



1. CORPORATE INFORMATION

The head office and principal place of business of South East Asia Wood Industries Holdings Limited is Room 2602, 26th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.

During the year, the Group was involved in the manufacture and sale of plywood and fancy plywood.

The directors consider United Star International Inc., a company incorporated in the British Virgin Islands, to be the Company's ultimate holding company.

2. IMPACT OF NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following SSAPs have been adopted for the first time in the preparation of the current year's consolidated financial statements, together with a summary of their major effects.

- SSAP 1: Presentation of Financial Statements
- SSAP 2: Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
- SSAP 24: Accounting for Investments in Securities

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The formats of the profit and loss account and the balance sheets, as set out on pages 23, 25 and 28, respectively, have been revised in accordance with the SSAP, and a statement of recognised gains and losses, not previously required, is included on page 24. Additional disclosures as required are included in the supporting notes to the financial statements.

SSAP 2 prescribes the classification, disclosure and accounting treatment of certain items in the profit and loss account, and specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors. The principal impact of the SSAP on the preparation of these financial statements is that exceptional items, previously disclosed on the face of the profit and loss account, are now disclosed primarily by way of note (note 6 to the financial statements) and are no longer specifically referred to as "exceptional".

2. IMPACT OF NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (Cont'd)

SSAP 24 prescribes the accounting treatment and disclosures for investments in debt and equity securities, including in certain circumstances alternative accounting treatments. For these financial statements, as further explained in the accounting policy note below, long term investments are stated cost less any provisions for diminutions in value, which are considered to be other than temporary in nature, deemed necessary by the directors. There are no prior period adjustments arising from the adoption of SSAP 24 in these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong SSAPs, 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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The results of the 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 have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation of subsidiaries represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition.

Capital reserve arising on consolidation represents the excess of the fair values ascribed to the acquired underlying net assets of subsidiaries at the date of acquisition over the purchase consideration paid, and is credited to reserves.

On disposal of subsidiaries, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

Revenue

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

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.

Related parties

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. Related parties may be individuals or corporate entities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation. Construction in progress is stated at cost, which includes all development expenditure and other attributable direct costs. 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 the 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 assets, the expenditure is capitalised as an additional cost of the fixed assets.

Depreciation is provided on the straight-line basis to write off the cost of each asset over the following estimated useful lives:

Leasehold land held in Hong Kong	Over the unexpired lease term
Building held in Hong Kong	40 years
Leasehold improvements	10 – 12 years or over the unexpired lease terms, whichever is shorter
Machinery, tools and equipment	10 – 15 years
Furniture and fixtures	4 – 5 years
Motor vehicles	5 years

No depreciation is provided on construction in progress until it is completed and put into commercial use.

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

Long term investment

Long term investment represents the Group's interest in Shantou Yi Fat Woods Manufacturing Co., Ltd. ("Shantou Yi Fat"), which is stated at its carrying value as at 30 September 1998, when the Group forfeited its control over this former subsidiary, less any provisions for diminutions in values which are considered to be other than temporary, deemed necessary by the directors. Further details with respect to the Group's investment in Shantou Yi Fat are set out in note 14 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

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.

Operating lease

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 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 those employees who are eligible to participate in the Scheme. 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.

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 for 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 unless its realisation is assured beyond reasonable doubt.

4. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, but excludes intra-group transactions.

An analysis of the Group's turnover and revenue is as follows:

	Year ended 31 December 2000 <i>HK\$'000</i>	Period from 1 October 1998 to 31 December 1999 <i>HK\$'000</i>
Turnover	58,451	303,654
Other revenue:		
Sales of scraps	2,326	5,502
Subcontracting fee income	–	3,032
Others	1,841	1,590
	<u>62,618</u>	<u>313,778</u>

