

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INTERESTS IN AN UNCONSOLIDATED SUBSIDIARY

During the year, the Group sold its interest in an unconsolidated subsidiary, Sports Plaza GmbH to an independent third party for a consideration of approximately \$2,108,000.

16. INTERESTS IN ASSOCIATES

Interests in associates comprised:

	2000	1999
	\$'000	\$'000
<hr/>		
Share of net assets other than goodwill -		
Unlisted shares	27,540	28,377
Shares listed in Hong Kong	154,106	164,151
	181,646	192,528
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Quoted market value of shares listed in Hong Kong	82,541	211,808
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The underlying value of interests in associates was, in the opinion of the Directors, not less than the Group's carrying value as at 31st December, 2000.

Details of the Group's major associates as at 31st December, 2000 were as follows:

Name of associates	Place of incorporation/ operations	Percentage of interests held		Principal activities
		Directly	Indirectly	
		%	%	
Peace Mark *	Bermuda/ Hong Kong	—	16.49 (a), (b)	Production and distribution of watches
Tonic *	Cayman Islands/ Hong Kong	—	20.28 (b)	Design, manufacture and marketing of audio products
Capricon	British Virgin Islands	—	54.07	Investment holding

* Listed on the Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INTERESTS IN ASSOCIATES (Cont'd)

- a. In February 2000, the Group disposed 3.5% of its interest in Peace Mark and upon the private placement of ordinary shares of Peace Mark in May 2000, the Group's interest was diluted. The Group had an interest of 16.49% in Peace Mark as at 31st December, 2000. The Directors were of the opinion that it was the Group's intention to hold a long-term equity interest in Peace Mark and the Group was in a position to exercise significant influence over Peace Mark's financial and operating policy decisions.
- b. The forthcoming financial year-end for Peace Mark and Tonic, is at 31st March, 2001. Their latest published financial information was only up to 30th September, 2000. Summarised unaudited financial information of Peace Mark and Tonic as of 30th September, 2000 and for the six-month period then ended is set out below:
- (i) Peace Mark

	As at 30th September, 2000 \$'000 (Unaudited)	As at 30th September, 1999 \$'000 (Unaudited)
Balance sheet		
Non-current assets	338,805	229,712
Current assets	538,372	368,732
Total assets	877,177	598,444
Capital and reserves	(512,076)	(426,525)
Non-current liabilities	(73,719)	(7,517)
Minority interests	(21,924)	(20,347)
Current liabilities	(269,458)	(144,055)
Total equity, minority interests and liabilities	(877,177)	(598,444)
	For the six-month period ended 30th September, 2000 \$'000 (Unaudited)	For the six-month period ended 30th September, 1999 \$'000 (Unaudited)
Profit and loss		
Turnover	462,462	365,021
Gross profit	74,651	50,450
Profit from operations	35,102	21,642
Profit before tax	30,093	13,895
Net profit for the period	27,899	13,380

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INTERESTS IN ASSOCIATES *(Cont'd)*

(ii) Tonic

	As at 30th September, 2000 \$'000 (Unaudited)	As at 30th September, 1999 \$'000 (Unaudited)
Balance sheet		
Non-current assets	388,724	317,163
Current assets	954,996	659,138
Total assets	1,343,720	976,301
Capital and reserves	(379,982)	(317,832)
Non-current liabilities	(44,048)	(3,530)
Current liabilities	(919,690)	(654,939)
Total equity and liabilities	(1,343,720)	(976,301)
	For the six-month period ended 30th September, 2000 \$'000 (Unaudited)	For the six-month period ended 30th September, 1999 \$'000 (Unaudited)
Profit and loss		
Turnover	1,390,436	1,080,368
Gross profit	93,913	87,526
Profit from operations	37,152	44,387
Profit before tax	28,632	37,595
Net profit for the period	26,887	34,362

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. INVESTMENTS IN SECURITIES

Investments in securities comprised:

Group

	Convertible	2000		1999
	notes	Equity		Equity
	\$'000	securities	Total	securities
	\$'000	\$'000	\$'000	\$'000
Unlisted, at cost	110,760(a)	33,406(b)	144,166	5,648
Less: provision for impairment in value	—	(8,885)	(8,885)	(186)
	110,760	24,521	135,281	5,462
Listed in Hong Kong, at cost	—	—	—	54
Less: provision for impairment in value	—	—	—	(14)
	—	—	—	40
Non-trading listed securities				
in Hong Kong, at quoted market value*	—	43,998	43,998	9,600
	110,760	68,519	179,279	15,102
Quoted market value of listed securities	—	43,998	43,998	9,717
*Original cost of non-trading securities	—	47,619	47,619	8,433

