

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company’s ultimate holding company is Cafoong Limited, a company which is incorporated in the British Virgin Islands.

The Company acts as an investment holding company. The Group is principally engaged in the purchasing, processing, assembling, merchandising, wholesale and retail distribution of pearls and pearl jewelry products.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investment in securities, and in accordance with the accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to March 31 each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

2. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the net assets at the date of acquisition of a subsidiary and is eliminated against reserves immediately on acquisition. Negative goodwill, which represents the excess over the purchase consideration of the fair value ascribed to the Group's share of the net assets at the date of acquisition over the purchase consideration, is credited to reserves.

On disposal of an investment in a subsidiary, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary.

Turnover

Turnover represents the net amounts received and receivable in respect of goods sold, less returns and allowances, by the Group to outside customers during the year.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Dividend income from investments is recognised when the shareholders' right to receive payments has been established.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

2. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is credited in the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

2. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Property, plant and equipment

Property, plant and equipment, other than construction in progress, is stated at cost less 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 asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement 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 asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation is provided to write off the cost of property, plant and equipment, other than construction in progress, over the estimated useful lives and after taking into account the estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold properties	Over the shorter of the term of lease or 50 years
Leasehold improvements	25%
Plant and machinery	25%
Furniture, fixtures and equipment	25%
Motor vehicles	25%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

2. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Property, plant and equipment *(Continued)*

The cost of land use rights is amortised over the terms of the rights using the straight-line method.

Assets held under hire purchase contracts are depreciated over their expected useful lives on the same basis as owned assets.

Construction in progress is stated at cost which includes all development expenditure and other direct costs, including borrowing cost capitalised, attributable to such projects. Construction in progress is not depreciated or amortised until the completion of construction. The cost of completed construction work is transferred to the appropriate category of property, plant and equipment.

Leases and hire purchase contracts

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases and hire purchase contracts are capitalised at their fair value at the date of acquisition. The principal portion of the corresponding leasing commitments is shown as obligations of the Group. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease or contract so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the lease terms.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

2. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sales.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses on translation are dealt with in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

2. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Foreign currencies *(Continued)*

On consolidation, the financial statements of overseas subsidiaries which are denominated in currencies other than Hong Kong dollar are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

Retirement benefit scheme

The retirement benefit costs charged in the income statement represent the contributions payable to the Group's mandatory provident fund scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

3. TURNOVER

The Group's turnover and (loss) profit from operations, analysed by geographical market, are as follows:

	2001		2000	
	Turnover HK\$'000	Loss from operations HK\$'000	Turnover HK\$'000	Profit from operations HK\$'000
By geographical market				
Hong Kong	68,752	(4,909)	53,269	6,966
Asian countries excluding Hong Kong	89,948	(14,403)	59,862	8,037
North America	78,300	(15,569)	72,089	9,710
Europe	63,080	(10,232)	82,818	11,152
Others	11,028	(1,702)	11,242	1,516
	311,108		279,280	
(Loss) profit from operations		(46,815)		37,381

The Group is principally engaged in the purchasing, processing, assembling, merchandising, wholesale and retail distribution of pearls and pearl jewelry products.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

4. (LOSS) PROFIT FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Auditors' remuneration:		
Current year	667	813
Overprovision in previous years	(65)	(26)
Depreciation and amortisation:		
Assets owned by the Group	7,518	5,732
Assets held under and hire purchase contracts	218	218
Licences	–	1,394
Loss on disposal of property, plant and equipment	733	–
Pre-operating expenses written off	–	1,116
Rentals in respect of land and buildings under operating leases	4,916	2,315
Staff costs	36,953	32,082
and after crediting:		
Gain on disposal of property, plant and equipment	–	145
Rental income from investment properties under operating leases (net of outgoings of HK\$113,000 (2000: HK\$28,000))	5,413	4,592

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of the directors and the five highest paid individuals are as follows:

(a) Directors' emoluments

	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive	–	–
Non-executive	92	8
Independent non-executive	331	300
	423	308
Other emoluments:		
Executive		
Salaries and other benefits	9,795	9,836
Performance related incentive payments	–	2,700
Retirement benefits contribution	15	–
Non-executive	–	–
Independent non-executive	–	–
	9,810	12,536
	10,233	12,844

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

The directors' emoluments were within the following bands:

	No. of directors	
	2001	2000
Nil – HK\$1,000,000	4	5
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	2	–
HK\$4,500,001 – HK\$5,000,000	–	2

Included in the directors' emoluments disclosed above is rent free accommodation provided by the Group to directors during the year with an aggregate rateable value as follows:

	2001	2000
	HK\$'000	HK\$'000
Approximate rateable value of property for directors' accommodation	1,705	1,805

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

Of the five individuals with the highest emolument in the Group, four (2000: four) were directors of the Company whose emoluments are included in the disclosure in note 5(a) above. The emoluments of the remaining one (2000: one) individual were as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	690	883
Retirement benefits contribution	4	–
	694	883

6. INVESTMENT INCOME

	2001 HK\$'000	2000 HK\$'000
Interest income	5,353	4,437
Dividends received from listed other investments	158	–
Dividends received from unlisted investment securities	20	–
Net realised gain on disposal of other investments	2,027	–
Net unrealised loss on other investments	(4,349)	–
	3,209	4,437

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

7. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	5,605	2,844
Bank borrowings not wholly repayable within five years	1,358	2,532
Obligations under hire purchase contracts	27	53
	6,990	5,429

8. TAXATION

	2001 HK\$'000	2000 HK\$'000
The charge comprises:		
Hong Kong Profits Tax:		
Current year	1	1,943
Overprovision in prior year	(199)	(747)
Income tax in the People's Republic of China (the "PRC") attributable to the PRC subsidiaries	733	2,687
	535	3,883

Hong Kong Profits Tax is calculated at a rate of 16% of the estimated assessable profit for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

8. TAXATION (Continued)

A portion of the Group's profits neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax.

Income tax in the PRC is calculated at a range of rates of 7.5% to 15% of the income of the PRC subsidiaries.

Details of the unprovided deferred taxation are set out in note 26.

9. NET (LOSS) PROFIT FOR THE YEAR

Of the Group's net loss for the year of HK\$49,826,000 (2000: net profit of HK\$33,122,000), a loss of HK\$3,535,000 (2000: a profit of HK\$976,000) has been dealt with in the financial statements of the Company.

10. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share ("EPS") is based on the following data:

	2001 HK\$'000	2000 HK\$'000
(Loss) earnings for the purpose of calculating basic and diluted EPS	(49,826)	33,122

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

10. (LOSS) EARNINGS PER SHARE (Continued)

	2001	2000
	Number	Number
	of shares	of shares
Weighted average number of ordinary shares for the purpose of calculating basic EPS	631,310,929	611,131,351
Effect of dilutive potential ordinary shares:		
Options		2,114,242
Warrants		8,573,350
Weighted average number of ordinary shares for the purpose of calculating diluted EPS		621,818,943

Diluted loss per share is not presented for the year ended March 31, 2001 as the effect of exercising the Company's shares options and warrants would be anti-dilutive.

The denominators for both years for the purposes of calculating both basic and diluted EPS have been adjusted to reflect the bonus issue of shares in the Company in August 2000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

11. INVESTMENT PROPERTIES

	<u>HK\$'000</u>
THE GROUP	
At April 1, 2000	69,500
Additions	37,439
Transferred from property, plant and equipment	14,946
Deficit on revaluation	<u>(6,455)</u>
At March 31, 2001	<u>115,430</u>

The Group's investment properties at March 31, 2001 were revalued by Insignia Brooke, an independent professional firm of valuers, on an open market value basis, at HK\$115,430,000. The deficit arising on revaluation of the investment properties amounting to HK\$6,455,000 has been charged to the investment property revaluation reserve.

All the Group's investment properties are rented out under operating leases.

The carrying value of investment properties shown above comprises:

	2001 HK\$'000	2000 HK\$'000
Land and buildings situated in Hong Kong and held under:		
Long leases	12,210	2,100
Medium-term leases	40,220	4,400
Land and buildings situated in the PRC and held under medium-term leases	<u>63,000</u>	63,000
	<u>115,430</u>	<u>69,500</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties	Leasehold improve- ments	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
COST							
At April 1, 2000	87,441	12,474	6,056	6,007	4,483	697	117,158
Currency realignment	22	13	13	4	4	1	57
Purchase of subsidiaries	-	-	-	9	-	-	9
Additions	3,467	3,382	388	3,520	-	87	10,844
Disposals	-	(732)	(403)	(855)	-	-	(1,990)
Transferred to investment properties	(15,774)	-	-	-	-	-	(15,774)
Reclassification	-	-	785	-	-	(785)	-
At March 31, 2001	75,156	15,137	6,839	8,685	4,487	-	110,304
DEPRECIATION AND AMORTISATION							
At April 1, 2000	4,327	6,192	3,105	3,760	2,702	-	20,086
Currency realignment	2	5	6	2	4	-	19
Provided for the year	1,758	2,954	977	1,389	658	-	7,736
Eliminated on disposals	-	(195)	(396)	(599)	-	-	(1,190)
Transferred to investment properties	(828)	-	-	-	-	-	(828)
At March 31, 2001	5,259	8,956	3,692	4,552	3,364	-	25,823
NET BOOK VALUES							
At March 31, 2001	69,897	6,181	3,147	4,133	1,123	-	84,481
At March 31, 2000	83,114	6,282	2,951	2,247	1,781	697	97,072

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

The net book value of leasehold properties shown above comprises:

	2001 HK\$'000	2000 HK\$'000
Land and buildings situated in Hong Kong and held under:		
Long leases	17,034	32,538
Medium-term leases	43,817	41,275
Land and buildings situated in the PRC and held under medium-term leases	9,046	9,301
	69,897	83,114

The net book value of property, plant and equipment at March 31, 2001 includes an amount of HK\$117,000 (2000: HK\$335,000) in respect of assets held under hire purchase contracts.

The Company had no property, plant and equipment at March 31, 2001.

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost or carrying value	206,664	206,668
Amounts due from subsidiaries	108,403	153,438
	315,067	360,106

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

13. INTERESTS IN SUBSIDIARIES (Continued)

The carrying value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group pursuant to the corporate reorganisation in 1997.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

Details of the Company's subsidiaries at March 31, 2001 are set out in note 34.

14. INVESTMENT SECURITIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Unlisted investments, at cost:		
Hong Kong	900	900
The PRC	5,430	5,430
	6,330	6,330

The directors of the Company are of the opinion that the investments are worth at least their cost and no impairment loss needs to be recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

15. INVENTORIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Raw materials	1,618	1,781
Work in progress	31,611	33,987
Finished goods	77,816	152,198
	111,045	187,966

Included above are raw materials of HK\$1,462,000 (2000: HK\$1,686,000), work in progress of HK\$30,015,000 (2000: HK\$27,800,000) and finished goods of HK\$60,148,000 (2000: HK\$138,753,000) which are carried at net realisable value.

16. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of trade receivables of the Group at the reporting date:

	2001	2000
	HK\$'000	HK\$'000
0–60 days	34,283	51,924
61–120 days	11,979	3,260
> 120 days	16,358	340
	62,620	55,524

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

17. OTHER INVESTMENTS

	THE GROUP AND THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Listed equity investments in Hong Kong, at market value	11,734	–

18. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables of the Group at the reporting date:

	2001	2000
	HK\$'000	HK\$'000
0–60 days	2,919	8,528
61–120 days	712	347
> 120 days	18	125
	3,649	9,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

19. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
The maturity of obligations under hire purchase contracts is as follows:		
Within one year	123	192
More than one year, but not exceeding two years	–	123
	123	315
<i>Less:</i> Amount due within one year and shown under current liabilities	(123)	(192)
Amount due after one year	–	123

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

20. BANK BORROWINGS

THE GROUP

	2001 HK\$'000	2000 HK\$'000
The bank borrowings comprise:		
Bank loans	121,328	98,631
Bank import loans	–	400
	121,328	99,031
All of the bank borrowings are secured.		
The bank borrowings are repayable as follows:		
Within one year or on demand	92,022	78,264
More than one year, but not exceeding two years	6,304	4,429
More than two years, but not exceeding five years	17,117	12,821
More than five years	5,885	3,517
	121,328	99,031
<i>Less:</i> Amount due within one year and shown under current liabilities	(92,022)	(78,264)
Amount due after one year	29,306	20,767

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For the year ended March 31, 2001

