

## 1. CORPORATE INFORMATION

The principal place of business of 139 Holdings Limited is located at Rooms 1603-5, 16/F, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.

During the year, the Company's principal activity was investment holding. The ongoing principal activities of the Group have not changed during the year and consisted of the manufacture, trading and distribution of garments, shoes, car audio equipment and other merchandise. In addition, during the year, the Group also commenced the trading of securities, and the provision of Internet and Internet-related business.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Basis of preparation*

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

### *Basis of consolidation*

The consolidated financial statements include 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 are eliminated on consolidation.

### *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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Goodwill*

Goodwill arising on the consolidation of subsidiaries represents the excess purchase consideration paid for the subsidiaries over the fair values ascribed to the net underlying assets acquired and is eliminated directly against reserves in the year of acquisition. On the disposal of subsidiaries, the relevant portion of attributable goodwill previously eliminated against reserves is written back and is included in the calculation of the gain or loss on disposal.

### *Fixed assets and depreciation*

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after 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 asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used are as follows:

Medium term leasehold land and buildings	50 years or over the lease terms, whichever is shorter
Land use rights	Over the term of the land use rights
Leasehold improvements	Over the remaining lease terms or 3 years, whichever is shorter
Plant and machinery	10 years
Motor vehicles, furniture, fixtures and equipment	3 to 5 years

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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Construction in progress*

Construction in progress represents costs incurred for buildings under construction, and plant and machinery pending installation. Cost comprises direct costs incurred during the periods of construction, installation and testing. No depreciation or amortisation is provided on construction in progress. Construction in progress is transferred to fixed assets when it is capable of producing saleable output on a commercial basis.

### *Leased assets*

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

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

### *Investment securities*

Investment securities are investments in listed and unlisted securities, intended to be held for a continuing strategic or long term purpose, and are stated at cost less any provisions for impairments in values deemed necessary by the directors, other than those considered to be temporary in nature, on an individual basis.

When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Other securities*

Other securities are investments in securities, other than investment securities, and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of securities are credited or charged to the profit and loss account for the period in which they arise.

### *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out method and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate portion of manufacturing overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### *Deferred tax*

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

### *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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Retirement benefit scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Scheme Ordinance, for all those employees who are eligible to participate in the MPF Scheme in Hong Kong. The MPF Scheme became effective on 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 MPF Scheme. The assets of the MPF 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 MPF Scheme.

Prior to the MPF Scheme being effective, the Group operated a defined contributions retirement benefits scheme for those employees who were eligible to participate in the scheme. This scheme operated in a similar way to the MPF Scheme, except that when an employee left the scheme prior to his/her interest in the Group’s employee contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. This scheme was terminated on 1 January 1999. Accordingly, no retirement benefit scheme was operated by the Group from that date until 1 December 2000.

Pursuant to the relevant regulations of the People’s Republic of China (the “PRC”), subsidiaries of the Company operating in the PRC participate in a local municipal government retirement benefits scheme (the “PRC Scheme”) whereby the subsidiaries are required to contribute a percentage of the basic salaries of its employees to the PRC Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries. The only obligation of the Group with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme mentioned above. Contributions under the PRC Scheme are charged to the profit and loss account as incurred. There are no provisions under the PRC Scheme whereby forfeited contributions may be used to reduce future contributions.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Revenue recognition*

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and
- (c) dividends, when the shareholders' right to receive payment is established.

### *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.

### *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 payable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

### 3. TURNOVER

Turnover represents revenue arising from the trading of garments, shoes, leather goods, car audio equipment and other merchandise, net of sales returns and trade discounts.