Company

	Convertible	2000		1999
	notes	Equity		Equity
	\$'000	securities	Total	securities
	\$'000	\$'000	\$'000	\$'000
Non-trading listed securities				
in Hong Kong, at quoted market value*	—	4	4	—
*Original cost of non-trading securities	—	2	2	—

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. INVESTMENTS IN SECURITIES (Cont'd)

- a. In December 2000, the Group subscribed for 3-year term convertible notes (the "Notes") of US\$14.2 million issued by an independent third party, Tonga Group Holding Limited ("Tonga Group" or the "Notes Issuer"), a company incorporated in the British Virgin Islands. The Notes Issuer intends to invest in forestry business for the exploitation of forest, processing of wood as well as trading of wood products and to establish a leading B2B building material exchange platform with global coverage. Starting 3 months after 18th December, 2000 (the "Closing Date"), the Group is entitled to convert the principal amount of US\$10 million of the Notes into 15% of the total equity share capital of the Tonga Group or on a pro-rata basis if less than US\$10 million of the principal amount of the Notes is converted. Unless converted or repaid subject to and in accordance with the terms of the Notes, all outstanding principal amount of the Notes together with the interest accrued thereon will be repaid on the third anniversary date of the Closing Date. The Notes bore interest at the rate of 8% per annum on the outstanding principal.
- b. In December 2000, the Group acquired an 18.75% equity interest in Super Plus Investments Limited ("Super Plus"), an investment holding company incorporated in the British Virgin Islands whose subsidiary is principally engaged in distribution and trading of fashion accessory products in Asia Pacific region, at a consideration of \$23,400,000. Such investment was included as unlisted equity securities as at 31st December, 2000.

The underlying value of the investment securities was, in the opinion of the Directors, not less than the Group's carrying value as at 31st December, 2000.

18. CURRENT ASSETS

Current assets comprised:

	Group		Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Cash and bank balances	469,439	239,823	54,151	36,985
Stock (a)	604,849	533,158	—	—
Accounts receivable, net (b)	403,015	401,085	—	—
Deposits, prepayments and other receivables	189,286	247,176	44,664	49,902
Settlement sum receivable from				
Benetton International N.V.	—	338,550	—	338,550
Dividend receivable	—	—	—	16,233
Due from an associate (c)	7,540	16	—	—
Short-term investments (d)	204,902	283,114	—	—
	1,879,031	2,042,922	98,815	441,670

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. CURRENT ASSETS (Cont'd)

- a. Stock comprised:

	Group	
	2000	1999
	\$'000	\$'000
Raw materials	215,157	151,384
Work-in-progress	47,214	25,664
Finished goods	509,310	440,492
Less: Provision for stock obsolescence	(166,832)	(84,382)
	604,849	533,158

Certain stocks were held under trust receipts and import bank loans.

The amount of stock (included above) carried at net realisable value was approximately \$553,247,000 (1999 - \$486,756,000) as at 31st December, 2000.

- b. The Group allows an average credit period of 30-90 days to its trade customers. Aging analysis of accounts receivable after provision for bad and doubtful debts was as follows:

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Current month	318,395	204,574	—	—
Between one to two months	44,328	51,922	—	—
Between two to three months	21,034	20,404	—	—
Between three to four months	11,262	36,998	—	—
Over four months	7,996	87,187	—	—
	403,015	401,085	—	—

- c. Amount due from an associate was unsecured, non-interest bearing and without pre-determined repayment terms.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. CURRENT ASSETS (Cont'd)

d. Short-term investments comprised:

	Group	
	2000	1999
	\$'000	\$'000
Promissory notes	—	140,219
Investment deposits (i)	204,840	140,400
Overseas unlisted investments	62	2,495
	204,902	283,114

(i) During the year, the Group placed deposits of approximately \$204,545,000 to independent third party, a subsidiary of a Hong Kong listed company, as deposits for the proposed investment in a Hong Kong listed company introduced by the third party. These deposits were unsecured, interest bearing at commercial rate and repayable within sixty days. Subsequent to 31st December, 2000, the whole amount of deposits together with interest was refunded by the third party as the Group decided not to proceed with the investment.