21. SHARE CAPITAL

	Number of shares		Share capital	
	2001 '000	2000 '000	2001 HK\$'000	2000 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At beginning of the year	900,000	900,000	90,000	90,000
Increase during the year (note i)	600,000	–	60,000	–
At end of the year	1,500,000	900,000	150,000	90,000
Issued and fully paid:				
At beginning of the year	524,510	484,464	52,451	48,446
Issue of shares on exercise of share options (note ii)	2,050	–	205	–
Bonus issue of shares (note iii)	105,311	–	10,531	–
Issue of shares on placement (note iv)	–	40,000	–	4,000
Issue of shares on exercise of warrants	–	46	–	5
At end of the year	631,871	524,510	63,187	52,451

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

21. SHARE CAPITAL (Continued)

Notes:

- (i) Pursuant to a resolution passed at the annual general meeting of the Company held on August 2, 2000, the authorised share capital of the Company was increased from HK\$90,000,000 divided into 900,000,000 shares of HK\$0.10 each to HK\$150,000,000 divided into 1,500,000,000 shares of HK\$0.10 each by the creation of 600,000,000 new shares of HK\$0.10 each.
- (ii) During the year ended March 31, 2001, the Company issued 2,050,000 shares of HK\$0.10 each in the Company for cash, as a result of the exercise of share options.
- (iii) Pursuant to a resolution passed on August 3, 2000, a total of 105,311,821 bonus shares of HK\$0.10 each of the Company, credited as fully paid by way of capitalisation from the share premium account of the Company, were allotted to shareholders on the basis of one bonus share for every five shares.
- (iv) On August 6, 1999, arrangements were made for a placement to independent investors of 40,000,000 new ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.33 per share representing a discount of approximately 10.81% to the closing market price of the Company's shares on August 6, 1999. The proceeds were used to develop the retail market of pearl and pearl products in the PRC and to provide additional working capital for the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on August 2, 1999.

All the shares issued during both years rank *pari passu* with the then existing shares in all respects.

22. WARRANTS

By a special resolution passed on August 2, 1999, the Company made a bonus issue of warrants on the basis of one warrant for every five shares held on August 2, 1999, exercisable from September 14, 1999 to September 13, 2001, both dates inclusive. Such warrants will entitle the registered holder to subscribe for 117,390,422 new shares of the Company at a subscription price of HK\$0.33 per share, subject to adjustment.

NOTES TO THE FINANCIAL STATEMENTS

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22. *WARRANTS (Continued)*

During the year ended March 31, 2000, the registered holders of 45,603 of warrants exercised their rights to subscribe for ordinary shares.

No warrants were exercised during the year ended March 31, 2001.

At March 31, 2001, the Company had outstanding 117,390,422 warrants. Exercise in full of such warrants would result in the issue of 117,390,422 additional shares of HK\$0.10 each.

23. *SHARE OPTION SCHEME*

Pursuant to the share option scheme of the Company adopted on September 8, 1997 (the “Scheme”), the directors of the Company may grant options to any executive director or full time employee of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the higher of the nominal value of the Company’s shares and 80% of the average of the closing prices of the Company’s shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

NOTES TO THE FINANCIAL STATEMENTS

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23. SHARE OPTION SCHEME (Continued)

Details of movements of the share options granted by the Company pursuant to the Scheme are as follows:

Date of grant	Exercise price	At 4.1.2000	Number of share options					At 3.31.2001
			Granted during the year	Exercised during the year	Expired during the year	Adjusted on 8.3.2000	Cancelled during the year	
October 16, 1997	0.6208	27,800,000	-	-	(27,800,000)	-	-	-
December 3, 1997	0.4460	8,650,000	-	-	(8,650,000)	-	-	-
November 16, 1999	0.2133	9,800,000	-	(2,050,000)	-	1,551,450	-	9,301,450
April 28, 2000	0.2475	-	33,000,000	-	-	6,600,000	(1,200,000)	38,400,000
		46,250,000	33,000,000	(2,050,000)	(36,450,000)	8,151,450	(1,200,000)	47,701,450

The Company received nominal consideration for options granted during the year.

The options are exercisable within a period of two years commencing from six months after the respective dates of acceptance.

The share options granted on October 16, 1997 and December 3, 1997 expired during the year.

