

Notes to the Financial Statements (continued)
for the year ended 31st December, 2000

18. CURRENT ASSETS (continued)

- (d) Included in debtors, deposits and prepayments are trade debtors (net of provisions for bad and doubtful debts) with the following aging analysis:

	Group	
	2000	1999
	HK\$'000	HK\$'000
0 – 3 months	198,707	194,215
4 – 6 months	18,477	37,172
Over 6 months	2,208	—
	219,392	231,387
Deposits and prepayments	52,418	51,840
	271,810	283,227

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically.

19. CURRENT LIABILITIES

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Secured bank loans and overdrafts	344,501	180,953	124,800	—
Unsecured bank loans and overdrafts	123,310	191,181	38,995	71,851
Other secured loans	9,540	—	—	—
Other unsecured loans	12,641	5,699	—	—
Bills payable	53,148	12,317	—	—
Amounts due to fellow subsidiaries				
— Note 19(a)	434	182	—	1
Amounts due to associates				
— Note 19(a)	23,152	23,172	23,151	23,171
Amount due to ultimate holding company — Note 19(b)	21,380	4,269	560	2,482
Creditors, deposits received and accruals — Note 19(c)	251,139	230,480	1,575	4,749
Tax payable	17,279	13,621	—	—
	856,524	661,874	189,081	102,254

19. CURRENT LIABILITIES (continued)

- (a) The balances with the Group are trading in nature, interest-free, unsecured and repayable on demand.
- (b) Included in the balance due by the Group to ultimate holding company is an amount of HK\$560,000 (1999: HK\$2,482,000) which bears interest at 8.2% to 9% (1999: 7% to 8.5%) per annum and the remaining balance is interest-free. The whole balance is trading in nature, unsecured and repayable on demand.
- (c) Included in creditors, deposits received and accruals are trade creditors with the following aging analysis:

	Group	
	2000	1999
	HK\$'000	HK\$'000
0 – 3 months	149,595	120,248
4 – 6 months	12,566	5,750
Over 6 months	1,098	1,275
	163,259	127,273
Deposits received and accruals	87,880	103,207
	251,139	230,480

20. SHARE CAPITAL

	2000	1999
	HK\$'000	HK\$'000
Authorised:		
Ordinary shares		
185,000,000 shares of HK\$1 each	185,000	185,000
Convertible 5% non-cumulative preference shares		
500,000,000 shares of HK\$0.05 each	25,000	25,000
	210,000	210,000
Issued and fully paid:		
Ordinary shares		
127,904,201 shares of HK\$1 each	127,904	127,904
Convertible 5% non-cumulative preference shares		
500,000,000 shares of HK\$0.05 each	25,000	25,000
	152,904	152,904

20. SHARE CAPITAL (continued)

The salient terms of the convertible 5% non-cumulative preference shares ("CP Shares") are summarised as follows:

- (i) The Company is required to pay a fixed non-cumulative preferential cash dividend of 5 per cent per annum only if a cash dividend is declared or approved in favour of the shareholders of the Company (excluding the holders of CP Shares).
- (ii) The Company shall be entitled, at any time after the fifth anniversary of the date of issue of the CP Shares by resolution of the directors of the Company to redeem all or any of the then outstanding CP Shares in the event that the holders of such CP Shares fail to exercise their conversion rights within 14 days after receiving notice of a proposed redemption. Under the terms of the CP Shares, the Company is not obliged to redeem all or any of the CP Shares at any time.
- (iii) The existing basis of conversion of ordinary shares is 1,737 ordinary shares for every 20,000 CP Shares. The basis of conversion of ordinary shares will be adjusted in the occurrence of events such as (i) any capital distribution; (ii) any capitalisation of profits or reserves; (iii) any consolidation or sub-division of shares in the capital of the Company (excluding CP Shares) or (iv) any offer of shares by way of rights.