19. CURRENT LIABILITIES

Current liabilities comprised:

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Short-term bank borrowings (a)	632,490	615,417	21,528	31,200
Current portion of other long-term liabilities (Note 21)	5,058	3,261	—	—
Accounts payable and accruals (b)	566,591	418,522	9,030	38,586
Bills payable	126,994	121,365	—	—
Due to associates (c)	5,687	19,438	—	—
Due to Directors (c)	333	636	—	—
Taxation payable	12,523	26,236	—	—
Proposed final dividend	—	36,538	—	36,538
	1,349,676	1,241,413	30,558	106,324

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. CURRENT LIABILITIES (Cont'd)

- a. Short-term bank borrowings comprised:

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Bank loans and overdrafts				
– with maturity within three months	243,718	126,016	21,528	—
– with maturity more than three months	284,182	335,724	—	—
Current portion of long-term bank loans (Note 20)	22,471	31,200	—	31,200
Trust receipts and import loans	82,119	122,477	—	—
	632,490	615,417	21,528	31,200
Secured	1,716	8,403	—	—
Unsecured	630,774	607,014	21,528	31,200

Details of the Group's and the Company's banking facilities are shown in Note 29.

- b. As at 31st December, 2000, accounts payable and accruals were analysed as follows:

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Accounts payable	195,139	182,747	—	—
Accrued charges and other payables	371,452	235,775	9,030	38,586
	566,591	418,522	9,030	38,586

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. CURRENT LIABILITIES (Cont'd)

Aging analysis of accounts payable was as follows:

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Current month	156,845	122,999	—	—
Between one to two months	26,031	24,421	—	—
Between two to three months	8,637	12,377	—	—
Between three to four months	1,629	4,306	—	—
Over four months	1,997	18,644	—	—
	195,139	182,747	—	—

- c. The amounts due to associates and Directors were unsecured, non-interest bearing and without pre-determined repayment terms except an amount of approximately \$89,000 due to an associate which bore interest at normal commercial rate.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

20. LONG-TERM BANK LOANS

Long-term bank loans comprised:

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Repayable within a period of				
– not exceeding one year,				
Secured	1,716	—	—	—
Unsecured	20,755	31,200	—	31,200
– more than one year, but not exceeding two years				
Secured	1,825	940	—	—
Unsecured	3,048	3,044	—	—
– more than two years, but not exceeding five years				
Secured	7,958	3,309	—	—
Unsecured	7,756	8,664	—	—
– after five years				
Secured	4,791	4,911	—	—
Unsecured	1,166	3,625	—	—
	49,015	55,693	—	31,200
Less: Amounts repayable within one year included under current liabilities	(22,471)	(31,200)	—	(31,200)
	26,544	24,493	—	—

Details of the Group's and the Company's banking facilities are shown in Note 29.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

21. OTHER LONG-TERM LIABILITIES

Other long-term liabilities represented other long-term loans and obligations under finance leases, net of future finance charges. Details of other long-term loans and finance lease obligations were as follows:

	2000	1999
	\$'000	\$'000
Other loans repayable within five years		
– unsecured	24,946	446
Other loans not repayable within five years		
– unsecured	—	22,763
	24,946	23,209
Less: Amounts repayable within one year		
included under current liabilities (Note 19)	(5,058)	(3,261)
	19,888	19,948
Obligations under finance leases repayable within a period of		
– not exceeding one year	583	849
– more than one year but not exceeding five years	554	923
	1,137	1,772
Less: Amounts repayable within one year included under		
accounts payable and accruals (Note 19 (b))	(583)	(849)
	554	923
	20,442	20,871

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

22. DEFERRED TAXATION

Movements of deferred taxation were as follows:

Group

	2000	1999
	\$'000	\$'000
As at 1st January	7,309	9,284
Translation adjustments	109	—
Write-back of deferred taxation	—	(1,975)
Reclassification from taxation payable	3,455	—
As at 31st December	10,873	7,309

Deferred taxation represented the taxation effect of the following timing differences:

	2000	1999
	\$'000	\$'000
Accelerated depreciation allowances	4,007	2,843
Prepayments	5,765	3,474
Overseas deferred income	1,101	992
	10,873	7,309

No deferred taxation was provided for property revaluation surplus because such surplus would not constitute a timing difference for taxation purposes and the realisation of the reserve would not be subject to taxation.

