

Notes of Financial Statements

31 December 2000

1. CORPORATE INFORMATION

Gemzboh Holdings Limited was incorporated in Bermuda on 24 April 1998 as an exempted company with limited liability under the Companies Act 1981 of Bermuda.

During the year, the Group was engaged in the design, manufacture and sale of apparel.

In the opinion of the directors, the ultimate holding company is Regal China Development Limited, which is incorporated in the British Virgin Islands ("BVI").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the Periodic remeasurement of investment properties and certain fixed assets, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- (b) rental income, on a time proportion basis over the lease terms; and
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged or credited to the profit and loss account on the straight-line basis over the lease terms.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period 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 that asset.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

Leasehold land and buildings	The shorter of the lease terms and 50 years
Leasehold improvements	The shorter of the lease terms and 5 to 10 years
Plant and machinery	5 to 10 years
Furniture, office equipment and motor vehicles	5 to 10 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Inventories

Inventories are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads based on a normal level of operating activities. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

3. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

4. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

The Group's (loss)/profit from operating activities is arrived at after charging/(crediting):

	2000	1999
	HK\$'000	HK\$'000
Cost of inventories sold	145,723	149,430
Depreciation:		
Owned fixed assets	3,448	3,519
Leased fixed asset	135	135
Auditors' remuneration	900	850
Staff costs (excluding directors' remuneration – note 5)		
Wages and salaries	1,635	2,623
Retirement scheme contribution	3	–
Operating lease rentals on leasehold land and buildings	3,759	4,956
Provision for bad and doubtful debts	8,848	–
Provision against deposit paid for an investment	1,844	–
Loss on disposal of fixed assets	366	180
Loss on disposal of a subsidiary	–	8
Deficit on revaluation of leasehold land and buildings in Hong Kong – note 12	–	923
Deficit on revaluation of investment property in Hong Kong – note 13	20	665
Gross rental income	(573)	(634)
Less: Outgoings	22	27
Net rental income	(551)	(607)
Gain on disposal of subsidiaries	(296)	–
Interest income	(1,579)	(1,420)

5. DIRECTORS' REMUNERATION

	Group	
	2000	1999
	HK\$'000	HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	–	–
Basis salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	2,517	3,569
Independent non-executive directors	–	–
	2,517	3,569

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

	Number of directors	
	2000	1999
Nil – HK\$1,000,000	7	6
HK\$1,000,001 – HK\$1,500,000	1	2
	8	8

In addition to the above remuneration, share options to subscribe for 34,000,000 ordinary shares in the Company were granted to the executive directors during the year. In the absence of a readily available market value for share options on the ordinary shares in the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted. Accordingly, no value was included in the remuneration paid to the executive directors, disclosed above, in respect thereof.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

6. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (1999: four) directors, details of whose remuneration are disclosed above. The details of the remuneration of two (1999: one) remaining non-director, highest paid employees are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Basis salaries, housing benefits, other allowances and benefits in kind	264	124

In addition to the above remuneration, share options to subscribe for 4,000,000 ordinary shares in the Company were granted to the above employees during the year. In the absence of a readily available market value for share options on the ordinary shares in the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted. Accordingly, no value was included in the remuneration paid to the employees, disclosed above, in respect thereof.

7. FINANCE COSTS

	2000	1999
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	2,029	2,590
Interest on finance lease	64	84
Total finance costs	2,093	2,674

8. TAX

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2000	1999
	HK\$'000	HK\$'000
Group:		
Hong Kong	–	108
Elsewhere	730	3,119
	730	3,227

No provision for deferred tax has been made as the Group did not have any significant unprovided deferred tax in respect of the year (1999: Nil).

The revaluations of the Group's leasehold land and buildings and investment property do not constitute timing differences and, consequently, there is no deferred tax thereon.

9. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is approximately HK\$675,000 (1999: HK\$1,387,000).

10. DIVIDEND

The directors do not recommend the payment of any final dividend (1999: Nil) in respect of the year ended 31 December 2000.

11. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of approximately HK\$25,280,000 (1999: net profit of approximately HK\$20,388,000), and the weighted average of 2,500,934,426 (1999: 2,402,739,726) ordinary shares in issue during the year.

No diluted loss/earnings per share is presented as the Company did not have any dilutive potential ordinary shares during 2000 and 1999.