21. SHARE OPTIONS

Pursuant to the share option scheme ("Scheme") approved by the shareholders on 3rd June, 1993, the directors of the Company may invite employees and directors of the Company or any of its subsidiaries to take up options to subscribe for shares of HK\$1 each in the capital of the Company. The subscription price and the exercisable period is determined in accordance with prescribed formula and terms as detailed in the circular to shareholders dated 10th May, 1993. Following the right issue and consolidation of shares of the Company on 30th April, 1997, the subscription price of the Scheme was then adjusted accordingly.

The grantees are entitled to exercise their options in whole or in part prior to the respective exercisable period. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed in nominal value 10% of the issued share capital of the Company in issue from time to time. The Company received no consideration from the grantees of the Scheme. No option was granted and none of the grantees exercised their options under the Scheme during the year. The number of share options lapsed during the year is 82,507. Subscription for the shares of the Company in full under the Scheme at the balance sheet date would have resulted in the issue of 207,569 ordinary shares.

22. CONTRIBUTED SURPLUS

	Company	
	2000	1999
	HK\$'000	HK\$'000
Balance of contributed surplus arising from acquisition of subsidiaries	<u>12,424</u>	<u>12,424</u>

The contributed surplus represents the difference between the nominal value of the Company's shares issued in exchange for all the issued ordinary shares of Lam Soon Food Industries (BVI) Limited and the value of the net assets of the underlying subsidiaries acquired as at 30th June, 1990. Under The Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders and the aggregate distribution out of contributed surplus to date amounted to HK\$31,958,000 (1999: HK\$31,958,000).

The distributable reserve calculated in accordance with The Companies Act 1981 of Bermuda (as amended) is as follows:

	Company	
	2000	1999
	HK\$'000	HK\$'000
Contributed surplus	12,424	12,424
Retained profits	<u>55,103</u>	<u>81,587</u>
	<u>67,527</u>	<u>94,011</u>

Notes to the Financial Statements (continued)
for the year ended 31st December, 2000

23. RESERVES

	Share premium	Exchange reserve	Revenue reserve	Capital reserve	Legal reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(a) The Group						
At 1st January, 1999	910,121	(73,808)	326,373	2,512	9,763	1,174,961
Transfer to capital and legal reserve	—	—	(156)	16	140	—
Exchange differences arising on translation of financial statements of overseas subsidiaries	—	(2,056)	—	—	—	(2,056)
Loss for the year	—	—	(26,834)	—	—	(26,834)
At 31st December, 1999	<u>910,121</u>	<u>(75,864)</u>	<u>299,383</u>	<u>2,528</u>	<u>9,903</u>	<u>1,146,071</u>
Attributable to:						
Company and subsidiaries	910,121	(75,864)	268,007	2,528	9,903	1,114,695
Associates	—	—	24,643	—	—	24,643
Jointly controlled entity	—	—	6,733	—	—	6,733
At 31st December, 1999	<u>910,121</u>	<u>(75,864)</u>	<u>299,383</u>	<u>2,528</u>	<u>9,903</u>	<u>1,146,071</u>
At 1st January, 2000	910,121	(75,864)	299,383	2,528	9,903	1,146,071
Transfer to capital and legal reserve	—	—	(730)	18	712	—
Exchange differences arising on translation of financial statements of overseas subsidiaries	—	(1,804)	—	—	—	(1,804)
Loss for the year	—	—	(69,737)	—	—	(69,737)
At 31st December, 2000	<u>910,121</u>	<u>(77,668)</u>	<u>228,916</u>	<u>2,546</u>	<u>10,615</u>	<u>1,074,530</u>
Attributable to:						
Company and subsidiaries	910,121	(77,668)	200,228	2,546	10,615	1,045,842
Associates	—	—	24,642	—	—	24,642
Jointly controlled entity	—	—	4,046	—	—	4,046
At 31st December, 2000	<u>910,121</u>	<u>(77,668)</u>	<u>228,916</u>	<u>2,546</u>	<u>10,615</u>	<u>1,074,530</u>
(b) The Company						
At 1st January, 1999	910,121	—	99,478	—	—	1,009,599
Loss for the year	—	—	(17,891)	—	—	(17,891)
At 31st December, 1999	<u>910,121</u>	<u>—</u>	<u>81,587</u>	<u>—</u>	<u>—</u>	<u>991,708</u>
At 1st January, 2000	910,121	—	81,587	—	—	991,708
Loss for the year	—	—	(26,484)	—	—	(26,484)
At 31st December, 2000	<u>910,121</u>	<u>—</u>	<u>55,103</u>	<u>—</u>	<u>—</u>	<u>965,224</u>