5. WAIVER OF INDEBTEDNESS DUE TO BANK CREDITORS

As further explained in note 2 "Basis of presentation" to the Company's previous audited financial statements for the period ended 31 December 1999, on 28 June 2000, the Company entered into a conditional debt restructuring and compromise agreement and a conditional share subscription agreement (the "Agreements") with all of its bank creditors and an independent investor (the "Restructuring"). Pursuant to the Agreements, 9,000 million new shares were subscribed by certain independent third parties as further explained in note 21 to the financial statements. Part of the indebtedness due to the bank creditors was repaid in cash funded by the net proceeds arising from the share subscription and the remaining indebtedness of HK\$59,591,000 was waived by the bank creditors. As the Restructuring was completed during the current year on 30 August 2000, the waiver of the indebtedness due to the bank creditors of HK\$59,591,000 was accounted for in the profit and loss account of the current year.

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Year ended	Period from
	31	1 October 1998
	December	to 31 December
	2000	1999
	HK\$'000	HK\$'000
Depreciation	3,520	26,083
Operating lease rentals on:		
Land and buildings	3,605	4,267
Equipment and premises	–	4,914
Auditors' remuneration	600	850
Amortisation of timber concession rights	–	569
Provision for diminution in value of a long term investment	1,567	1,966
Loss on disposal of fixed assets	846	367
Provision for diminution in value of leasehold land and building in Hong Kong	–	13,876
Loss on disposal of operations in Laos	–	164,814*
Loss on assignment of receivables	–	84,763*
Provision for other receivables	3,948	–
Staff costs (including directors' remuneration):		
Wages and salaries	15,419	19,495
Interest income	(724)	–

* On 17 November 1999, in view of the unprofitable manufacturing operations in the Lao People's Democratic Republic ("Laos"), the Company disposed of certain subsidiaries, the principal activity of which was the manufacture of plywood and sawn timber in Laos, to an independent third party. As a result of the disposal, an exceptional loss of HK\$164,814,000 was accounted for in last period.

Along with the disposal, the net receivables relevant to the Group's operations in Laos of HK\$108,163,000 were assigned to the same independent third party for a consideration of HK\$23,400,000. Accordingly, an exceptional loss of HK\$84,763,000 was accounted for in last period.

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Year ended 31 December 2000 <i>HK\$'000</i>	Period from 1 October 1998 to 31 December 1999 <i>HK\$'000</i>
Fees:		
Executive directors	–	–
Independent non-executive directors	–	–
Basic salaries, housing, other allowances and benefits in kind:		
Executive directors	5,776	6,614
Independent non-executive directors	–	–
	<u>5,776</u>	<u>6,614</u>

The remuneration of the directors fell within the following bands:

	Number of directors	
	2000	1999
Nil – HK\$1,000,000	10	5
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	–	2
HK\$2,000,001 – HK\$2,500,000	–	1
	<u>11</u>	<u>8</u>

Except for the remuneration of HK\$523,000 waived by Mr. Yiu Wing Ngok, Steve who resigned on 31 October 2000, there was no arrangement under which any director waived or agreed to waive any remuneration.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included three (period ended 31 December 1999: three) directors, details of whose remuneration are set out in note 7. The remaining two non-director employees' remuneration is analysed as follows:

	Year ended 31 December 2000 <i>HK\$'000</i>	Period from 1 October 1998 to 31 December 1999 <i>HK\$'000</i>
Basic salaries, housing, other allowances and benefits in kind	<u>1,333</u>	<u>2,239</u>

The remuneration of the non-director, highest paid employees fell within the following bands:

	Number of employees	
	2000	1999
Nil – HK\$1,000,000	2	1
HK\$1,000,001 – HK\$1,500,000	–	1
	<u>2</u>	<u>2</u>

9. FINANCE COSTS

	Year ended 31 December 2000 <i>HK\$'000</i>	Period from 1 October 1998 to 31 December 1999 <i>HK\$'000</i>
Interest on:		
Bank loans and overdrafts	6,233	52,634
Finance leases	–	1,880
	<u>6,233</u>	<u>54,514</u>

10. TAX

	Year ended 31 December 2000 <i>HK\$'000</i>	Period from 1 October 1998 to 31 December 1999 <i>HK\$'000</i>
Overprovision in prior years	17,183	—

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the year (period ended 31 December 1999: Nil).