The number of share options were adjusted on August 3, 2000 pursuant to the 1 to 5 bonus issue of shares of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

24. RESERVES

	Share premium account HK\$'000	Other non- distributable reserve HK\$'000	Merger reserve HK\$'000	Investment property revaluation reserve HK\$'000	Goodwill reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE GROUP								
Balance at April 1, 1999	75,145	2,001	(200)	35,204	(174)	2,078	218,050	332,104
Issue of shares at premium	9,214	-	-	-	-	-	-	9,214
Share issue expenses	(449)	-	-	-	-	-	-	(449)
Deficit on revaluation of investment properties	-	-	-	(2,770)	-	-	-	(2,770)
Net profit for the year	-	-	-	-	-	-	33,122	33,122
Exchange adjustment arising from translation of financial statements of overseas operations	-	-	-	-	-	(498)	-	(498)
Balance at April 1, 2000	83,910	2,001	(200)	32,434	(174)	1,580	251,172	370,723
Issue of shares at premium	319	-	-	-	-	-	-	319
Transferred to share capital on bonus issue	(10,531)	-	-	-	-	-	-	(10,531)
Deficit on revaluation of investment properties	-	-	-	(6,455)	-	-	-	(6,455)
Net loss for the year	-	-	-	-	-	-	(49,826)	(49,826)
Goodwill arising on acquisition of subsidiaries	-	-	-	-	(1,179)	-	-	(1,179)
Exchange adjustment arising from translation of financial statements of overseas operations	-	-	-	-	-	723	-	723
Balance at March 31, 2001	73,698	2,001	(200)	25,979	(1,353)	2,303	201,346	303,774

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

24. RESERVES (Continued)

The merger reserve represents the difference between the nominal value of shares of subsidiaries acquired, and the nominal value of the Company's shares issued for the acquisition under the corporate reorganisation in 1997.

	Share premium account	Contributed surplus	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY				
Balance at April 1, 1999	75,145	206,459	5,065	286,669
Issue of shares at premium	9,214	–	–	9,214
Share issue expenses	(449)	–	–	(449)
Net profit for the year (note 9)	–	–	976	976
Balance at April 1, 2000	83,910	206,459	6,041	296,410
Issue of shares at premium	319	–	–	319
Transferred to share capital on bonus issue	(10,531)	–	–	(10,531)
Net loss for the year (note 9)	–	–	(3,535)	(3,535)
Balance at March 31, 2001	73,698	206,459	2,506	282,663

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of the corporate reorganisation in 1997.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

24. *RESERVES (Continued)*

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the Company's directors, the Company's reserves available for distribution to shareholders at March 31, 2001 consisted of contributed surplus of HK\$206,459,000 (2000: HK\$206,459,000) and accumulated profits of HK\$2,506,000 (2000: HK\$6,041,000).

25. *AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY/AMOUNT DUE TO IMMEDIATE HOLDING COMPANY/AMOUNTS DUE TO SUBSIDIARIES*

Intermediate holding company

The amount was due to Man Sang Holdings, Inc., a company which is incorporated in the State of Nevada, the United States of America, and quoted on the National Association of Securities Dealers, Inc. Electronic Bulletin Board. The amount was unsecured, non-interest bearing and was fully settled during the year.

Immediate holding company

The amount due to the immediate holding company is unsecured and non-interest bearing. In the opinion of the directors of the Company, the amount will not be repayable within twelve months of the balance sheet date and accordingly, the amount is classified as non-current.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

25. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY/AMOUNT DUE TO IMMEDIATE HOLDING COMPANY/AMOUNTS DUE TO SUBSIDIARIES (Continued)

Subsidiaries

The amounts due to subsidiaries are unsecured and non-interest bearing. In the opinion of the directors of the Company, the amounts will not be repayable within twelve months of the balance sheet date and accordingly, the amounts are classified as non-current.

26. DEFERRED TAXATION

At March 31, 2001, the major components of potential deferred tax (asset) liability are as follows:

	THE GROUP	
	2001	2001
	HK\$'000	HK\$'000
Tax effect of timing difference attributable to:		
Taxation losses available to set off future profits	(7,946)	(1,557)
Excess of tax allowances over depreciation	232	135
	(7,714)	(1,422)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

26. DEFERRED TAXATION (Continued)

The amounts of potential deferred tax (credit) charge for the year are as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Tax effect of timing difference attributable to:		
Taxation losses	(6,389)	(906)
Excess of tax allowances over depreciation	97	198
	(6,292)	(708)