23. RESERVES (continued)

Notes:

- (i) The legal reserve of the Group represents the transfer from the retained profits of the Group's subsidiaries in Taiwan. It is non-distributable and is calculated at 10% on the retained profits for the year, after deducting accumulated losses brought forward, if any.
- (ii) Certain subsidiaries of the Company entered into some credit agreements with banks which impose restriction on their dividend payments and require the maintenance of certain debt/equity ratio.
- (iii) A subsidiary incorporated in Taiwan disposed certain fixed assets and recorded a gain on disposal. According to the applicable law in Taiwan, 25% of such gain should be capitalised and recorded in capital reserve.

24. NON-CURRENT LIABILITIES

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Secured bank loans repayable				
— After one year but within two years	203,533	124,768	202,797	124,768
— After two years but within five years	730	202,747	—	202,747
Other unsecured loan repayable				
— After one year but within two years	46,794	—	—	—
— After two years but within five years	—	46,630	—	—
Deferred taxation — Note 9(a)	2,301	2,569	—	—
	<u>253,358</u>	<u>376,714</u>	<u>202,797</u>	<u>327,515</u>

25. RECONCILIATION OF OPERATING PROFIT FROM OPERATIONS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000	1999
	HK\$'000	HK\$'000
Profit from operations	5,017	23,227
Depreciation	93,640	97,487
Provision for doubtful debts	15,195	6,492
Bad debts written back	—	(1,942)
Provision for spare parts	—	8,918
Loss on disposal of fixed assets	302	421
Decrease in inventories	55,686	73,912
(Increase)/decrease in amounts due from fellow subsidiaries	(33)	278
Increase in amount due from a jointly controlled entity	(6,069)	(3,344)
Increase in bills receivable	(12,115)	(23,766)
Decrease in debtors, deposits and prepayments	1,412	19,087
Increase in bills payable	40,994	11,434
Increase in amounts due to fellow subsidiaries	252	99
Decrease in amounts due to associates	(20)	(21)
Increase in amount due to ultimate holding company	17,111	1,798
Decrease in creditors, deposits received and accruals	(6,172)	(2,588)
Exchange adjustments	(1,028)	(919)
Net cash inflow from operating activities	<u>204,172</u>	<u>210,573</u>

26. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Bank loans	Other loans	Minority interests
	HK\$'000	HK\$'000	HK\$'000
Balance as at 1st January, 2000	660,776	52,329	73,624
Net cash inflow/(outflow) from financing	(43,660)	9,421	(549)
Share of loss and reserves by minority shareholders	—	—	(8,335)
Effect of foreign exchange rate changes	899	70	(1,390)
Balance as at 31st December, 2000	<u>618,015</u>	<u>61,820</u>	<u>63,350</u>

27. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2000	1999
	HK\$'000	HK\$'000
Short term investments	8,396	8,798
Deposits with financial institutions	100,143	59,943
Cash and bank balances	95,850	50,900
Short term bank loans and overdrafts	(54,059)	(38,873)
Other short term loan	(7,155)	—
Bills payable	(119)	(282)
	<u>143,056</u>	<u>80,486</u>

28. COMMITMENTS

- (a) As at 31st December, 2000, the Group had commitment to make payment in respect of guaranteed profits payable to the joint venture partners under a joint venture agreement amounted to HK\$5,968,000 (1999: HK\$6,723,000) in aggregate over the unexpired term of the joint venture agreement of seven years. In return, the Group is entitled to all the residual profits of the joint venture.
- (b) As at 31st December, 2000, the Group had entered into an interest rate swap agreement of notional principal amount of US\$5,000,000 (1999: US\$5,000,000) for hedging purposes.
- (c) Save as disclosed above, the Group had the following commitment not provided for in the financial statements at the balance sheet date:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Authorised capital expenditure, but not contracted for	<u>8,842</u>	<u>—</u>