A group company operating in the PRC is exempt from income tax for two years starting from its first profitable year of operation and is entitled to 50% relief from income tax for the following three years under the Income Tax Law of the PRC. No provision for tax has been made as this group company did not generate any assessable profits arising in the PRC during the year.

Deferred tax has not been provided for as there were no significant timing differences at the balance sheet date.

11. NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK\$26,958,000 (period ended 31 December 1999: HK\$269,264,000).

12. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$41,224,000 (period ended 31 December 1999: loss of HK\$378,505,000) and the weighted average of 3,624,590,164 shares (period ended 31 December 1999: 600,000,000 shares) in issue during the year.

The diluted loss per share is not shown because there is no dilution impact for the year (period ended 31 December 1999: Nil).

13. FIXED ASSETS**Group**

	Leasehold land and building held in Hong Kong HK\$'000	Const- ruction in progress HK\$'000	Lease- hold improve- ments HK\$'000	Mach- inery, tools and equip- ment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:							
At beginning of year	12,217	90,031	3,598	29,118	716	1,037	136,717
Additions	–	934	1,044	316	492	788	3,574
Disposals	(12,217)	–	(751)	(512)	(317)	–	(13,797)
Transfers in/(out)	–	(90,965)	1,328	89,637	–	–	–
At 31 December 2000	–	–	5,219	118,559	891	1,825	126,494
Accumulated depreciation:							
At beginning of year	1,468	–	605	5,945	218	483	8,719
Provided during the year	229	–	302	2,665	106	218	3,520
Disposals	(1,697)	–	(225)	–	(204)	–	(2,126)
At 31 December 2000	–	–	682	8,610	120	701	10,113
Net book value:							
At 31 December 2000	–	–	4,537	109,949	771	1,124	116,381
At 31 December 1999	10,749	90,031	2,993	23,173	498	554	127,998

14. LONG TERM INVESTMENT

	Group	
	2000	1999
	HK\$'000	<i>HK\$'000</i>
Unlisted investment	12,964	12,964
Provision for diminution in value:		
At beginning of the year	1,966	–
Provided during the year/period	1,567	1,966
At the end of the year	3,533	1,966
	9,431	10,998

Prior to 1 October 1998, Shantou Yi Fat was accounted for as a subsidiary of the Group. On 1 October 1998, the directors of the Company reassessed the investment in Shantou Yi Fat and entered into a subcontracting agreement and a share transfer agreement (the "Agreements") with the PRC joint venture partner of this entity for the forfeiture of the Group's control in Shantou Yi Fat. In addition, pursuant to the Agreements, at the end of the subcontracting period on 25 December 2006, all of the equity interest in Shantou Yi Fat will be for the sole account of the PRC joint venture partner.

The Group's interest in Shantou Yi Fat is stated at its carrying amount when the Group forfeited its control over this former subsidiary, less provisions for diminutions in values considered to be other than temporary in nature, deemed necessary by the directors.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2000	1999
	HK\$'000	<i>HK\$'000</i>
Unlisted shares, at cost	173,133	173,133
Due from a subsidiary	279,801	146,738
Due to a subsidiary	(2,775)	(375)
Provisions for diminutions in values	(345,770)	(319,496)
	104,389	–

15. INTERESTS IN SUBSIDIARIES (Cont'd)

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

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Paid-up share/ registered capital	Effective equity interest	Principal activities
Directly held				
SEA Wood Investment Holdings Limited (formerly known as LFH Wood Industries (BVI) Limited)	British Virgin Islands	US\$10,000	100%	Investment holding
Indirectly held				
Feston Manufacturing Limited	British Virgin Islands/ The PRC	US\$10,000	100%	Trading of plywood
Feston Manufacturing (HK) Limited	Hong Kong	HK\$2	100%	Dormant
Nusoil Manufacturing Limited	British Virgin Islands/ The PRC	US\$100	100%	Investment holding and trading of plywood and fancy plywood
Wing Lam (International) Timber Limited	Hong Kong	HK\$60,000,000	100%	Investment holding
Dongguan Xinlian Timber Products Company Limited	The PRC	HK\$60,000,000	100%	Manufacture of plywood and fancy plywood
Poly Accord Limited	Hong Kong	HK\$2	100%	Dormant
Dongguan Xingtai Wood Products Company Limited	The PRC	HK\$22,400,000 (Paid-up share capital: Nil)	100%	Operations not yet commenced