12. FIXED ASSETS**Group**

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, office equipment and motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:					
At beginning of year	15,900	5,936	17,280	3,367	42,483
Additions	–	–	36	555	591
Disposals	–	(458)	–	–	(458)
Deficit on revaluation	(350)	–	–	–	(350)
At end of year	15,550	5,478	17,316	3,922	42,266
Analysis of cost or valuation:					
At cost	–	5,478	17,316	3,922	26,716
At valuation	15,550	–	–	–	15,550
	15,550	5,478	17,316	3,922	42,266
Accumulated depreciation:					
At beginning of year	–	1,270	5,303	2,445	9,018
Provided during the year	200	987	1,731	665	3,583
Disposals	–	(92)	–	–	(92)
Written back on revaluation	(200)	–	–	–	(200)
At end of year	–	2,165	7,034	3,110	12,309
Net book value:					
At 31 December 2000	15,550	3,313	10,282	812	29,957
At 31 December 1999	15,900	4,666	11,977	922	33,465

12. FIXED ASSETS (continued)

The Group's leasehold land and buildings included above are held under the following terms:

	Group	
	2000 HK\$'000	1999 HK\$'000
Medium term lease in Hong Kong	2,650	2,700
Medium term land use rights in the PRC	12,900	13,200
	15,550	15,900

At 31 December 2000, the leasehold land and buildings in Hong Kong were revalued on an open market, existing use basis and those in the PRC on a depreciated replacement cost basis, by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional valuers, at HK\$2,650,000 and HK\$12,900,000, respectively. A deficit of approximately HK\$150,000 arising from the revaluation of the leasehold land and buildings in the PRC was charged to the fixed asset revaluation reserve (note 23).

Had the Group's leasehold land and buildings held in Hong Kong been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$4,037,000 (1999: HK\$4,087,000).

Had the Group's leasehold land and buildings held in the PRC been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$5,815,000 (1999: HK\$5,965,000).

At 31 December 2000, the Group's leasehold land and buildings with carrying values of HK\$2,650,000 (1999: HK\$2,700,000) and HK\$12,900,000 (1999: HK\$13,200,000) held in Hong Kong and the PRC, respectively, were pledged to secure certain banking facilities granted to the Group (note 21).

The net book value of fixed asset of the Group held under finance lease included in the total amount of furniture, office equipment and motor vehicles at 31 December 2000 amounted to approximately HK\$407,000 (1999: HK\$542,000).

13. INVESTMENT PROPERTY

	Group	
	2000	1999
	HK\$'000	HK\$'000
Valuation:		
At beginning of year	4,020	4,700
Deficit on revaluation	(20)	(680)
At end of year	4,000	4,020

The Group's investment property is held under a medium term lease in Hong Kong.

At 31 December 2000, the investment property was revalued on an open market, existing use basis by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional valuers, at HK\$4,000,000. A deficit of HK\$20,000 arising therefrom has been charged to profit and loss account (note 4).

At 31 December 2000, the Group's investment property was pledged to secure certain banking facilities granted to the Group (note 21).

14. INTERESTS IN SUBSIDIARIES

	Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	61,116	61,116
Due from subsidiaries	63,096	38,929
Due to a subsidiary	—	(530)
	124,212	99,515

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

14. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Ever Lasting Resources Limited	BVI	Ordinary US\$1,000	100%	Investment holding
Indirectly held				
Explorer Enterprises Garment Co., Ltd., Shishi City	PRC	RMB20,000,000	100%	Manufacture and sale of apparel
Fortune Carnival Investment Limited	Hong Kong	Ordinary HK\$2	100%	Trading of apparel
Fujian Shitelan Sports Product Co., Ltd.	PRC	HK\$20,000,000	100%	Manufacture and sale of apparel
Gemzboh (China) Investments Limited	HK	Ordinary HK\$1,000	100%	Investment holding
Gemzboh Enterprises (Xiamen) Co., Ltd.	PRC	RMB20,000,000	100%	Manufacture and sale of apparel

14. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Kaffin Limited	Hong Kong	Ordinary HK\$1,000,000	100%	Trading of apparel
Speed Wealth Holdings Limited	BVI/ PRC	Ordinary US\$1,000	100%	Provision of quality control services

The subsidiaries disposed of during the year had no material effects on the Group's turnover and net loss for the year.

15. INVENTORIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Raw materials	3,075	3,257
Work in progress	1,253	3,151
Finished goods	45,181	53,430
	49,509	59,838

16. TRADE RECEIVABLES

The ageing analysis of trade receivable is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
1 – 3 months	36,983	32,988
4 – 6 months	6,083	10,309
7 – 12 months	1,427	5,191
	44,493	48,488

The Group normally allows credit terms to established customers ranging from 90 to 120 days.

