0.10 each were issued at \$1.08 per share pursuant the over-allotment option granted by the Company to the underwriters in connection with the New Issue.
- iv. Immediately after the New Issue, share premium of \$29,973,164 was capitalised for the issue of 299,731,642 shares of \$0.10 each to the Company's shareholders before the New Issue.

21. SHARE OPTIONS

The Company has a share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose any shares issued on the exercise of options granted under the scheme. The subscription price will be determined by the Company's board of directors, and will not be less than the higher of the nominal value of the shares and 80% of the average of the closing price of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding date of grant of the options.

As at 31 December 2001, no option has been granted under the share option scheme.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

22. RESERVES

Movements of reserves were:

Consolidated –

	Share premium \$'000	Capital reserve \$'000	Property revaluation reserve \$'000	Cumulative translation adjustments \$'000	Total \$'000
Balance as at 31 December 1999	52,355	29,696	–	(2,584)	79,467
Attributable to the Reorganisation (Note 1)	–	21,051	–	–	21,051
Translation adjustments	–	–	–	(3,668)	(3,668)
Balance as at 31 December 2000	52,355	50,747	–	(6,252)	96,850
Attributable to the Reorganisation (Note 1)	40,259	(40,265)	–	–	(6)
Premium on issue of shares (Note 20.iii)	105,350	–	–	–	105,350
Share issuance expenses	(23,611)	–	–	–	(23,611)
Capitalisation of share premium (Note 20.iv)	(29,973)	–	–	–	(29,973)
Surplus on revaluation of properties	–	–	1,443	–	1,443
Translation adjustments	–	–	–	(1,931)	(1,931)
Balance as at 31 December 2001	144,380	10,482	1,443	(8,183)	148,122

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

22. RESERVES (continued)

Company –

	Share premium \$'000	Contributed surplus \$'000	Capital reserve \$'000	Total \$'000
Balance as at 31 December 1999	52,355	–	–	52,355
Attributable to the Reorganisation (Note 1)	–	48,692	–	48,692
Balance at 31 December 2000	52,355	48,692	–	101,047
Attributable to the Reorganisation (Note 1)	40,259	–	4,492	44,751
Premium on issue of shares (Note 20.iii)	105,350	–	–	105,350
Share issuance expenses	(23,611)	–	–	(23,611)
Capitalisation of share premium (Note 20.iv)	(29,973)	–	–	(29,973)
Transfer to retained profit*	–	(32,000)	–	(32,000)
Balance as at 31 December 2001	144,380	16,692	4,492	165,564

Note –

* The Company's Board of Directors has resolved to transfer \$32,000,000 from contributed surplus to retained profit.

Under the Companies Law (Revised) of the Cayman Islands, share premium and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium or contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

The Company's reserves as at 31 December 2001 available for distribution to shareholders amounted to approximately \$172,308,000 (2000 – \$125,952,000), representing share premium, contributed surplus and retained profit.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Reconciliation of profit before taxation to net cash (outflow) inflow from operating activities:

	2001 \$'000	2000 \$'000
Profit before taxation	37,493	73,115
Interest income	(2,630)	(2,330)
Interest expense	13,196	7,194
Depreciation of property and equipment	7,549	4,710
(Gain) Loss on disposal of equipment	(90)	9
Deficit on revaluation of properties	2,805	–
Gain on disposal of interest in a subsidiary	(10,484)	–
Decrease in finance lease receivables	1,397	4,935
Decrease (Increase) in inventories	4,012	(63,714)
(Increase) Decrease in accounts receivable	(143,055)	359
Decrease (Increase) in prepayments, deposits and other receivables	1,867	(11,558)
Increase in bills and accounts payable	1,871	7,866
Increase in accruals and other payables	11,987	10,005
	<u>(74,082)</u>	<u>30,591</u>

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

b. Analysis of changes in financing is as follows:

	Share capital and share premium \$'000	Bank loans \$'000	Loans from financial institutions \$'000	Due to related companies \$'000	Minority interests and amount due to a minority shareholder \$'000	Total \$'000
Balance as at 31						
December 1999	–	–	4,101	16,169	227	20,497
New loans	–	45,307	8,237	–	–	53,544
Repayment of loans	–	–	(1,603)	–	–	(1,603)
Decrease in amount due						
to related companies	–	–	–	(15,319)	–	(15,319)
Share of loss for the year	–	–	–	–	(543)	(543)
Issue of shares in connection						
with the Reorganisation	52,376	–	–	–	–	52,376
Increase in amount due to						
a minority shareholder						
of a subsidiary	–	–	–	–	363	363
Translation adjustments	–	–	(197)	(702)	–	(899)
Balance as at 31						
December 2000	52,376	45,307	10,538	148	47	108,416
New loans	–	187,361	6,149	–	–	193,510
Repayment of loans	–	(30,074)	(4,346)	–	–	(34,420)
Decrease in amount due						
to related companies	–	–	–	(148)	–	(148)
Decrease in amount due to						
a minority shareholder						
of a subsidiary	–	–	–	–	(363)	(363)
Issue of shares in connection						
with the Reorganisation	40,265	–	–	–	–	40,265
Issue of shares for cash	116,100	–	–	–	–	116,100
Share issuance expenses	(23,611)	–	–	–	–	(23,611)
Attributable to disposal of						
interest in a subsidiary	–	–	–	–	(484)	(484)
Share of profit for the year	–	–	–	–	380	380
Balance as at 31						
December 2001	185,130	202,594	12,341	–	(420)	399,645

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

c. Analysis of cash and cash equivalents:

	2001	2000
	\$'000	\$'000
Cash and bank deposits	74,998	19,301
Trust receipts bank loans	(57,955)	(74,670)
	<u>17,043</u>	<u>(55,369)</u>

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

24. SEGMENT INFORMATION

a. Business segment

The Group is principally engaged in the trading of motor trucks, coaches and vehicle accessories, provision of motor vehicle repair and maintenance services, sale of fuel, provision of other motor vehicle related services, and motor vehicle financing business. An analysis by business segment is as follows:

	Trading of trucks, coaches and accessories \$'000	Provision of repair and maintenance services \$'000	Sale of fuel \$'000	2001 Provision of other motor vehicle related services \$'000	Motor vehicle financing \$'000	Elimination \$'000	Total \$'000
Turnover							
Sales to external customers	545,982	136,279	43,003	2,240	1,684	–	729,188
Inter-segment sales	960	18,781	310	459	–	(20,510)	–
Total revenue	546,942	155,060	43,313	2,699	1,684	(20,510)	729,188
Operating results							
Segment result	12,656	23,174	(5,870)	(509)	(136)	8,086	37,401
Unallocated corporate expenses							(4,325)
Other revenue							4,499
Interest income							2,630
Interest expense							(13,196)
Gain on disposal of interest in a subsidiary							10,484
Taxation							(10,976)
Profit after taxation but before minority interests							26,517
Other information							
Assets –							
Segment assets	370,228	104,504	13,602	3,282	21,499		513,115
Unallocated assets							59,338
							572,453
Liabilities –							
Segment liabilities	257,644	43,968	7,694	8,703	26,130		344,139
Unallocated liabilities							11,034
							355,173
Capital expenditures –							
Segment capital expenditures	3,667	5,830	211	11	–		9,719
Unallocated capital expenditures							21,255
							30,974
Depreciation –							
Segment depreciation	3,338	2,410	279	365	–		6,392
Unallocated depreciation							1,157
							7,549
Non-cash expenditures other than depreciation	4,333	2,543	858	–	1,212		8,946

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

24. SEGMENT INFORMATION (continued)

a. Business segment (continued)

	Trading of trucks, coaches and accessories \$'000	Provision of repair and maintenance services \$'000	2000 Sale of fuel \$'000	Provision of other motor vehicle related services \$'000	Motor vehicle financing \$'000	Elimination \$'000	Total \$'000
Turnover							
Sales to external customers	543,195	150,726	1,500	1,235	2,406	–	699,062
Inter-segment sales	9,108	19,989	79	872	–	(30,048)	–
Total revenue	552,303	170,715	1,579	2,107	2,406	(30,048)	699,062
Operating results							
Segment result	40,154	30,170	(3,356)	(255)	1,926	6,100	74,739
Unallocated corporate expenses							(269)
Other revenue							3,509
Interest income							2,330
Interest expense							(7,194)
Taxation							(17,535)
Profit after taxation but before minority interests							55,580
Other information							
Assets –							
Segment assets	241,206	77,112	2,332	1,598	20,036		342,284
Unallocated assets							41,805
							384,089
Liabilities –							
Segment liabilities	167,356	23,122	860	2,819	77		194,234
Unallocated liabilities							7,762
							201,996
Capital expenditures –							
Segment capital expenditures	6,860	2,510	727	727	–		10,824
Unallocated capital expenditures							34,788
							45,612
Depreciation –							
Segment depreciation	2,413	2,085	80	132	–		4,710
Non-cash expenditures other than depreciation	2,311	958	–	62	41		3,372