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

At March 31, 2001, the Group had an unprovided deferred taxation liability of HK\$17,686,000 (2000: HK\$18,137,000) representing the potential taxation effect of timing differences relating to the surplus arising on the valuation of the Group's investment properties in the PRC. The deferred taxation liability has not been provided as, in the opinion of the directors, the Group will not dispose of its interest in the investment properties in the PRC in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

27. RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
(Loss) profit before taxation	(50,596)	36,389
Depreciation and amortisation	7,736	7,344
Dividend received	(178)	–
Rental income	(5,526)	(4,620)
Interest expense	6,963	5,376
Interest income	(5,353)	(4,437)
Interest on obligations under hire purchase contracts	27	53
Loss (gain) on disposal of property, plant and equipment	733	(145)
Net realised gain on disposal of other investments	(2,027)	–
Net unrealised loss on other investments	4,349	–
Pre-operating expenses written off	–	1,116
Decrease (increase) in inventories	77,021	(16,421)
Increase in trade and other receivables	(4,783)	(7,390)
(Decrease) increase in trade and other payables	(5,307)	1,401
(Decrease) increase in amount due to an investee company	(420)	604
Net cash inflow from operating activities	22,639	19,270

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

28. PURCHASE OF SUBSIDIARIES

During the year, the Group acquired 79% of the issued share capital of Intimex Business Solutions Company Limited and WiserU.com Limited by an issue of 42,000,000 shares of HK\$0.05 each in the share capital of Cyber Bizport Limited. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$1,179,000. The aggregate net loss of Intimex Business Solutions Company Limited and WiserU.com Limited included in the consolidated income statement for the year ended March 31, 2001 amounted to HK\$775,000.

	2001 HK\$'000	2000 HK\$'000
NET ASSETS ACQUIRED		
Property, plant and equipment	9	–
Inventories	18	–
Trade and other receivables	269	–
Bank balances and cash	89	–
Trade and other payables	(319)	–
Taxation	(16)	–
Minority interest	(11)	–
	39	–
Goodwill	1,179	–
	1,218	–
SATISFIED BY		
Minority interest	1,218	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

28. PURCHASE OF SUBSIDIARIES (Continued)

Net cash inflow of cash and cash equivalents arising on acquisition:

	2001 HK\$'000	2000 HK\$'000
Bank balances and cash acquired	89	—

The subsidiaries acquired during the year contributed HK\$446,000 outflow to the Group's net operating cash flows, received HK\$4,000 in respect of the net returns on investments and servicing of finance, paid HK\$21,000 in respect of taxation and utilised HK\$341,000 for investing activities.

The subsidiaries acquired made no contribution to the Group's turnover during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

29. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$'000	Bank loans HK\$'000	Obligations under hire purchase contracts HK\$'000	Amount due to an intermediate holding company HK\$'000	Amount due to immediate holding company HK\$'000	Minority interests HK\$'000
At April 1, 1999	123,591	54,747	550	21,899	–	–
Shares issued during the year	13,219	–	–	–	–	–
Share issue expenses	(449)	–	–	–	–	–
New bank loans raised	–	64,160	–	–	–	–
Repayment during the year	–	(20,276)	(235)	(6,343)	–	–
Funds contributed from minority interests	–	–	–	–	–	3,092
Minority share of results for the year	–	–	–	–	–	(616)
At April 1, 2000	136,361	98,631	315	15,556	–	2,476
New bank loans raised	–	67,305	–	–	–	–
Transfer during the year	–	–	–	(12,445)	12,445	–
Repayment during the year	–	(44,608)	(192)	(3,111)	–	–
Shares issued during the year	524	–	–	–	–	–
Exchange adjustment	–	–	–	–	–	26
Purchase of subsidiaries	–	–	–	–	–	1,229
Minority share of results for the year	–	–	–	–	–	(1,305)
At March 31, 2001	136,885	121,328	123	–	12,445	2,426

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

30. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged the following assets to banks to secure bank borrowings and general banking facilities granted to the Group:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Net book values of leasehold properties	57,432	73,812
Net book values of investments properties	72,625	26,596
Bank deposits	64,879	62,330
	194,936	162,738

At March 31, 2001, the Company pledged its bank deposits, amounting to HK\$3,702,000 (2000: HK\$3,519,000), to secure short-term bank borrowings and short-term bank facilities granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

31. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of land and buildings payable in the following year as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Operating leases which expire:		
Within one year	258	–
In the second to fifth year inclusive	4,333	2,818
	4,591	2,818

The Company had no significant operating lease commitment at the balance sheet date.