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16. INVENTORIES

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	1,382	3,884
Work in progress	922	2,574
Finished goods	5,799	7,785
	<u>8,103</u>	<u>14,243</u>

All inventories are stated at cost.

17. ACCOUNTS RECEIVABLE

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Aged analysis:		
Within one month	1,224	1,519
30 to 60 days	226	-
61 to 90 days	-	-
Over 90 days	47	1,063
	<u>1,497</u>	<u>2,582</u>

The normal credit terms granted to debtors range from 30 to 45 days.

18. ACCOUNTS PAYABLE

	2000	Group 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Aged analysis:		
Within one month	1,335	5,394
30 to 60 days	756	2,626
61 to 90 days	74	675
Over 90 days	2,237	12,630
	<u>4,402</u>	<u>21,325</u>

19. ACCRUED LIABILITIES AND OTHER PAYABLES

Included in accrued liabilities and other payables are amounts due to directors of HK\$3,165,000 (1999: HK\$6,614,000) which are unsecured, interest-free and have no fixed terms of repayment.

20. OTHER LOANS

The other loans from the former shareholders of Wing Lam (International) Timber Limited ("Wing Lam"), a subsidiary of the Group, are unsecured, interest-free and have no fixed terms of repayment.

On 12 April 1999, the former shareholders of Wing Lam confirmed they would indemnify the Group against all monetary losses arising from the litigation detailed in note 25 to the financial statements, and further agreed that the loans from them could be used to settle such indemnity. Based on recent advice received from the Group's legal advisors, the appeal judgement is not expected to be concluded in the next twelve months and, accordingly, such potential claim is not expected to be payable within one year from the balance sheet date. Such loan amount is therefore classified as a long term liability at the balance sheet date.

20. OTHER LOANS (Cont'd)

On 28 June 2000, Nusoil Manufacturing Limited ("Nusoil"), a wholly-owned subsidiary of the Company, and the former shareholders of Wing Lam entered into an acquisition agreement whereby Nusoil agreed to purchase the remaining other loans owing by Wing Lam to the former shareholders of Wing Lam at a consideration of US\$1,499,900 (equivalent to approximately HK\$11.7 million), resulting in the remaining amounts of the other loans of approximately HK\$12.5 million being waived. As the other loans have been set aside for the purpose of setting off any loss arising from the litigation detailed above and in note 25 to the financial statements, this HK\$12.5 million waiver of the other loans will not be booked until the outcome of the litigation is known.

21. SHARE CAPITAL

	<i>Notes</i>	Number of ordinary shares	HK\$'000
Authorised:			
Ordinary shares of HK\$0.10 each as at 1 January 2000		1,000,000,000	100,000
Reduction in par value	(a)	9,000,000,000	–
Increase in share capital	(a)	<u>10,000,000,000</u>	<u>100,000</u>
Ordinary shares of HK\$0.01 each as at 31 December 2000		<u><u>20,000,000,000</u></u>	<u><u>200,000</u></u>
Issued and fully paid:			
Ordinary shares of HK\$0.10 each as at 1 January 2000		600,000,000	60,000
Reduction in par value	(a)	–	(54,000)
Issue of shares	(b)	<u>9,000,000,000</u>	<u>90,000</u>
Ordinary shares of HK\$0.01 each as at 31 December 2000		<u><u>9,600,000,000</u></u>	<u><u>96,000</u></u>

21. SHARE CAPITAL (Cont'd)

- (a) During the year, the following transactions in respect of the share capital of the Company took place:

On 25 August 2000, a special resolution was passed at a special general meeting to:

- (i) reduce the issued share capital from HK\$60,000,000 divided into 600,000,000 shares of HK\$0.10 each to an amount of HK\$6,000,000 divided into 600,000,000 shares of HK\$0.01 each by cancelling paid-up capital to the extent of HK\$0.09 of each issued share of HK\$0.10 in issue and subdividing every share of HK\$0.10 in the unissued share capital of the Company into 10 shares of HK\$0.01 each;

The credit of HK\$54,000,000 arising from the share capital reduction was transferred to the Company's accumulated losses account.

