

17. INVENTORIES

	Group		Company	
	1998	1997	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	—	59,906	—	—
Work in progress	—	4,774	—	—
Finished goods and trading stock	262,963	328,679	36,426	18,692
	262,963	393,359	36,426	18,692

18. CURRENT LIABILITIES

		Group		Company	
		1998	1997	1998	1997
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans and overdrafts	19	141,974	150,279	136,068	127,512
Accounts payable and accrued liabilities		341,671	337,646	129,543	97,457
Taxation		—	11	—	—
Proposed final dividends	8	—	52,911	—	52,911
		483,645	540,847	265,611	277,880

19. BANK LOANS

	Group		Company	
	1998	1997	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balances due:				
Within one year	141,974	150,279	136,068	127,512
In the second year	1,436	1,553	632	556
In the third to fifth years, inclusive	3,289	4,529	2,371	2,106
After five years	2,366	5,024	2,366	3,264
	149,065	161,385	141,437	133,438
Portion classified as current liabilities	141,974	150,279	136,068	127,512
Long term portion	7,091	11,106	5,369	5,926
Secured:				
Bank overdrafts	4,578	144	4,350	38
Bank loans	8,461	12,581	5,936	6,422
Trust receipt loans	71,791	97,244	71,791	97,244
	84,830	109,969	82,077	103,704
Unsecured:				
Bank loans	4,875	21,682	—	—
Trust receipt loans	59,360	29,734	59,360	29,734
	149,065	161,385	141,437	133,438

The Company's and the Group's secured bank loans are secured by all of the Company's and certain of the Group's land and buildings and all of the Group's investment properties in Hong Kong.

20. SHARE CAPITAL

	Group and Company	
	1998	1997
	HK\$'000	HK\$'000
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Authorised:		
1,100,000,000 (1997: 900,000,000) ordinary shares of HK\$0.10 each	110,000	90,000
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Issued and fully paid:		
799,873,893 (1997: 661,387,287) ordinary shares of HK\$0.10 each	79,987	66,139
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On 13 May 1998, the authorised share capital of the Company was increased from HK\$90,000,000 to HK\$110,000,000 by the creation of an additional 200,000,000 ordinary shares of HK\$0.10 each.

On 20 May 1998, the Company issued 132,277,457 bonus shares of HK\$0.10 each to shareholders, credited as fully paid by way of capitalisation of part of the Company's share premium account, on the basis of one bonus share for every five ordinary shares.

On 10 June 1998, 6,209,149 ordinary shares of HK\$0.10 each were issued at par, to shareholders who elected to receive new shares in lieu of cash dividends for the year ended 31 December 1997 under the scrip dividend alternative. Shareholders' entitlements to new shares were calculated by reference to the average closing price per share on The Stock Exchange of Hong Kong Limited for the five consecutive trading days ended 13 May 1998 of HK\$5.195 per ordinary share.

Share options

On 7 December 1995, the Company adopted a share option scheme ("Scheme") under which the directors may, at their discretion, make an offer to any employee or director of the Group to take up options to subscribe for shares of the Company. The maximum number of shares in respect of which share options may be granted under the Scheme may not exceed 10% of the issued share capital of the Company, excluding any shares issued on exercise of options granted under this Scheme. The Scheme will remain in force for a period of 10 years from the date of its adoption.

At the balance sheet date, the Company had 57,600,000 outstanding options, entitling the registered holders to subscribe in cash for shares of the Company at a price of HK\$1.397 per share. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 57,600,000 additional ordinary shares. No share options were granted or exercised during the year ended 31 December 1998.

21. RESERVES

	Share premium account HK\$'000	Land and buildings revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	General reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
Group						
At 1 January 1998	487,745	6,202	12	38,838	211,815	744,612
Issue of bonus shares	(13,228)	—	—	—	—	(13,228)
Arising on issue of ordinary shares	31,636	—	—	—	—	31,636
Net loss for the year	—	—	—	—	(165,696)	(165,696)
Revaluation deficit	—	(5,476)	—	—	—	(5,476)
Realised on disposal	—	(125)	—	—	125	—
Exchange adjustments	—	—	821	—	—	821
At 31 December 1998	506,153	601	833	38,838	46,244	592,669
Reserves retained by:						
Company and subsidiaries	506,153	601	833	38,838	49,509	595,934
Jointly controlled entities	—	—	—	—	(3,265)	(3,265)
	506,153	601	833	38,838	46,244	592,669
Company						
At 1 January 1998	487,745	5,373	—	—	21,479	514,597
Issue of bonus shares	(13,228)	—	—	—	—	(13,228)
Arising on issue of ordinary shares	31,636	—	—	—	—	31,636
Net profit for the year	—	—	—	—	5,374	5,374
Revaluation deficit	—	(5,373)	—	—	—	(5,373)
At 31 December 1998	506,153	—	—	—	26,853	533,006