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

24. SEGMENT INFORMATION (continued)

b. Geographical segment

The Group's activities are conducted predominantly in Taiwan, Hong Kong and Mainland China. An analysis by geographical segment is as follows:

	2001				
	Mainland				Total
	Taiwan	Hong Kong	China	Unallocated	
	\$'000	\$'000	\$'000	\$'000	\$'000
Turnover	427,379	274,974	26,835	–	729,188
Segment result	45,618	(7,219)	(998)	–	37,401
Profit (Loss) from operations	45,883	(7,327)	(981)	–	37,575
Assets	298,215	193,635	21,265	59,338	572,453
Capital expenditures	2,933	5,833	953	21,255	30,974
	2000				
	Mainland				Total
	Taiwan	Hong Kong	China	Unallocated	
	\$'000	\$'000	\$'000	\$'000	\$'000
Turnover	413,768	248,860	36,434	–	699,062
Segment result	50,270	18,487	5,982	–	74,739
Profit from operations	52,188	19,640	6,151	–	77,979
Assets	163,006	156,865	22,413	41,805	384,089
Capital expenditures	8,604	1,817	403	34,788	45,612

Turnover by geographical location is determined on the basis of the destination of shipment of merchandise.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

25. COMMITMENTS

a. Capital commitments

The Group has the following capital commitments for purchases of properties and equipment:

	2001 \$'000	2000 \$'000
Contracted but not provided	–	4,827
Authorised by the Directors but not contracted	–	5,025
	–	9,852

b. Operating commitments

The Group has operating lease commitments in respect of rented premises under non-cancellable operating lease agreements extending to December 2008. The total amount of commitment payable under these agreements is analysed as follows:

	2001 \$'000	2000 \$'000
Amounts payable within a period		
– within one year	5,683	8,873
– of between two to five years	3,641	8,859
– over five years	1,273	1,990
	10,597	19,722

The commitments payable within the next twelve months are analysed as follows:

	2001 \$'000	2000 \$'000
Leases expiring within a period		
– not exceeding one year	4,028	437
– of more than one year but not exceeding five years	1,019	7,773
– exceeding five years	636	663
	5,683	8,873

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

25. COMMITMENTS (continued)

c. Foreign currency forward contracts

	2001 \$'000	2000 \$'000
Commitment to buy US\$15,000,000 and EUR\$200,000 (2000 – US\$1,600,000)	118,420	12,482

26. PENSION SCHEMES

The group companies in Hong Kong participate in two pension schemes - the Occupational Retirement Scheme (the "ORSO" Scheme) and the Mandatory Provident Fund ("the MPF Scheme"). Both the ORSO Scheme and the MPF Scheme are defined contribution schemes managed by independent trustees. The assets of the fund are held separately from those of the Group and are managed by independent professional fund managers.

Under the ORSO Scheme, each of the employer and its employees makes monthly contributions to the scheme at 5% of the employees' basic salaries. The employees are entitled to receive their entire contribution and the accrued interest thereon, and 100% of the employer's contribution and the accrued interest thereon upon retirement or leaving the employer after completing 10 years of service or at a reduced scale of between 20% to 90% after completing 2 to 9 years of service. The forfeited contributions made by the employer and the related accrued interest are used to reduce the employer's contribution. This scheme is not available to employees employed after 1 December 2000.