Potential deferred tax assets which have not been recognised in the financial statements were as follows:

	2000	1999
	\$'000	\$'000
Tax losses carried forward	314,553	190,733

The tax losses are subject to the approval of the tax authority of the respective country/region in which the Group subsidiaries operate.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. CONVERTIBLE DEBENTURES

	2000	1999
	\$'000	\$'000
As at 1st January ^a	117,000	31,746
Issued during the year	—	117,000
Converted to ordinary shares	(61,620)	(31,746)
As at 31st December	55,380	117,000

- a On 15th December, 1999, the Company issued convertible debentures (the "Debentures") of US\$15 million to a third party. Such Debentures will be due on 15th December, 2002. After 47 days from the date of the initial issue of the Debentures, the Debentures can be converted into ordinary shares of \$0.10 each of the Company at a conversion price equal to the lesser of (i) \$0.28 per share, subject to adjustments; and (ii) 90% of the average of the 5 lowest closing prices of one Company's ordinary share during the 20 business days immediately prior to conversion at the option of the Debenture holders. Unless converted or redeemed earlier at the discretion of the Company, all outstanding Debentures will be automatically converted into the Company's ordinary shares on maturity. The Debentures bore interest at the rate of 4.5% per annum on outstanding principal from time to time.

24. SHARE CAPITAL

Share capital comprised:

	Number of ordinary shares of \$0.10 each	Nominal Value \$'000
Authorised:		
Ordinary shares at \$0.10 each:		
As at 1st January, 2000 and 31st December, 2000	20,000,000,000	2,000,000
Issued and fully paid:		
As at 1st January, 2000	9,767,386,822	976,739
Issued upon exercise of share options	860,000	86
Issued upon exercise of '2000' warrants	1,269,451,835	126,945
Issued upon exercise of convertible debentures	287,773,991	28,777
As at 31st December, 2000	11,325,472,648	1,132,547

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

24. SHARE CAPITAL (Cont'd)

Share options

The Company has adopted an Executive Share Option Scheme under which the Directors can, grant options to Directors and employees of the Company or any of its subsidiaries to subscribe for shares of the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time.

Movements of share options (at current subscription prices of \$0.211 per share, \$0.345 per share and \$0.128 per share respectively) during the year were summarised below:

	Number of shares under share options at subscription price of \$0.211 '000	Number of shares under share options at subscription price of \$0.345 '000	Number of shares under share options at subscription price of \$0.128 '000
Outstanding as at 1st January, 2000	—	20,282	2,360
Granted during the year (a)	452,500	—	—
Exercised during the year (b)	(200)	—	(660)
Cancelled during the year (c)	(5,750)	(6,062)	(40)
Outstanding as at 31st December, 2000	446,550	14,220	1,660

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

24. SHARE CAPITAL *(Cont'd)*

Share options *(Cont'd)*

- a. During the year, 452,500,000 options at exercise price of \$0.211 per share were granted.
- b. During the year, 660,000 (1999 - 240,000) options and 200,000 (1999 - Nil) options were exercised at the option price of \$0.128 per share and \$0.211 per share respectively.
- c. During the year, 40,000 options at exercise price of \$0.128 per share, 6,062,000 options at exercise price of \$0.345 per share and 5,750,000 options at exercise price of \$0.211 per share were cancelled due to the termination of employment of staff who qualified for entitlement of options.

As at 31st December, 2000, the Company had a total of approximately 462,430,000 (1999 - 22,642,000) options outstanding. The exercise in full of such share options would, under the present capital structure of the Company, result in the issuance of 462,430,000 (1999 - 22,642,000) additional shares of \$0.10 each and cash proceeds to the Company of approximately \$99,340,000 (1999 - \$7,299,000) excluding the related issue expenses.