21. RESERVES (Continued)

In accordance with the relevant PRC regulations, each of the Group's PRC subsidiary and jointly controlled entities is required to transfer not less than 10% of its profits after taxation, as determined in accordance with PRC accounting standards and regulations, to a general reserve until such reserve reaches 50% of its registered capital. The quantum of the annual transfer is subject to the approval of the board of directors of the subsidiary and jointly controlled entities in accordance with their articles of association.

No such transfers were made during the year as the Group's PRC subsidiary and jointly controlled entities incurred losses for the year.

22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	1998 HK\$'000	1997 HK\$'000
Operating profit/(loss)	(162,385)	142,534
Interest income	(3,611)	(4,209)
Interest expense	12,893	7,946
Interest on obligations under finance leases	—	75
Depreciation	27,413	22,951
Revaluation deficit	7,126	1,031
Loss on disposal of fixed assets	2,858	1,363
Gain on disposal of branch operations	(1,501)	—
Amortisation and write off of deferred development costs	10,689	2,950
Decrease in deferred VAT recoverable	3,508	2,530
Decrease/(increase) in accounts receivable	1,501	(59,611)
Decrease/(increase) in inventories	20,372	(80,585)
Increase in prepayments, deposits and other receivables	(41,640)	(18,337)
Increase/(decrease) in accounts payable and accrued liabilities	128,610	(56,513)
Increase in trust receipt loans	4,173	67,058
Exchange differences	372	938
Net cash inflow from operating activities	10,378	30,121

22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year.

	Share capital and share premium HK\$'000	Bank loans (with maturity of over 3 months) HK\$'000
Balance as at 1 January 1997	546,906	15,090
Net cash inflow from financing	—	19,348
Issue of scrip dividends	6,978	—
Exchange differences	—	(175)
Balance as at 31 December 1997 and 1 January 1998	553,884	34,263
Net cash outflow from financing	—	(21,354)
Issue of scrip dividends	32,256	—
Exchange differences	—	427
Balance as at 31 December 1998	586,140	13,336

(c) Disposal of branch operations

	1998 HK\$'000
Net assets disposed of:	
Fixed assets	5,969
Cash and bank balances	36,723
Accounts receivable	15,060
Inventories	110,024
Prepayments, deposits and other receivables	11,666
Accounts payable and accrued liabilities	(124,585)
Tax payable	(186)
	54,671
Gain on disposal	1,501
Consideration	56,172
Satisfied by	
Cash	56,172

22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Disposal of branch operations (Continued)

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

	1998 HK\$'000
Cash consideration	56,172
Cash and bank balances disposed of	(36,723)
Net inflow of cash and cash equivalents in respect of the disposal of branch operations	19,449

The branch operations disposed of during the year contributed approximately HK\$12,459,000 to the Group's net operating cash flows, contributed approximately HK\$4,000 in respect of net returns on investments and servicing of finance, paid approximately HK\$44,000 in respect of taxation and utilised approximately HK\$421,000 for investing activities.

23. COMMITMENTS

	Group		Company	
	1998 HK\$'000	1997 HK\$'000	1998 HK\$'000	1997 HK\$'000
Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:				
Within one year	1,267	3,317	—	135
In the second to fifth years, inclusive	9,622	7,151	—	178
After five years	15,496	12,676	—	—
	26,385	23,144	—	313

As at 31 December 1998, neither the Group, nor the Company had any other significant capital commitments.

24. CONTINGENT LIABILITIES

As at 31 December 1998, the Company had guarantees amounting to HK\$6,313,000 (1997: HK\$6,990,000) to banks for facilities granted to its subsidiaries. The Group had no significant contingent liabilities.

25. COMPARATIVE AMOUNTS

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

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 15 April 1999.