- (ii) increase the authorised share capital of the Company from HK\$100,000,000 to HK\$200,000,000 by the creation of 10,000,000,000 additional shares of HK\$0.01 each.

- (b) On 30 August 2000, an ordinary resolution was passed to issue 9,000,000,000 shares of HK\$0.01 each at a price of HK\$0.015 each to certain independent third parties, resulting in total proceeds net of issue expenses of HK\$131,526,000. These shares rank pari passu in all respects with the shares in issue at that time. Part of the net proceeds were used to repay the indebtedness due to bank creditors with the remaining balances as general working capital for the Group.

Options

On 21 August 1997, the Company adopted a share option scheme under which the directors may, at their discretion, make an offer to any employee of the Company or any of its subsidiaries, including executive directors of the Company or any such subsidiaries, for the grant of options to subscribe for shares of the Company. The subscription price is determinable by reference to the higher of 80% of the average of the closing share price on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of the offer of the option and the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the share option scheme is limited to 10% of the issued capital of the Company from time to time which have been duly allotted and issued. The scheme became effective upon the listing of the Company's shares on 8 September 1997. As at 31 December 2000, no share options had been granted under the scheme.

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22. RESERVES**Group**

	Share premium account <i>HK\$'000</i>	Contri- buted surplus <i>HK\$'000</i>	Ex- change fluct- uation reserve <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained profits/ (accu- mulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 October 1998	85,472	65,527	(60,973)	(19,922)	–	115,995	186,099
Release on disposal of subsidiaries	–	–	56,987	(1,030)	–	–	55,957
Translation differences arising on consolidation	–	–	3,916	–	–	–	3,916
Release of reserve of a former subsidiary	–	–	70	–	–	–	70
Net loss for the period	–	–	–	–	–	(378,505)	(378,505)
At 31 December 1999 and 1 January 2000	85,472	65,527	–	(20,952)	–	(262,510)	(132,463)
Net profit for the year	–	–	–	–	–	41,224	41,224
Premium arising on issue of shares, net of issuing expenses	41,526	–	–	–	–	–	41,526
Arising from acquisition of the remaining shareholdings of an existing subsidiary	–	–	–	–	4,104	–	4,104
Reduction of paid-up capital	–	–	–	–	–	54,000	54,000
At 31 December 2000	<u>126,998</u>	<u>65,527</u>	<u>–</u>	<u>(20,952)</u>	<u>4,104</u>	<u>(167,286)</u>	<u>8,391</u>

22. RESERVES (Cont'd)**Company**

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accu- mulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 October 1998	85,472	172,934	(49,319)	209,087
Net loss for the period	–	–	(269,264)	(269,264)
At 31 December 1999 and 1 January 2000	85,472	172,934	(318,583)	(60,177)
Premium arising on issue of shares, net of issuing expenses	41,526	–	–	41,526
Reduction of paid-up capital	–	–	54,000	54,000
Net loss for the year	–	–	(26,958)	(26,958)
At 31 December 2000	<u>126,998</u>	<u>172,934</u>	<u>(291,541)</u>	<u>8,391</u>

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the former holding company of the Group acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefor. In accordance with the laws of Bermuda, the Company's contributed surplus may be distributed in certain prescribed circumstances.