Warrants

As at 1st January, 2000, the Company had an aggregate number of 658,161,024 warrants which would confer rights to subscribe for ordinary shares of the Company at an adjusted subscription price of \$0.17 per share. During the year, 539,517,029 (1999 - 2,699,904) warrants were exercised at \$0.17 per share. All remaining warrants exercisable up to and including 30th June, 2000 were expired on 30th June, 2000.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

25. RESERVES

Movements of reserves for the Group and the Company were as follows:

Group

	2000								1999	
	Share	Exchange	Retained	Revaluation	Capital		Legal	Other	Total	Total
	premium	translation			profits	reserve				
	account	reserve	\$'000	\$'000	\$'000	Goodwill	\$'000	\$'000	\$'000	\$'000
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
As at 1st January	230,926	(37,619)	307,571	4,136	1,231	(341,776)	270	552	165,291	323,776
Premium arising from exercise of share options	41	—	—	—	—	—	—	—	41	7
Premium arising from exercise of warrants	88,997	—	—	—	—	—	—	—	88,997	504
Premium arising from exercise of convertible debentures	32,843	—	—	—	—	—	—	—	32,843	13,360
Issuance of bonus shares	—	—	—	—	—	—	—	—	—	(161,229)
Expenses incurred in connection with issue of shares	(157)	—	—	—	—	—	—	—	(157)	(273)
Expenses incurred in connection with issue of convertible debentures	—	—	—	—	—	—	—	—	—	(2,059)
Acquisition of subsidiaries	—	—	—	—	—	(173,770)	—	—	(173,770)	(17,608)
Acquisition of additional interests in subsidiaries	—	—	—	—	—	(36,918)	—	—	(36,918)	(65,003)
Acquisition of additional interests in associates	—	—	—	—	—	2,676	—	—	2,676	(12,031)
Acquisition of an associate	—	—	—	—	—	—	—	—	—	(836)
Disposal of interest in a subsidiary	—	—	—	—	—	(4,401)	—	—	(4,401)	102
Disposal of interests in associates	—	—	—	—	—	10,093	—	—	10,093	—
Share of an associate's revaluation reserve of non-trading securities	—	—	—	(4,143)	—	—	—	—	(4,143)	—
Revaluation of non-trading securities	—	—	—	(3,621)	—	—	—	—	(3,621)	1,167
Disposal of non-trading securities	—	—	—	(1,167)	—	—	—	—	(1,167)	—
Other statutory reserve	—	—	—	—	—	—	—	35	35	28
Exchange differences arising on translation of overseas subsidiaries' financial statements	—	(61,834)	—	—	—	—	—	—	(61,834)	(31,774)
Profit attributable to shareholders	—	—	110,356	—	—	—	—	—	110,356	153,698
Dividends declared/paid	—	—	(2,573)	—	—	—	—	—	(2,573)	(36,538)
As at 31st December	352,650	(99,453)	415,354	(4,795)	1,231	(544,096)	270	587	121,748	165,291

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

25. RESERVES (Cont'd)

Company

	2000					1999	
	Share	Retained	Revaluation	Capital		Total	Total
	premium			profits	redemption		
	account	\$'000	\$'000	reserve	reserve	reserve	\$'000
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1st January	230,926	189,231	—	1,231	457	421,845	318,446
Premium arising from exercise of share options	41	—	—	—	—	41	7
Premium arising from exercise of warrants	88,997	—	—	—	—	88,997	504
Premium arising from exercise of convertible debentures	32,843	—	—	—	—	32,843	13,360
Issuance of bonus shares	—	—	—	—	—	—	(161,229)
Expenses incurred in connection with issue of shares	(157)	—	—	—	—	(157)	(273)
Expenses incurred in connection with issue of convertible debentures	—	—	—	—	—	—	(2,059)
Revaluation of non-trading securities	—	—	2	—	—	2	—
Profit for the year	—	29,199	—	—	—	29,199	289,627
Dividends declared/paid	—	(2,573)	—	—	—	(2,573)	(36,538)
As at 31st December	352,650	215,857	2	1,231	457	570,197	421,845

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

- a. Reconciliation of profit before share of profit of associates and tax to net cash inflow from operating activities:

	2000	1999
	\$'000	\$'000
Profit before share of profit of associates and tax	121,788	187,681
Write-back of prior year provision for potential liabilities		
associated with settled legal cases	(21,291)	—
Other revenue	(11,799)	(1,772)
Interest income	(35,246)	(13,388)
Interest expense	66,506	71,029
Depreciation expense	37,641	30,207
Loss on disposal of fixed assets	4,992	1,474
Loss on disposal of interests in associates	1,603	—
Loss on deemed disposal of interest in an associate	3,793	—
Amortisation of intangible assets	43,623	60,066
Increase in deferred costs	—	(5,841)
Provision for impairment in value for interest in		
an unconsolidated subsidiary	—	1,995
Provision for stock obsolescence	4,007	5,000
Provision for doubtful debts	8,401	7,400
Decrease in stocks	16,507	17,708
Decrease in accounts receivable	85,072	197,519
Decrease (Increase) in deposits,		
prepayments and other receivables	51,636	(32,649)
Decrease in settlement sum receivable from		
Benetton International N.V.	338,550	—
Decrease in licensing income receivable	—	22,000
(Increase) Decrease in due from an associate	(7,524)	8,504
(Decrease) Increase in due to associates	(13,736)	19,171
(Decrease) Increase in accounts payable and accruals	(58,857)	76,558
Increase (Decrease) in bills payable	6,009	(33,552)
Decrease in amounts due to Directors	(200)	(235)
Net cash inflow from operating activities	641,475	618,875