The MPF Scheme was set up on 1 December 2000, following the introduction of the Mandatory Provident Fund legislation in Hong Kong. All members of the ORSO Scheme were transferred to the MPF Scheme since then. Under the MPF Scheme, each of the employer and its employees make monthly contributions to the MPF Scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employees' contributions are subject to a cap of monthly earning of \$20,000 per employee and thereafter contributions are voluntary.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. PENSION SCHEMES *(continued)*

As stipulated by laws in Taiwan, the Taiwan branch of a group company has maintained a defined benefits retirement plan for its employees in Taiwan. Under the plan, the Group has an obligation to make contributions as stipulated by the laws and to make payments to qualifying employees, upon retirement, in the manner stipulated by the laws. However, there is no requirement that the Group should ensure that there are sufficient funds in the plan. The latest actuarial valuation of the plan was conducted by KPMG Consulting Co. Ltd., fellow of Actuarial Institute in Taiwan at 31 December 2001, using the aggregate cost method and the following principal assumptions: average annual investment return of 4.5% and average annual increase rate in salary of 2%. The actuarial valuation as at 31 December 2001 indicates that the plan had assets with a market value of approximately \$1,175,000 and obligations of approximately \$5,786,000. Consequently, there was a funding deficit of approximately \$4,611,000. Forefront International Limited, a substantial shareholder of the Company, has indemnified the Taiwan branch of a group company against any shortfall in respect of payments to employees who were transferred from Forefront International Limited to the group company in Taiwan on 1 March 1999, up to an amount of approximately \$4,591,000.

During the year ended 31 December 2001, the aggregate amount of employer's contributions made by the Group to the aforementioned retirement schemes amounted to approximately \$1,889,000 (2000 – \$816,000) and no (2000 – \$259,000) forfeited contribution was utilised to reduce the Group's employer contributions. As at 31 December 2001, there was no significant forfeited contribution available to reduce the Group's employer contribution payable in future periods.

27. BANKING FACILITIES

As at 31 December 2001, the Group had aggregate banking facilities of approximately \$609,515,000 (2000 – \$237,433,000) for overdrafts, loans, trade financing and forward exchange contracts. Unused facilities as at 31 December 2001 amounted to approximately \$334,114,000 (2000 – \$74,421,000). These facilities were secured by:

- a. Mortgages over the Group's properties with a net book value of approximately \$49,300,000 (2000 – Nil) (see Note 12);
- b. The Group's inventories held under trust receipts bank loans (see Note 14);

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

27. BANKING FACILITIES *(continued)*

- c. Pledges of the Group's accounts receivables of approximately \$42,213,000 (2000 – Nil) covered by post-dated cheques from customers by the Group's subsidiary in Taiwan (see Note 15);
- d. Pledges of bank deposits of approximately \$3,476,000 (2000 – \$12,326,000) by the Group's subsidiary in Taiwan (see Note 16);
- e. Pledges over certain vehicles of the Group's customers which are pledged to the Group as security for finance leases granted by the Group;
- f. Pledges of certain listed securities owned by Mr. Yang Chien Chi, Allen, director of the Company, and Mr. Yang Chien Nan, brother of Mr. Yang Chien Chi, Allen, for facilities granted by a bank to the Group's subsidiary in Taiwan; and
- g. Corporate guarantees provided by the Company.

28. CONTINGENT LIABILITIES

Details of contingent liabilities not provided for in the financial statements were:

- a. During the year, certain advertising firms filed a claim against Forefront International (Hong Kong) Limited, a wholly-owned subsidiary, for the allegedly unpaid advertising fees of approximately \$1,763,000. After considering the information available to the Group in relation to the alleged claim and based on legal advice, the Directors of the Company and Forefront International (Hong Kong) Limited consider that the said claim is without merits as the alleged advertising services were not rendered to Forefront International (Hong Kong) Limited or any other group companies. Accordingly, no provision has been made in the financial statements for such a claim.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. CONTINGENT LIABILITIES (continued)

b. Other contingent liabilities:

	Consolidated		Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Guarantees provided by the Company in respect of banking facilities granted to its subsidiaries	–	–	403,400	25,000
A guarantee provided by the Group in favour of a supplier	5,000	5,000	–	–
A guarantee provided in respect of banking facilities granted to a shareholder	–	31,200	–	–
	5,000	36,200	403,400	25,000

29. SUBSEQUENT EVENTS

- a. In February 2002, the Company issued 40,000,000 new shares at \$2.95 per share, resulting in net proceeds of approximately \$115,000,000.
- b. In March 2002, the Company repurchased, through The Stock Exchange of Hong Kong Limited, 3,800,000 ordinary shares at an aggregate consideration of approximately \$6,560,000. These shares were subsequently cancelled.
- c. On 25 April 2002, the board of directors of the Company proposed a final dividend of \$0.008 per share, totalling approximately \$3,550,000, in respect of the year ended 31 December 2001. The proposed dividend is subject to approval by the Company's shareholders in the upcoming annual general meeting.