23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of profit/(loss) from operating activities to net cash inflow from operating activities**

	Year ended 31 December 2000 <i>HK\$'000</i>	Period from 1 October 1998 to 31 December 1999 <i>HK\$'000</i>
Profit/(loss) from operating activities	30,121	(324,546)
Interest income	(724)	–
Depreciation	3,520	26,083
Loss on disposal of fixed assets	846	367
Provision for diminution in value of a long term investment	1,567	1,966
Provision for other receivables	3,948	–
Provision for diminution in value of leasehold land and building in Hong Kong	–	13,876
Loss on disposal of operations in Laos	–	164,814
Loss on assignment of receivables	–	84,763
Amortisation of timber concession rights	–	569
Decrease/(increase) in accounts receivable	1,085	(2,761)
Decrease in inventories	6,140	59,140
Decrease in prepayments, deposits and other receivables	3,668	17,332
Decrease in accounts payable	(16,923)	(21,434)
(Decrease)/increase in accrued liabilities and other payables	(4,508)	29,609
Effect of exchange rate changes on operating results	–	6,000
Net cash inflow from operating activities	<u>28,740</u>	<u>55,778</u>

23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)**(b) Disposal of subsidiaries**

	Year ended 31 December 2000 HK\$'000	Period from 1 October 1998 to 31 December 1999 HK\$'000
Net assets disposed of:		
Fixed assets	-	236,839
Other long term assets	-	19,484
Cash and bank balances	-	671
Inventories	-	20,147
Accounts receivable	-	866
Prepayments, deposits and other receivables	-	21,497
Due from a minority shareholder	-	8,323
Bank overdrafts	-	(1,349)
Bank loans and lease payables	-	(164,705)
Accounts payable	-	(5,109)
Accrued liabilities and other payables	-	(25,607)
Minority interests	-	(2,200)
	<hr/>	<hr/>
	-	108,857
Release of goodwill reserve	-	(1,030)
Release of exchange fluctuation reserve	-	56,987
Loss on disposal of operations in Laos	-	(164,814)
	<hr/>	<hr/>
	-	-
	<hr/> <hr/>	<hr/> <hr/>

23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)**(b) Disposal of subsidiaries (Cont'd)**

	Year ended 31 December 2000 <i>HK\$'000</i>	Period from 1 October 1998 to 31 December 1999 <i>HK\$'000</i>
Satisfied by cash	—	—

For the period ended 31 December 1999, the subsidiaries disposed of contributed HK\$61,940,000 to turnover and HK\$75,309,000 to the consolidated net loss attributable to shareholders for the period.

In respect of cash flows for 1999, the subsidiaries disposed of during the period contributed HK\$28,166,000 in respect of the Group's net operating cash flows, paid HK\$30,794,000 in respect of the net returns on investments and servicing of finance and obtained HK\$1,560,000 for financing activities.

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

	Year ended 31 December 2000 <i>HK\$'000</i>	Period from 1 October 1998 to 31 December 1999 <i>HK\$'000</i>
Cash paid	—	—
Cash and bank balances disposed of	—	(671)
Bank overdrafts disposed of	—	1,350
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	—	679

23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)**(c) Reclassification of a subsidiary as a long term investment**

	Year ended 31 December 2000 HK\$'000	Period from 1 October 1998 to 31 December 1999 HK\$'000
Net assets deconsolidated:		
Fixed assets	-	22,503
Cash and bank balances	-	125
Other receivables	-	172
Other payables	-	(577)
	-	22,223
Minority interests	-	(9,329)
	-	12,894
Exchange fluctuation reserve	-	70
	-	12,964
	<u>-</u>	<u>12,964</u>
Reclassified as a long term investment	<u>-</u>	<u>12,964</u>

Analysis of net inflow of cash and cash equivalents in respect of the reclassification of a subsidiary as a long term investment

	Year ended 31 December 2000 HK\$'000	Period from 1 October 1998 to 31 December 1999 HK\$'000
Cash and bank balances disposed of	<u>-</u>	<u>125</u>

23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)**(d) Analysis of changes in financing during the year/period**