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

b. Acquisition of subsidiaries

	2000	1999
	\$'000	\$'000
Net assets acquired:		
Fixed assets	11,068	5,272
Intangible assets	495	5,738
Investment securities	730	—
Cash and bank balances	20,262	768
Stock	115,938	8,677
Accounts receivable	105,379	2,052
Deposits, prepayments and other receivables	1,826	894
Bank loans and overdrafts	(19,136)	(4,021)
Accounts payable and accruals	(190,293)	(13,023)
Taxation	3,999	(390)
Other long-term loan	(1,327)	(461)
Trademark recognised on consolidated level	90,000	—
	138,941	5,506
Goodwill	173,770	17,608
	312,711	23,114
Share of an associate's gain on disposal of its subsidiary acquired by the Group	—	2,896
Carrying value of interest in a subsidiary acquired originally held by the Group as interest in an associate	—	988
Total consideration	312,711	26,998
Satisfied by cash	312,711	26,998

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

b. Acquisition of subsidiaries (Cont'd)

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

	2000	1999
	\$'000	\$'000
Cash consideration	312,711	26,998
Cash and bank balances acquired	(20,262)	(768)
Bank loans and overdrafts - with maturity within 3 months	19,136	2,302
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	311,585	28,532

c. Analysis of changes in financing during the year:

	Share capital							
	(including							
	share	Bank loans		Other loans	Finance	Convertible	Minority	Total
	premium)	Short-term	Long-term	Long-term	leases	debentures	interests	
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
As at 1st January, 2000	1,207,665	335,724	55,693	23,209	1,772	117,000	131,976	1,873,039
Net cash inflow (outflow)								
from financing	215,912	(32,848)	(6,525)	2,992	(589)	—	—	178,942
Conversion of convertible debentures	61,620	—	—	—	—	(61,620)	—	—
Acquisition of subsidiaries	—	—	1,327	—	—	—	—	1,327
Acquisition of additional interests in subsidiaries	—	—	—	—	—	—	(31,888)	(31,888)
Disposal of interest in a subsidiary	—	—	—	—	—	—	2,515	2,515
Dividends paid	—	—	—	—	—	—	(14,489)	(14,489)
Share of profit by minority investors	—	—	—	—	—	—	13,113	13,113
Exchange translation effect	—	(18,694)	(1,480)	(1,255)	(46)	—	—	(21,475)
As at 31st December, 2000	1,485,197	284,182	49,015	24,946	1,137	55,380	101,227	2,001,084

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

d. Analysis of cash and cash equivalents:

	2000	1999
	\$'000	\$'000
Cash and bank balances	469,439	239,823
Promissory notes	—	140,219
Bank loans and overdrafts	(243,718)	(126,016)
Trust receipts and import loans	(82,119)	(122,477)
	143,602	131,549

27. PENSION SCHEME

The Group has established pension schemes for all Hong Kong employees and employees of certain overseas subsidiaries. Contributions to all schemes are charged to income statement in the year in which they are incurred.

The Group's Hong Kong employees are members of three defined contribution schemes. The amount of the Group's contributions is based on specified percentage of the basic salary and the length of service of employees, and forfeited contribution in respect of unvested benefits is used to reduce the Group's ongoing contributions otherwise payable.