An analysis of the Group's turnover by activity, disclosed pursuant to the requirements of the Listing Rules, together with other revenue, is as follows:

	2001 HK\$'000	2000 HK\$'000
Sales of garments	108,767	111,107
Sales of shoes	9,501	7,335
Sales of leather goods	1,026	129
Sales of car audio equipment	38,797	6,122
Sales of other merchandise	169	1,269
Turnover	<b>158,260</b>	125,962
Bank interest income	10,684	1,460
Other income	3,906	3,429
	<b>14,590</b>	4,889
Total revenue	<b>172,850</b>	130,851

A further analysis of the Group's turnover by geographical area, disclosed pursuant to the requirements of the Listing Rules, is as follows:

	2001 HK\$'000	2000 HK\$'000
PRC:		
Hong Kong SAR	40,742	4,907
Elsewhere	78,721	121,055
Outside the PRC	38,797	–
	<b>158,260</b>	125,962

#### 4. LOSS FROM OPERATING ACTIVITIES

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

	2001 HK\$'000	2000 HK\$'000
Cost of inventories sold	<b>108,149</b>	103,727
Depreciation:		
Owned fixed assets	<b>8,208</b>	5,192
Leased fixed assets	<b>864</b>	817
Fixed assets written off	–	2,494
Loss on disposal of fixed assets	<b>3,715</b>	14,628
Provision for doubtful debts	<b>64,484</b>	104,665
Inventory provision	<b>42,279</b>	31,279
Staff costs		
Wages and salaries (including directors' remuneration note 6)	<b>30,703</b>	28,212
Pension contributions	<b>287</b>	–
Less: Forfeited contributions	–	(442)
Net pension contributions/(refund)	<b>287</b>	(442)
	<b>30,990</b>	27,770
Operating lease rentals for land and buildings	<b>3,110</b>	4,842
Auditors' remuneration	<b>1,480</b>	675
Exchange gains, net	–	(41)
Interest income	<b>(10,684)</b>	(1,460)



#### 4. LOSS FROM OPERATING ACTIVITIES *(Continued)*

An analysis of the Group's loss from operating activities by principal activity, disclosed pursuant to the requirements of the Listing Rules, is as follows:

	2001 HK\$'000	2000 HK\$'000
Sales of garments	(98,313)	(175,765)
Sales of shoes	(11,150)	(11,380)
Sales of leather goods	(783)	(1,333)
Sales of car audio equipment	4,206	188
Sales of other merchandise	(6,643)	(1,570)
Provisions for diminutions in values of investment securities	(70,000)	–
Realised and unrealised losses on other securities	(85,645)	(25)
	<b>(268,328)</b>	(189,885)

A further analysis of the Group's loss from operating activities by geographical area, disclosed pursuant to the requirements of the Listing Rules, is as follows:

	2001 HK\$'000	2000 HK\$'000
PRC:		
Hong Kong SAR	(156,845)	258
Elsewhere	(115,689)	(190,143)
Outside the PRC	4,206	–
	<b>(268,328)</b>	(189,885)

## 5. FINANCE COSTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Interest expenses on:		
Bank loans, overdrafts and other loans wholly repayable within five years	9,893	6,308
Interest on finance leases	149	303
	<b>10,042</b>	<b>6,611</b>

## 6. DIRECTORS' REMUNERATION

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive directors	1,620	3,290
A non-executive director	–	210
Independent non-executive directors	–	200
	<b>1,620</b>	<b>3,700</b>
Other emoluments:		
Basic salaries, housing, allowances and benefits in kind:		
Executive directors	5,844	5,840
Non-executive directors	–	180
Pension contributions to executive directors	89	–
	<b>5,933</b>	<b>6,020</b>
	<b>7,553</b>	<b>9,720</b>

## 6. DIRECTORS' REMUNERATION (Continued)

The directors' remuneration shown above does not include the monetary value of premises leased by the Group and provided rent-free to a director. The rental value of such accommodation was HK\$581,806 (2000: Nil) for the year ended 31 March 2001.

In the prior year, a consultancy fees of HK\$1,200,000 paid to Lucky Good Consultant Limited, a company beneficially owned by Mr. Chan Chun Tung, John, a director of the Company, was included in directors' remuneration.

The remuneration of the directors fell within the following bands:

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	8	13
HK\$1,000,001 – HK\$1,500,000	–	2
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$3,000,001 – HK\$3,500,000	1	–
HK\$3,500,001 – HK\$4,000,000	–	1
	<b>10</b>	<b>17</b>

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

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

## 7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2000: Four) directors, details of whose remuneration are set out in note 6 above. The details of the remuneration of the remaining one (2000: One) non-director, highest paid employee are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Basic salaries, housing, allowance and benefits in kind	<b>719</b>	770

During the year, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

## 8. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits attributable to operations in Hong Kong during the year.

	Group	
	2001	2000
	HK\$'000	HK\$'000
Hong Kong profits tax:		
Over-provision in prior years	<b>611</b>	121
Tax credit for the year	<b>611</b>	121

No provision for PRC corporate income tax has been made since no assessable profits have been generated by the subsidiaries operating in the PRC. The other overseas subsidiaries did not generate any profits subject to foreign taxes during the year.

