

22 DEFERRED TAXATION - THE GROUP (CONT'D)

Movements on the provision for deferred taxation are as follows:

	2000 HK\$'000	1999 HK\$'000
At 1 January	900	248
Transferred to profit and loss account (note 5)	5,853	189
Acquisition of subsidiaries	463	463
At 31 December	<u>7,216</u>	<u>900</u>

No provision has been made for deferred tax liability in respect of the timing differences relating to the revaluation of certain leasehold land and buildings of the Group. The revaluation does not constitute a timing difference for taxation purposes because the management of the Group intend to operate these properties on a long-term basis.

23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2000 HK\$'000	1999 HK\$'000
Profit before taxation	924,270	613,861
Interest income	(140,330)	(43,830)
Interest expenses	20,585	32,243
Share of profits less losses of associated companies	(13,677)	(9,389)
Depreciation	95,939	78,376
Provision for diminution in value of investments	5,790	—
Profit on disposal of fixed assets	(7,205)	(1,142)
Increase in inventories	(51,529)	(23,855)
Increase in trade and bills receivable, other receivables, prepayments and deposits including amounts due from associated companies	(708,861)	(402,231)
Increase in trade and bills payable, accrued charges and sundry payables including amounts due to associated companies	<u>931,854</u>	<u>380,808</u>
Net cash inflow from operating activities	<u>1,056,836</u>	<u>624,841</u>

23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(b) Disposal of a subsidiary

	2000 HK\$'000	1999 HK\$'000
Net assets disposed of:		
Investments	34,639	—
Loan to an investee company	38,650	—
	<u>73,289</u>	<u>—</u>
Satisfied by cash	<u>73,289</u>	<u>—</u>

Analysis of inflow of cash and cash equivalents in respect of disposal of a subsidiary:

	2000 HK\$'000	1999 HK\$'000
Cash consideration	<u>73,289</u>	<u>—</u>

23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(c) Purchase of subsidiaries

	2000 HK\$'000	1999 HK\$'000
Net assets acquired:		
Fixed assets	115,133	18,619
Investments	20,950	—
Inventories	5,437	13,892
Trade and other receivables	350,222	163,163
Cash and bank balances	230,968	105,711
Trade and other payables	(401,186)	(208,067)
Obligations under finance leases	(5,461)	—
Bank loans and overdrafts	—	(13,451)
Taxation payable	(8,001)	(6,074)
Deferred taxation	(463)	(463)
Minority interests	(1,711)	(26,391)
Long-term bank loans	(75,936)	—
Long-term loan from the Group	(19,600)	—
Loans from minority shareholders of a subsidiary	(7,616)	—
Exchange reserve	—	(182)
	<u>202,736</u>	<u>46,757</u>
Goodwill on consolidation	2,106,128	477,579
	<u>2,308,864</u>	<u>524,336</u>
Satisfied by:		
Cash consideration	321,314	488,350
Interests in associated companies	—	2,776
Consideration shares (note 19(h))	1,952,493	—
Expenses incurred in respect of acquisition of subsidiaries and the related restructuring costs	35,057	33,210
	<u>2,308,864</u>	<u>524,336</u>

23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(c) Purchase of subsidiaries (CONT'D)

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

	2000 HK\$'000	1999 HK\$'000
Cash consideration	321,314	488,350
Expenses incurred in respect of acquisition of subsidiaries and the related restructuring costs	35,057	33,210
Outstanding purchase consideration payable	<u>(123,750)</u>	<u>(335,880)</u>
Cash consideration paid	232,621	185,680
Cash and cash equivalents acquired	<u>(230,968)</u>	<u>(92,260)</u>
Net outflow of cash and cash equivalents in respect of acquisition of subsidiaries	<u>1,653</u>	<u>93,420</u>

Notes to the Accounts (continued)

23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(d) Analysis of changes in financing during the year