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	26,198	24,178	6,790	218
Time deposits	5,527	32,000	–	32,000
	31,725	56,178	6,790	32,218

18. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	Note	Group	
		2000 HK\$'000	1999 HK\$'000
Bank overdrafts, secured	21	–	96
Bank loans, secured	21	29,089	27,245
Trust receipt loans, secured	21	–	553
Current portion of finance lease payables	20	182	153
		29,271	28,047

19. TRADE PAYABLES

All trade payables as at 31 December 2000 and 1999 were aged less than 90 days.

20. FINANCE LEASE PAYABLE

	Note	Group	
		2000 HK\$'000	1999 HK\$'000
Amount payable:			
Within one year		217	217
In the second year		144	217
In the third to fifth years, inclusive		–	144
Total minimum finance lease payments		361	578
Future finance charges		(42)	(106)
Total net finance lease payables		319	472
Portion classified as current liability	18	(182)	(153)
Long term portion		137	319

21. BANKING FACILITIES

At 31 December 2000, the Group's banking facilities were secured by the following:

- (i) the Group's leasehold land and buildings in Hong Kong and the PRC with a carrying values of HK\$2,650,000 and HK\$12,900,000, respectively (note 12);
- (ii) the Group's investment property with a carrying value of HK\$4,000,000 (note 13);
- (iii) personal guarantees given by a director of the Company and a director of a subsidiary, and certain properties situated in the PRC jointly held by certain directors of the Group and certain independent third parties; and
- (iv) corporate guarantees given by the Company, certain subsidiaries of the Company and an independent third party.

22. SHARE CAPITAL

	2000	1999
	HK\$'000	HK\$'000
<i>Authorised:</i>		
10,000,000,000 ordinary shares of HK\$0.01 each	100,000	100,000
<i>Issued and fully paid:</i>		
2,501,500,000 (1999: 2,500,000,000) ordinary shares of HK\$0.01 each	25,015	25,000

During the year, 1,500,000 share options were exercised at the subscription price of HK\$0.133 per share, resulting in the issue of 1,500,000 shares of HK\$ 0.01 each for a total cash consideration, net of expenses, of approximately HK\$199,000.

22. SHARE CAPITAL (continued)

A summary of the movements in the issued share capital of the Company during 1999 and 2000 is as follows:

	Shares issued '000	Amount HK\$'000
At 1 January 1999	240,000	24,000
Subdivision of 1 ordinary share of HK\$0.10 each into 10 ordinary shares of HK\$0.01 each	2,160,000	—
Issue of shares for cash consideration	100,000	1,000
At 31 December 1999 and 1 January 2000	2,500,000	25,000
Share options exercised	1,500	15
At 31 December 2000	2,501,500	25,015

Share options

Under the terms of the Company's share option scheme approved by The Stock Exchange of Hong Kong Limited on 12 June 1998, the directors of the Company may, at their discretion, grant options to employees of the Group, including directors of the Company to subscribe for shares. Options may be granted without any initial payment, and entitle the holders to subscribe for shares during such periods as may be determined by the directors at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing price of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the share capital of the Company in issue from time to time, and the maximum number of shares in respect of which options may be granted to any employee may not exceed 25% of the maximum number of shares in respect of which options may be granted under the share option scheme. Shares allotted on the exercise of options will rank pari passu with the other shares in issue at the date of exercise of the relevant options.

22. SHARE CAPITAL (continued)**Share options** (continued)

On 2 February 2000, the board of directors granted 14,000,000, 10,000,000, 10,000,000 and 26,060,000 share options at cash consideration of HK\$1 for each grantees to subscribe for 14,000,000, 10,000,000, 10,000,000 and 26,060,000 ordinary shares of the Company, to three executive directors, Mr. Tsoi Kwing Ming, Mr. Leung Kam Pui, Mr. Li Chak Hung, and to certain employees, respectively. The share options are exercisable between 2 March 2000 and 2 February 2003 inclusive, at a price of HK\$0.133 per share.

A total of 1,500,000 share options were exercised during the year and the Company had 58,560,000 outstanding shares options at the balance sheet date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 58,560,000 additional shares of HK\$0.01 each.

23. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Fixed asset revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Statutory reserve fund HK\$'000	Retained profits HK\$'000	Total HK\$'000
Group							
At 1 January 1999	7,682	18,261	7,385	15	333	44,986	78,662
Issue of shares	35,000	–	–	–	–	–	35,000
Share issue expenses	(1,095)	–	–	–	–	–	(1,095)
Deficit on revaluation							
– notes 12 and 13	–	–	(150)	(15)	–	–	(165)
Arising on disposal of a subsidiary	–	–	–	–	(333)	–	(333)
Retained profit for the year	–	–	–	–	–	20,388	20,388
At 31 December 1999 and 1 January 2000	41,587	18,261	7,235	–	–	65,374	132,457
Arising on exercise of share options	184	–	–	–	–	–	184
Deficit on revaluation							
– notes 12	–	–	(150)	–	–	–	(150)
Net loss for the year	–	–	–	–	–	(25,280)	(25,280)
At 31 December 2000	41,771	18,261	7,085	–	–	40,094	107,211

23. RESERVES (continued)

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
Company				
As 1 January 1999	7,682	60,916	4,926	73,524
Issue of shares	35,000	–	–	35,000
Share issue expenses	(1,095)	–	–	(1,095)
Net loss for the year – note 9	–	–	(1,387)	(1,387)
At 31 December 1999 and 1 January 2000	41,587	60,916	3,539	106,042
Arising on exercise of share options	184	–	–	184
Net loss for the year – note 9	–	–	(675)	(675)
At 31 December 2000	41,771	60,916	2,864	105,551

The contributed surplus of the Group arose as a result of the Group reorganisation carried out on 18 May 1998 and represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its members out of the contributed surplus, under certain circumstances.

24. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of (loss)/profit from operating activities to net cash (outflow)/inflow from operating activities

	2000	1999
	HK\$'000	HK\$'000
(Loss)/profit from operating activities	(22,457)	26,289
Interest income	(1,579)	(1,420)
Depreciation	3,583	3,654
Loss on disposal of fixed assets	366	180
(Gain)/loss on disposal of subsidiaries	(296)	8
Deficit on revaluation of leasehold land and buildings	–	923
Deficit on revaluation of investment property	20	665
Provision for bad and doubtful debts	8,848	–
Provision against deposit paid for an investment	1,844	–
Increase in trade receivables	(4,853)	(1,594)
Decrease in inventories	10,329	1,109
Increase in prepayments, deposits and other receivables	(20,492)	(12,282)
(Decrease)/increase in trade payables	(118)	19
(Decrease)/increase in other payables and accruals	(38)	2,892
Net cash (outflow)/inflow from operating activities	(24,843)	20,443

24. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of subsidiaries

	2000	1999
	HK\$'000	HK\$'000
Net assets disposed of:		
Fixed assets	–	291
Prepayments, deposits and other receivables	17,729	6,982
Cash and bank balances	–	2
Other payables and accruals	(5,986)	(1,234)
Tax payables	(11,727)	–
Statutory reserve fund	–	(333)
	16	5,708
Gain/(loss) on disposal of subsidiaries	296	(8)
	312	5,700
Satisfied by:		
Cash	312	5,700

24. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of subsidiaries (continued)

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2000	1999
	HK\$'000	HK\$'000
Cash consideration	312	5,700
Cash and bank balances disposed of	–	(2)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	312	5,698

The subsidiaries disposed of during the year made no significant contribution to the Group in respect of the cash flows, turnover or contribution to the net loss for the year.

24. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Analysis of changes in financing activities during the year

	Bank loans, secured HK\$'000	Finance lease payable HK\$'000	Share capital and premium HK\$'000
Balance at 1 January 1999	29,735	–	31,682
Inception of finance lease contract	–	581	–
Cash (outflow)/inflow from financing activities, net	(2,490)	(109)	34,905
Balance at 31 December 1999 and 1 January 2000	27,245	472	66,587
Cash inflow/(outflow) from financing activities, net	1,844	(153)	199
Balance at 31 December 2000	29,089	319	66,786

25. COMMITMENTS

At the balance sheet date, the Group had the following outstanding commitments:

	Group	
	2000	1999
	HK\$'000	HK\$'000
(a) Contracted capital commitments in respect of purchases of fixed assets	940	–
(b) Contracted capital commitments in respect of capital contributions to jointly-controlled entities in the PRC	–	18,809
(c) Future aggregate lease payments under non-cancellable operating leases in respect of leasehold land and buildings expiring:		
Within one year	3,094	3,752
In the second to fifth years, inclusive	3,034	6,136
	6,128	9,888

The Company did not have any significant commitments at the balance sheet date.

26. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date.

The Company has given guarantees in favour of certain banks to the extent of HK\$7,700,000 (1999: HK\$7,700,000) in respect of banking facilities granted to certain subsidiaries of the Company. At 31 December 2000, the subsidiaries did not utilise any of these banking facilities (1999: HK\$648,000).

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25 April 2001.