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

## 8. TAX (Continued)

The principal component of the Group's and the Company's deferred tax liabilities/ (assets) not provided for/not recognised in the financial statements at the balance sheet date, were as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Accelerated depreciation allowances	2,443	1,710	–	–
Tax losses carried forward	(13,206)	(2,017)	(34)	(34)
At 31 March	(10,763)	(307)	(34)	(34)

## 9. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$312,059,000 (2000: HK\$215,624,000).

## 10. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$277,669,000 (2000: HK\$196,375,000) and the weighted average of 5,137,005,961 (2000: weighted average 1,656,166,259) ordinary shares in issue during the year.

The diluted loss per share for the years ended 31 March 2001 and 2000 have not been shown as the exercise prices of the outstanding share options of the Company was greater than the average market price of the Company's shares during both years, and therefore the share options had an no dilutive effect on the basic loss per share for both years.

## 11. FIXED ASSETS

## Group

	Leasehold land and buildings HK\$'000	Land use rights HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Motor vehicles, furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost:						
At beginning of year	36,289	6,803	12,633	20,987	20,278	96,990
Additions	2,815	–	228	110	1,532	4,685
Acquisition of subsidiaries	–	–	55	–	207	262
Disposals	(6,644)	–	(7,302)	–	(11)	(13,957)
At 31 March 2001	32,460	6,803	5,614	21,097	22,006	87,980
Accumulated depreciation:						
At beginning of year	3,535	782	12,315	6,110	13,325	36,067
Provided during the year	2,122	551	148	3,105	3,146	9,072
Acquisition of subsidiaries	–	–	14	–	16	30
Disposals	(1,020)	–	(7,291)	–	(3)	(8,314)
At 31 March 2001	4,637	1,333	5,186	9,215	16,484	36,855
Net book value:						
At 31 March 2001	27,823	5,470	428	11,882	5,522	51,125
At 31 March 2000	32,754	6,021	318	14,877	6,953	60,923

**11. FIXED ASSETS** (Continued)**Company**

	<b>Leasehold improvements</b>	<b>Furniture, fixtures and equipment</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
Cost:			
At beginning of year	226	415	641
Additions	73	–	73
At 31 March 2001	299	415	714
Accumulated depreciation:			
At beginning of year	6	55	61
Provided during the year	101	83	184
At 31 March 2001	107	138	245
Net book value:			
At 31 March 2001	192	277	469
At 31 March 2000	220	360	580

An analysis of the cost of the leasehold land and buildings of the Group at the balance sheet date is as follows:

	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Leasehold land and buildings held under:		
Medium term leases in Hong Kong	–	6,644
Medium term leases outside Hong Kong	<b>32,460</b>	29,645
	<b>32,460</b>	36,289

The land use rights are held under medium term leases and are situated outside Hong Kong.

At 31 March 2001, certain of the Group's leasehold land and buildings and land use rights, with an aggregate net book value of approximately HK\$23,474,000, were pledged to secure banking facilities granted to the Group (note 22).

**11. FIXED ASSETS** *(Continued)*

The net book value of certain plant and machinery held under a finance lease included in the total amount of fixed assets at 31 March 2001 amounted to HK\$1,397,000 (2000: HK\$1,905,000).

**12. CONSTRUCTION IN PROGRESS**

	Group	
	2001 HK\$'000	2000 HK\$'000
At beginning of year	764	603
Additions during the year	77	161
At 31 March	<b>841</b>	764

**13. INVESTMENTS IN SECURITIES****Investment securities**

	Group	
	2001 HK\$'000	2000 HK\$'000
Unlisted equity investments outside Hong Kong, at cost	90,160	160
Provisions for impairments in values	(70,000)	–
	<b>20,160</b>	160

**Other securities**

	Group	
	2001 HK\$'000	2000 HK\$'000
Listed equity investments in Hong Kong, at market value	<b>67,246</b>	7,819

The market value of the Group's other securities at the date of approval of these financial statements was approximately HK\$76,921,000 (2000: HK\$3,487,000).