	2000					1999			
	Share capital including share premium HK\$'000	Long-term bank loans HK\$'000	Obligations under finance leases HK\$'000	Loans from minority shareholders HK\$'000	Minority interests HK\$'000	Share capital including share premium HK\$'000	Long-term bank loans HK\$'000	Amounts due from holding company and fellow subsidiaries HK\$'000	Minority interests HK\$'000
At 1 January	795,721	458,651	—	—	4,460	716,663	489,558	(768)	(24,595)
Non cash movement									
Share of (losses)/profits	—	—	—	—	(10,296)	—	—	—	2,585
Acquisition of subsidiaries	—	75,936	5,461	7,616	1,711	—	—	—	123
Consideration Shares to be issued (note 19(h))	2,830	—	—	—	—	—	—	—	—
Premium paid on acquisition of subsidiaries/business	—	—	—	—	—	—	—	—	26,262
Exchange adjustment	—	(2,691)	—	—	469	—	(907)	—	(34)
	798,551	531,896	5,461	7,616	(3,656)	716,663	488,651	(768)	4,341
Proceeds from issue of shares	2,035,496	—	—	—	—	79,058	—	—	—
Bank and other loans raised	—	—	—	18,160	—	—	250,000	—	—
Repayment of bank loans	—	(430,492)	—	—	—	—	(280,000)	—	—
Capital element of finance lease payments	—	—	(266)	—	—	—	—	—	—
Repayments from holding company and fellow subsidiaries	—	—	—	—	—	—	—	768	—
Dividends paid	—	—	—	—	(50)	—	—	—	(113)
Repayment to a minority shareholder	—	—	—	—	318	—	—	—	—
Capital contribution from a minority shareholder	—	—	—	—	23,249	—	—	—	232
At 31 December	2,834,047	101,404	5,195	25,776	19,861	795,721	458,651	—	4,460

Notes to the Accounts (continued)

24 CONTINGENT LIABILITIES

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bills of exchange discounted with recourse	916,857	469,931	—	—
Guarantees in respect of banking facilities granted to:				
Subsidiaries	—	—	7,700,655	6,441,380
Associated companies	76,050	52,460	46,800	23,315
Other guarantees	9,600	11,000	—	—
	<u>1,002,507</u>	<u>533,391</u>	<u>7,747,455</u>	<u>6,464,695</u>

25 COMMITMENTS

(a) Operating lease commitments

At 31 December 2000, the Group had commitments to make payments in the next twelve months under operating leases which expire as follows:

	The Group			
	2000 Land and buildings HK\$'000	2000 Others HK\$'000	1999 Land and buildings HK\$'000	1999 Others HK\$'000
Within one year	26,364	—	15,385	—
In the second to fifth year inclusive	36,607	572	22,064	—
After the fifth year	4,475	—	147	—
	<u>67,446</u>	<u>572</u>	<u>37,596</u>	<u>—</u>

(b) Capital commitments for property, plant and equipment

	The Group	
	2000 HK\$'000	1999 HK\$'000
Contracted but not provided for	<u>5,992</u>	<u>3,185</u>

26 CHARGE OF ASSETS

At 31 December 2000, there were charges on the assets and undertakings, of one (1999: two) overseas subsidiary and the Group's land and buildings, with net book values amounting to HK\$117,385,000 (1999: HK\$213,588,000) and HK\$101,210,000 (1999: HK\$913,858,000) respectively in favour of banks to cover banking facilities granted to these subsidiaries.

27 RELATED PARTY TRANSACTION

On 27 March 2000, the Group entered into an agreement (the "Agreement") to dispose of its entire interest in a subsidiary, Neptune Pacific Limited ("Neptune"), to Li & Fung (1937) Limited, a substantial shareholder of the Company, at a consideration of approximately HK\$73.3 million. Neptune owns 20% interest in the share capital of LF Distribution Centers Limited which in turn holds 70% equity interest in Lifung (Panyu) DistriCenter Company Limited. Lifung (Panyu) DistriCenter Company Limited owns a warehouse and logistic center located in the Guangdong Province of the People's Republic of China. Dr Victor FUNG Kwok King and Dr William FUNG Kwok Lun, the directors of the Company, are the controlling shareholders of Li & Fung (1937) Limited.

28 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 26 March 2001.