29. CONTINGENT LIABILITIES

- (a) As at 31st December, 2000, the Company had contingent liabilities in respect of guarantees given by the Company to banks to secure banking facilities granted to certain subsidiaries of which amounts utilised by the subsidiaries amounted to HK\$52,377,000 (1999: HK\$63,241,000).
- (b) As at 31st December, 2000, the Group and the Company had contingent liabilities in respect of several guarantees given by the Company to banks to secure banking facilities of a jointly controlled entity to the extent of HK\$10,131,000 (1999: HK\$29,665,000).
- (c) In April 1999, several employees of a subsidiary, Lam Soon Ball Yamamura Inc. ("LSBY"), sued LSBY for additional overtime pay of approximately NT\$9,031,000 (1999: NT\$6,907,000) (equivalent to approximately HK\$2,154,000 (1999: HK\$1,675,000)) plus interest at 5% per annum until the payment date. The management considers that LSBY has a meritorious defence and will contest the case vigorously. Accordingly, no provisions for such contingent losses were made in the income statements. As at 31st December, 2000, the legal proceeding was still in progress.
- (d) As at 31st December, 2000, the Group sold its notes receivable with recourse to a finance company amounted to NT\$65,129,000 (1999: nil) (equivalent to approximately HK\$15,533,000 (1999: nil)).

30. RELATED PARTY TRANSACTIONS

Apart from the transactions as disclosed in Note 29(b) to the financial statements, the Group had the following material transactions with its related parties during the year:

Related parties	Nature of transactions	Notes	2000	1999
			HK\$'000	HK\$'000
(a) Ultimate holding company	Management fee paid	(i)	9,708	9,708
(b) Fellow subsidiaries	Rental income from lease of plant and machinery	(i)	2,886	2,886
	Rental expense paid for lease of offices and warehouses	(i)	4,224	4,552
	Sales of flour	(iii)	2,887	2,766
(c) Jointly controlled entity	Purchase of small package oil	(ii)	5,289	14,964
	Sales of aroma oil	(iii)	45,147	42,933
	Sales of detergent products	(iii)	3,048	—
	Sub-contracting income on oil refinement	(iii)	3,022	5,345
	Barge rental and operation fee income	(iv)	1,080	1,469
	Advertising and promotion income	(iv)	1,500	3,000
	Management fee income	(iv)	3,000	3,000
	Royalties received for the use of trademarks	(v)	24,443	18,026

Notes:

- (i) The management fee payable to the ultimate holding company, Lam Soon (Hong Kong) Limited ("LSHK"), the rental expenses payable to and rental income receivable from fellow subsidiaries were calculated with reference to services rendered to the Group and the interest element of the related lease obligations respectively.
- (ii) Purchase of small package oil was carried out at cost plus a percentage of profit mark-up.
- (iii) Sales of flour, aroma oil, detergent products and sub-contracting income on oil refinement was made with reference to the market price.
- (iv) Barge rental and operation fee income, advertising, promotion and management fee income were determined on the basis of the cost and the amount of services performed by the Group.

30. RELATED PARTY TRANSACTIONS (continued)

- (v) Under the trademark licence agreement, the royalties received for the use of the trademarks is calculated based on a percentage as may be agreed between the parties from time to time of the gross sales value of licensed products sold by the licensee within Hong Kong and Macau.
- (vi) As at 31st December, 2000, LSHK executed a guarantee in favour of the security agent for US\$5.5 million (1999: US\$5.5 million) (the guaranteed amount being in proportion to LSHK's equity interest in the Company) in connection with a tranche of the syndicated loan of US\$9 million granted to the Company.

31. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company to be Lam Soon (Hong Kong) Limited, a listed company incorporated in Hong Kong.

32. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.