## 14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	43,889	43,889
Less: Provisions for diminutions in values	(43,889)	(43,889)
	–	–
Due from subsidiaries	725,121	355,964
Less: Provision	(508,161)	(195,611)
	216,960	160,353
Portion classified as current assets	(181,993)	(160,353)
Non-current portion (note)	34,967	–

The amounts due from the subsidiaries are unsecured and interest-free, except for amounts of HK\$353,735,000 which bear interest at 2.5% per annum.

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Note:

The Company has undertaken not to demand repayment of this amount within a two-year period from the balance sheet date, and only when the subsidiaries have sufficient working capital in excess of their respective normal requirements.

**14. INVESTMENTS IN SUBSIDIARIES** (Continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Chaifa Holdings (B.V.I.) Limited	British Virgin Islands	Ordinary US\$50,000	100%	–	Investment holding
Hoshing Limited	British Virgin Islands	Ordinary US\$1	100%	–	Investment holding
Chaifa Investment Limited	Hong Kong	Ordinary HK\$2 Deferred* HK\$1,000,000	–	100%	Trading of garments and shoes
Highap Investments Limited	Hong Kong	Ordinary HK\$20,000	–	100%	Trading of garments and shoes
Chaifa Shoes Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Trading of garments and shoes
Shantou S.E.Z. Chaifa Industrial Company, Limited	People's Republic of China	HK\$20,000,000	–	100%	Manufacturing of garments
Racelle Services Limited	British Virgin Islands	Ordinary US\$100	–	100%	Provision of accounting and marketing services
Frisian Islands Limited	British Virgin Islands	Ordinary US\$1	–	100%	Provision of procurement, quality control, accounting and marketing services

## 14. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Yukon Territory Inc.	British Virgin Islands	Ordinary US\$1	–	100%	Provision of procurement and quality control services
Chaifa Sports Limited	Hong Kong	Ordinary HK\$2	–	100%	Trading of garments and shoes
Longing Garment Limited	Hong Kong	Ordinary HK\$5	–	100%	Investment holding, manufacturing and trading of garments
Highap Sports Limited	Hong Kong	Ordinary HK\$2	–	100%	Trading of garments and shoes
Sino Electronics Ltd	British Virgin Islands/ Hong Kong	Ordinary US\$2	–	100%	Investment holding
Chongqing Electronics Limited	Hong Kong	Ordinary HK\$2	–	100%	Trading of car audio equipment
Dongguan Chongqing Electrical Limited	People's Republic of China	RMB13,675,000	–	100%	Manufacturing of car audio equipment
Inter System Technology Limited	British Virgin Islands/Hong Kong	Ordinary US\$2	–	100%	Investment holding
Vestgo Investments Limited	British Virgin Islands/Hong Kong	Ordinary US\$2	–	100%	Investment holding
Win Tech Resources Limited	British Virgin Islands/Hong Kong	Ordinary US\$2	–	100%	Investment holding

**14. INVESTMENTS IN SUBSIDIARIES** *(Continued)*

Name	Place of incorporation/ registration/ and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
139 Enterprises Limited	Hong Kong	Ordinary US\$2	–	100%	Provision of administrative services
Chaifa Finance Limited	Hong Kong	Ordinary HK\$2	–	100%	Provision of finance services
Main Purpose Investments Limited	British Virgin Islands/Hong Kong	Ordinary US\$1	–	100%	Trading of securities

\* The deferred shares carry no rights to dividends (other than a non-cumulative dividend at a fixed rate of 1% per annum on the excess of the net profits the company may determine to distribute in respect of any financial year over HK\$1,000,000,000,000,000); no rights to attend or vote at annual general meetings; and no rights to receive any surplus assets in a return of capital in a winding-up (other than 1% of the surplus assets of the company available for distribution after a total of HK\$100,000,000,000,000,000 has been distributed to the holders of the ordinary shares of the company in such a winding-up).