With the implementation of the Mandatory Provident Fund ("MPF") in Hong Kong since 1st December, 2000, the Group's Hong Kong employees are mandatory to participate in the MPFs. The Group makes monthly contributions to the scheme based on 5-7% of the employees' basic salaries. During the year ended 31st December, 2000, the Group's contribution including the amount contributed under the previous defined contribution schemes was approximately \$2,238,000 (1999 - \$2,164,000). The assets of the fund are held separately from those of the Group and are managed by independent professional fund managers.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

27. PENSION SCHEME (Cont'd)

Employees of certain overseas subsidiaries are members of a defined benefit scheme. There is no requirement for these employees to make periodic contribution to the scheme. As at 31st December, 2000, the scheme was still unfunded and comprised no plan assets. The latest actuarial valuation of this defined benefit scheme was completed at 31st December, 2000 by M&L Gesellschaft for Versicherungsmathematik mbH. The actuarial method adopted was the projected unit credit method and the main actuarial assumptions were as follows:

Interest rate	6%
Inflation rate	1.5%
Personnel turnover rate	1.8%

Since there were no plan assets as at 31st December, 2000, there is a 100% deficiency for the accrued actuarial liabilities. Accordingly, the Group had accrued the needed amount based on the actuarial report and the Group's future contribution is designed to fund the shortfall over a period of time.

28. CONTINGENT LIABILITIES

- a. In connection with the acquisition of Goldpfeil AG in 1998, the terms of the acquisition agreement stated that should the operating results of Goldpfeil AG and its subsidiaries (excluding Haru Holding & Management GmbH and its subsidiaries) ("Goldpfeil Group") of each of the years 1999, 2000 and 2001 respectively exceed Deutschmark 2,000,000, the ex-owner shall be entitled to 30% of the excess amount of the respective year; but not to exceed Deutschmark 5,000,000 in total.

As the operating results of Goldpfeil Group did not exceed the threshold, no such profit entitlement was attributable to the ex-owner for the year.

- b. Contingent liabilities not provided for by the Group and the Company were summarised below:

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Discounted bills with recourse	44,715	104,004	—	—
Guarantees given to financial institutions				
in respect of facilities granted to				
Group companies (Note 14)	—	—	1,209,833	1,099,287

In addition, the Company guaranteed the payments and performance by several subsidiaries under certain license agreements pursuant to which the subsidiaries were licensees.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

29. BANKING FACILITIES

As at 31st December, 2000, the Group's banking facilities for overdrafts, loans and trade financing were secured by unconditional and continuing corporate guarantee provided by the Company and cross guarantees among its subsidiaries.

30. COMMITMENTS

As at 31st December, 2000, the Group had the following commitments:

a. Operating leases:

	2000		1999	
	Leasehold land and buildings \$'000	Furniture and equipment \$'000	Leasehold land and buildings \$'000	Furniture and equipment \$'000
Amounts payable within the next twelve months under non- cancellable operating leases which would expire				
– within one year	3,975	7,520	16,441	2,303
– in the second to fifth year inclusive	34,052	5,522	6,176	4,312
– after five years	5,051	—	10,649	1,742
	43,078	13,042	33,266	8,357

b. Royalties:

	2000 \$'000	1999 \$'000
Minimum royalty payments within the next twelve months under license agreements which would expire		
– within one year	9,929	29,958
– in the second to fifth year inclusive	33,678	21,187
– after five years	1,974	—
	45,581	51,145

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. COMMITMENTS *(Cont'd)*

- c. During the year ended 31st December, 2000, the Group entered into forward foreign exchange contracts in order to hedge non-Hong Kong dollar liabilities and firmly committed non-Hong Kong dollar commercial transactions. The contracts were arranged with commercial banks. In addition, the Group has also sold some currency options. As at 31st December, 2000, there were no outstanding foreign exchange contracts.

31. SUBSEQUENT EVENTS

- a. In February and March 2001, the Group subscribed for a 15% equity interest in the Tonga Group at a consideration of \$46,800,000. Together with Super Plus's subscription of 6.25% equity in Tonga Group, the Group has a total of approximately 16% equity interest in the Tonga Group, held directly and indirectly through its subsidiaries and Super Plus respectively. The Tonga Group is currently an investment holding company principally engaged in the sourcing, processing and distribution of wood products that intends to participate in a forestry project in Suriname to process wood in an environmental friendly manner, as well as to establish a B2B building material exchange platform on a global basis.
- b. Convertible debentures of approximately US\$2,500,000 were converted to 122,490,823 shares of the Company at the option of the debenture holder. The conversion of convertible debentures issued post 1st January, 2001 increased shareholders' fund by approximately by \$19,467,000.
- c. In March 2001, the Group placed a deposit of \$21,000,000 with a third party to obtain an exclusive right to acquire a maximum of 40% interest in an information technology project.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 26th April, 2001.