	Share capital and premium account <i>HK\$'000</i>	Loans and finance lease obligations <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Other loans <i>HK\$'000</i>
At 1 October 1998	145,472	241,565	16,341	33,759
Cash outflow from financing	–	(7,566)	–	–
Disposal of subsidiaries	–	(164,705)	(2,200)	–
On reclassification of a subsidiary as a long term investment	–	–	(9,329)	–
Transfer of loans to minority shareholders	–	(16,957)	–	16,957
Set off against accounts receivable	–	–	–	(10,265)
Share of loss for the period	–	–	(555)	–
Exchange adjustments	–	(3,790)	–	–
At 31 December 1999 and 1 January 2000	145,472	48,547	4,257	40,451
Cash inflow/(outflow) from financing	131,526	(48,547)	–	–
Reduction of paid-up capital	(54,000)	–	–	–
Acquisition of the remaining shareholdings of an existing subsidiary	–	–	(4,104)	–
Set off against other receivables	–	–	–	(16,989)
Share of loss for the year	–	–	(153)	–
At 31 December 2000	<u>222,998</u>	<u>–</u>	<u>–</u>	<u>23,462</u>

23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)**(e) Major non-cash transactions**

- (i) An waiver of indebtedness due to bank creditors of HK\$59,591,000 was accounted for in the profit and loss account of the current year upon the completion of the Restructuring on 30 August 2000. Details of the Restructuring are set out in note 5 to the financial statements.
- (ii) During the year, the share capital of the Company was reorganised as detailed in note 21(a) to the financial statements.

24. CONTINGENT LIABILITIES

	Company	
	2000	1999
	HK\$'000	HK\$'000
Guarantees for banking facilities granted to subsidiaries	—	132,928
Guarantees for finance leases granted to subsidiaries	—	15,920
	<u>—</u>	<u>148,848</u>
	<u><u>—</u></u>	<u><u>148,848</u></u>

The guarantees for banking facilities granted to subsidiaries were utilised to the extent of HK\$132,938,000 at 31 December 1999.

At the balance sheet date, the Group did not have any contingent liabilities.

25. LITIGATION

On 14 January 1999, China Foreign Trade Development Company ("China Trade Development") issued a writ of summons against Dongguan Xinlian Timber Products Co., Ltd. ("Dongguan Xinlian"), a subsidiary company held through Wing Lam, in respect of a claim for HK\$49,624,000 together with interest thereon, being the alleged amount due to China Trade Development under various re-export contracts (the "Claim"). A judgement was issued in respect of the Claim and, pursuant thereto, Dongguan Xinlian is liable to pay an aggregate sum of approximately HK\$26,894,000. However, Dongguan Xinlian filed an appeal against the judgement.

25. LITIGATION (Cont'd)

On 23 April 1999, the former shareholders of Wing Lam gave an undertaking in relation to the Group's acquisition of a 51% equity interest in Wing Lam to indemnify the Group from all losses, liabilities and claims incurred or suffered in connection with the Claim and other prescribed matters arising on or before the completion of this acquisition. The Claim is in respect of contracts entered into by Dongguan Xinlian prior to the Group's acquisition of the 51% equity interest in Wing Lam. On 12 April 2000, the former shareholders of Wing Lam confirmed they would indemnify all monetary loss arising from the Claim and agreed that the loan due from Dongguan Xinlian to them could be used to set off all such indemnity losses. According to letters dated 17 July 2000 and 21 March 2001 issued by the Group's legal advisors in connection with this litigation, they had strong evidence to believe that Dongguan Xinlian can succeed in the appeal and no claims or liabilities will be made against Dongguan Xinlian. Taking into account the above considerations, the directors of the Company believe that this litigation will have no impact on the financial results of the Group and no provision is considered necessary.

26. COMMITMENTS

Payments in respect of non-cancellable operating leases for land and buildings committed at the balance sheet date to be made in the following twelve months were as follows:

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Leases which expire:		
In the second to fifth years, inclusive	689	23
Beyond five years	3,566	3,565
	<u> </u>	<u> </u>

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

27. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of new SSAPs during the current year, the presentation of the profit and loss account, the balance sheets and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 12 April 2001.