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

**15. CONVERTIBLE NOTE RECEIVABLE**

On 5 September 2000, the Group subscribed for a convertible note of HK\$50,000,000 issued by Yugang International Limited (“Yugang”), a company listed on The Stock Exchange of Hong Kong Limited and independent of the Group. The convertible note bears interest at the rate of 5% per annum, is unsecured and matures on 4 September 2002. The convertible note is convertible into approximately 384,615,000 shares of Yugang at a conversion price of HK\$0.13 per share (subject to adjustment) at any time from 5 September 2000 to 4 September 2002.

## 16. INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	9,152	13,434
Work in progress	3,297	3,735
Finished goods	30,512	76,319
	<b>42,961</b>	93,488

No inventories were carried at net realisable value at 31 March 2001 (2000: Nil).

## 17. TRADE RECEIVABLES

The age of the Group's trade receivables is analysed as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
0 – 120 days	56,055	59,148
121 – 210 days	17,567	36,420
211 – 270 days	4,541	9,742
	<b>78,163</b>	105,310

Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Invoices are normally payable within 3 months of issuance, except for established customers when the terms are extended to 6 months. Each customer has a maximum credit limit, which is granted and approved by senior management. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are regularly reviewed by senior management. Trade receivables are recognised and carried at their original invoiced amount less provisions for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

## 18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	6,108	6,324	853	5,059
Time deposits	18,641	336,381	10	336,381
	<b>24,749</b>	342,705	<b>863</b>	341,440

## 19. TRADE AND BILLS PAYABLES

The age of the Group's trade and bills payables is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
0 – 120 days	24,146	24,068
121 – 210 days	6,905	10,495
Over 210 days	10,889	7,294
	<b>41,940</b>	41,857

## 20. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	Group		Company	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank overdrafts-secured	21, 22	5,705	907	–	45
Current portion of bank and other loans-secured	21, 22, 23	72,019	24,968	–	–
Current portion of finance lease payables	24	333	1,293	–	–
		<b>78,057</b>	27,168	–	45

## 21. INTEREST-BEARING BANK AND OTHER LOANS

	Notes	Group		Company	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank overdrafts – secured	22	5,705	907	–	45
Bank loans:					
Trust receipt					
loans – secured	22	30,589	23,382	–	–
Other bank loans – secured	22	11,224	12,810	–	–
		41,813	36,192	–	–
Other loan – secured	23	44,840	30,206	–	–
		92,358	67,305	–	45
Bank overdrafts repayable within one year or on demand		5,705	907	–	45
Bank loans repayable:					
Within one year		41,813	24,968	–	–
In the second year		–	11,224	–	–
		41,813	36,192	–	–
Other loan repayable:					
Within one year		30,206	–	–	–
In the second year		14,634	30,206	–	–
		44,840	30,206	–	–
Total interest-bearing bank and other loans		92,358	67,305	–	45
Portion classified as current liabilities	20	(77,724)	(25,875)	–	(45)
Non-current portion		14,634	41,430	–	–

## 22. PLEDGE OF ASSETS

As at 31 March 2001, the Group's credit facilities were secured by the following:

- (a) Legal charges on the Group's medium term leasehold land and buildings with land use rights situated in the PRC with an aggregate net book value of approximately HK\$23,474,000 (note 11);
- (b) Fixed deposits of HK\$22,242,000 owned by the Group;
- (c) Corporate guarantees executed by the Company up to the extent of HK\$50,740,000;
- (d) Corporate guarantees executed severally by certain subsidiaries of the Company to the extent of HK\$6,000,000;
- (e) Personal guarantees executed by Mr. Chan Chun Tung, John, a director of the Company, to the extent of HK\$36,800,000; and
- (f) A fixed deposit of HK\$2,657,000 owned by Mr. Chan Chun Tung, John.

## 23. OTHER LOAN, SECURED

The loan is secured by all of the shares in Chaifa Holding (B.V.I.) Limited, a wholly-owned subsidiary of the Company, and its directly and indirectly wholly-owned subsidiaries. The other loan bears interest at the Hong Kong dollar prime rate plus 3% per annum.



## 24. FINANCE LEASE PAYABLES

There were obligations under finance leases at the balance sheet date as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Amounts payable:		
Within one year	356	1,401
In the second year	123	116
Total minimum finance lease payments	479	1,517
Future finance charges	(40)	(108)
Total net obligations under finance leases	439	1,409
Portion classified as current liabilities-note 20	(333)	(1,293)
Long term portion	106	116

## 25. SHARE CAPITAL

	2001 HK\$'000	2000 HK\$'000
Authorised:		
60,000,000,000 (2000: 30,000,000,000) ordinary share of HK\$0.01 each (2000: HK\$0.10 each)	600,000	3,000,000
Issued and fully paid:		
5,985,800,478 (2000: 4,968,800,478) ordinary shares of HK\$0.01 each (2000: HK\$0.10 each)	59,858	496,880

The following changes in the Company's authorised and issued share capital took place during the year:

- (i) During the year, 20,000,000 share options, which entitled the holder to subscribe for the ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.10 per share at any time up to 21 February 2004, were exercised and proceeds of approximately HK\$2,000,000 were received by the Company.

## 25. SHARE CAPITAL *(Continued)*

- (ii) Pursuant to special and ordinary resolutions passed at a special general meeting held on 22 September 2000, (i) the par value of the Company's shares was reduced from HK\$0.10 each to HK\$0.01 each, by cancelling HK\$0.09 per share and the credit arising as a result of the capital reduction of approximately HK\$448,992,000 was transferred to the contributed surplus of the Company (note 26); and (ii) both the authorised and issued shares of the Company were subdivided into 10 shares of HK\$0.01 each.

It was further resolved that 240,000,000 shares of HK\$0.01 each in the authorised but unissued share capital of Company, resulting from the capital reduction and subdivision mentioned above, were cancelled. As a result, the authorised share capital of the Company was reduced to HK\$600,000,000, divided into 60,000,000 shares of HK\$0.01 each.

- (iii) On 12 January 2001, the Company and Tai Fook Securities Company Limited entered into a placing agreement in respect of the placing of 997,000,000 ordinary shares of HK\$0.01 each issued to independent investors at a price of HK\$0.02 per share. The placement was completed on 5 February 2001 and proceeds of approximately HK\$19,539,000, net of related expenses, were received by the Company. The excess of the consideration received for the shares issued over their nominal value, amounting to approximately HK\$9,569,000, net of related expenses, was credited to the share premium account.

**25. SHARE CAPITAL** (Continued)

A summary of the above movements in the share capital of the Company is as follows:

	Notes	Number of ordinary shares of HK\$0.10 each '000	Number of ordinary shares of HK\$0.01 each '000	Amount HK\$'000
Authorised:				
At beginning of year		30,000,000	–	3,000,000
Subdivision of existing shares of HK\$0.10 each into 10 shares of HK\$0.01 each	(ii)	(30,000,000)	300,000,000	–
Capital cancellation	(ii)	–	(240,000,000)	(2,400,000)
At 31 March 2001		–	60,000,000	600,000
	Notes	Number of ordinary shares of HK\$0.10 each '000	Number of ordinary shares of HK\$0.01 each '000	Amount HK\$'000
Issued and fully paid:				
At beginning of year		4,968,800	–	496,880
Shares issued on exercise of share options	(i)	20,000	–	2,000
Capital cancellation	(ii)	4,988,800 (4,489,920)	–	498,880 (448,992)
Subdivision of existing shares of HK\$0.10 each into 10 shares of HK\$0.01 each	(ii)	498,880 (498,880)	– 4,988,800	49,888 –
Shares issued on placement	(iii)	–	997,000	9,970
		–	5,985,800	59,858

## 25. SHARE CAPITAL (Continued)

### Share options

On 22 February 1994, 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 directors of the Company or any such subsidiary, for the grant of options to subscribe for shares of the Company. The subscription price is 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 may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time which have been duly allotted and issued. The maximum number of shares in respect of which options may be granted to any one employee or director may not exceed 25% of the aggregate number of shares in respect of which options are issued and issuable under the share option scheme. The scheme will remain in force until 21 February 2004. HK\$1 is payable by the grant of an option upon acceptance of the grant of the option.

Summary details of the movements in the number of outstanding share options of the Company during the year are summarised as follows:

Exercise price per share	Number of share options (in thousands)			
	At 1 April 2000	Exercised during the year	Lapsed during the year	At 31 March 2001
HK\$0.1888	4,800	–	–	4,800
HK\$0.1000	44,000	(20,000)	(5,000)	19,000
	48,800	(20,000)	(5,000)	23,800

Proceeds of approximately HK\$2,000,000 were received by the Company in respect of the exercise of 20,000,000 share options during the year for the subscription for 20,000,000 of the Company's shares of HK\$0.10 each.

5,000,000 share options lapsed during the year upon the resignation of a director.

**25. SHARE CAPITAL** (Continued)

The exercise in full of the remaining 23,800,000 share options would, under the present capital structure of the Company, result in the issue of 23,800,000 additional shares in the Company at a total consideration, before issue expenses, of approximately HK\$2,806,000.

**26. RESERVES**

Group	Share premium account HK\$'000	Goodwill reserve HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 1999	213,922	-	556	828	(1,193)	694	214,807
Premium upon exercise of share options	353	-	-	-	-	-	353
Share issue expenses	(7,978)	-	-	-	-	-	(7,978)
Goodwill on acquisition	-	(9,413)	-	-	-	-	(9,413)
Exchange realignment	-	-	-	-	32	-	32
Net loss for the year	-	-	-	-	-	(196,375)	(196,375)
At 31 March 2000 and 1 April 2000	206,297	(9,413)	556	828	(1,161)	(195,681)	1,426
Arising from capital cancellation of the Company's shares (note 25(ii))	-	-	-	448,992	-	-	448,992
Premium upon issue of shares	9,970	-	-	-	-	-	9,970
Share issue expenses	(401)	-	-	-	-	-	(401)
Goodwill on acquisition	-	(35,249)	-	-	-	-	(35,249)
Net loss for the year	-	-	-	-	-	(277,669)	(277,669)
At 31 March 2001	215,866	(44,662)	556	449,820	(1,161)	(473,350)	147,069

**26. RESERVES (Continued)**

<b>Company</b>	<b>Share premium account HK\$'000</b>	<b>Capital redemption reserve HK\$'000</b>	<b>Contributed surplus HK\$'000</b>	<b>Accumulated losses HK\$'000</b>	<b>Total HK\$'000</b>
At 1 April 1999	213,922	556	43,689	(34,351)	223,816
Premium upon exercise of share options	353	–	–	–	353
Share issue expenses	(7,978)	–	–	–	(7,978)
Net loss for the year	–	–	–	(215,624)	(215,624)
At 31 March 2000 and 1 April 2000	206,297	556	43,689	(249,975)	567
Arising from capital cancellation of the Company's shares (note 25(ii))	–	–	448,992	–	448,992
Premium upon issue of shares	9,970	–	–	–	9,970
Share issue expenses	(401)	–	–	–	(401)
Net loss for the year	–	–	–	(312,059)	(312,059)
At 31 March 2001	215,866	556	492,681	(562,034)	147,069

The contributed surplus of the Group arose as a result of the Group reorganisation on the listing of the Company's shares in 1994, and represents the difference between the nominal value of the shares of the former holding company of the Group prior to the Group reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company arose as a result of the same Group reorganisation scheme and 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.

## 27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Reconciliation of loss from operating activities to net cash outflow from operating activities.

	2001 HK\$'000	2000 HK\$'000
Loss from operating activities	(268,328)	(189,885)
Interest income	(10,684)	(1,460)
Depreciation	9,072	6,009
Fixed assets written off	–	2,494
Loss on disposal of fixed assets	3,715	14,628
Loss on disposal of other securities	21,702	25
Unrealised loss on other securities	63,943	–
Provisions for diminutions in values of investment securities	70,000	–
Provision for doubtful debts	64,484	104,665
Inventories provision	42,279	31,279
Increase in trade receivables	(37,337)	(17,632)
Decrease in inventories	8,248	29,060
Decrease/(increase) in prepayments, deposits and other receivables	(856)	7,887
Decrease in trust receipt loans with original maturity over three months	(20,089)	(4,023)
Increase in trade and bills payables	83	3,639
Increase/(decrease) in other payables and accruals	6,626	(8,822)
Net cash outflow from operating activities	<b>(47,142)</b>	<b>(22,136)</b>

**27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT***(Continued)**(b) Analysis of changes in financing during the year.*

	Share capital and share premium HK\$'000	Other bank loans and other loans HK\$'000	Obligations under finance leases HK\$'000
Balance at 1 April 1999	309,836	21,326	2,532
Cash inflow/(outflow) from financing activities, net	393,341	21,690	(1,123)
Balance at 31 March 2000 and 1 April 2000	703,177	43,016	1,409
Inception of finance lease contract	–	–	314
Arising from capital cancellation of the Company's shares	(448,992)	–	–
Cash inflow/(outflow) from financing activities, net	21,539	13,048	(1,284)
Balance at 31 March 2001	275,724	56,064	439



## 27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

*(Continued)**(c) Acquisition of subsidiaries*

	2001 HK\$'000	2000 HK\$'000
Net assets acquired		
Fixed assets	232	24,222
Inventories	–	3,526
Trade receivables	–	22
Prepayments, deposits and other receivable	740	378
Cash and bank balances	1,849	3,165
Other payables and accruals	(2,560)	(1,858)
Trade and bills payable	–	(3,859)
Tax payable	–	(9)
Minority interests	(90)	–
	171	25,587
Goodwill on acquisition	35,249	9,413
	<b>35,420</b>	35,000
Satisfied by:		
Cash consideration	<b>35,420</b>	35,000

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

	2001 HK\$'000	2000 HK\$'000
Cash consideration	(35,420)	(35,000)
Cash and bank balances acquired	1,849	3,165
	<b>(33,571)</b>	(31,835)

## 27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(Continued)

### (c) Acquisition of subsidiaries (continued)

The subsidiaries acquired during the year made no significant contribution to the Group's net operating cash flows. There were no significant cash flows in respect of returns on investments and servicing of finance, tax, investing activities or financing activities.

The subsidiaries acquired in the prior year utilised HK\$2,499,000 of the Group's net operating cash flows and HK\$106,000 for investing activities, but had no significant impact in respect of tax, net returns on investments and servicing of finance, or financing activities.

The subsidiaries acquired during the year made no significant contribution to the Group's turnover and net loss from ordinary activities attributable shareholders for the year.

### (d) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately HK\$314,000.

## 28. COMMITMENTS

As at the balance sheet date, the Group had the following commitments:

	2001 HK\$'000	2000 HK\$'000
Payments in respect of non-cancellable operating leases committed to be made during the next year by the Group for land and buildings expiring:		
Within one year	802	177
In the second to fifth years, inclusive	2,762	2,412
	<b>3,564</b>	2,589

The Company had no significant commitments at the balance sheet date (2000: Nil).

## 29. CONTINGENT LIABILITIES

At the balance sheet date, the Company had the following contingent liabilities not provided for in the financial statements:

	2001 HK\$'000	2000 HK\$'000
Guarantees of banking facilities granted to and utilised by subsidiaries	33,614	36,194

## 30. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 11 June 2001, the Company entered into a placing agreement with Tai Fook Securities Company Limited in respect of the placing to independent investors of an aggregate 1,197,000,000 ordinary shares in the Company of HK\$0.01 each at a price of HK\$0.03 per share. The placement was completed on 29 June 2001 and proceeds of approximately HK\$35,910,000, before related expenses, were received by the Company.

## 31. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties:

- (a) During the year Mr. Chan Chun Tung, John, a director of the Company, executed personal guarantees to the extent of HK\$36,800,000 and pledged personal fixed deposits for the banking facilities granted to a subsidiary of the Company at nil consideration.
- (b) In the prior year, a consultancy fees of HK\$1,200,000 related to management consultancy services were paid to Lucky Good Consultant Limited ("Lucky Good"), a company beneficially owned by Mr. Chan Chun Tung, John, a director of the Company. The amount of the consultancy fee was determined between the Group and Lucky Good.

## 32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 23 July 2001.