32. CONTINGENT LIABILITIES

At March 31, 2001, the Company had issued corporate guarantees to banks in respect of general banking facilities granted to its subsidiaries. The extent of facilities utilised by the subsidiaries at March 31, 2001 amounted to HK\$40,636,000 (2000: HK\$25,595,000).

At the balance sheet date, the Group had no significant contingent liabilities.

33. RELATED PARTY TRANSACTIONS

During the year, the Group repaid amounts totalling HK\$3,111,000 (2000: HK\$6,343,000) to Man Sang Holdings, Inc., the intermediate holding company of the Company. Details of the amount due to Man Sang Holdings, Inc. and the related terms are set out in note 25.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

33. RELATED PARTY TRANSACTIONS (Continued)

In addition, the Group purchased goods from an investee company amounting to HK\$5,415,000 (2000: HK\$3,512,000). The transactions were carried out on terms similar to those applicable to transactions with unrelated parties. The balance with this investee company is set out in the consolidated balance sheet on page 29 to 30.

During the year, Yuen & Partners received professional fees of HK\$135,000 (2000: HK\$34,000) for the provision of legal and professional services to the Group. Mr. Yuen Ka Lok, Ernest, an independent non-executive director of the Company, is a partner of Yuen & Partners.

34. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at March 31, 2001 are as follows:

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal	Principal activities
			value of issued capital/registered capital held by the Company	
Arcadia Jewellery Limited	Hong Kong	Ordinary shares HK\$500,000	100%	Trading of pearl products
Asean Gold Limited	British Virgin Islands	Ordinary shares US\$10,000	100%	Investment holding
Beijing Sai Long Jewellery Co., Limited	PRC	Registered capital US\$1,000,000	60%	Trading of jewelry

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

34. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/operation	Issued and fully paid share capital/registered capital	Proportion of nominal value of issued capital/registered capital held		Principal activities
			by the Company		
Cyber Bizport Limited	Hong Kong	Ordinary shares HK\$10,000,000	79%		Investment holding
Damei Pearls Jewellery Goods (Shenzhen) Co., Ltd.	PRC	Registered capital HK\$6,000,000	100%		Purchasing and processing of pearls
Excel Access Limited	Hong Kong	Ordinary shares HK\$5,000	100%		Property investment
Hong Kong Man Sang Investments Limited	Hong Kong	Ordinary shares HK\$500 Non-voting deferred shares HK\$500	100%		Investment holding
Intimex Business Solutions Company Limited	Hong Kong	Ordinary shares HK\$99,999	79%		Provision of system integration consultancy services
Man Hing Industry Development (Shenzhen) Co., Ltd.	PRC	Registered capital HK\$16,800,000	100%		Assembling of pearl jewelry and property investments

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

34. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held		Principal activities
			by the Company		
Man Sang Development Company Limited (formerly known as Golden Concord (Asia) Limited)	Hong Kong	Ordinary shares HK\$5,000	100%		Investment and property holding
Man Sang Enterprise Ltd.	British Virgin Islands	Ordinary shares US\$100	100%		Investment holding
Man Sang Innovations Limited	Hong Kong	Ordinary shares HK\$5,000	100%		Investment holding
Man Sang Jewellery Company Limited	Hong Kong	Ordinary shares HK\$500 Non-voting deferred shares HK\$500	100%		Trading of pearl products and investment holding
Market Leader Technology Limited	British Virgin Islands	Ordinary shares US\$100	100%		Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

34. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/operation	Issued and fully paid share capital/registered capital	Proportion of nominal value of issued capital/registered capital held		Principal activities
			by the Company		
Million Chance Limited (formerly known as 4376zone.com Limited)	Hong Kong	Ordinary shares HK\$5,000	79%		Inactive
Multi-Talent Limited	Hong Kong	Ordinary shares HK\$5,000	79%		Inactive
Peking Pearls Company Limited	Hong Kong	Ordinary shares HK\$2	100%		Inactive
Sokeen Limited	Hong Kong	Ordinary shares HK\$350,000	100%		Inactive
Swift Millions Limited	Hong Kong	Ordinary shares HK\$5,000	100%		Property investment
Tangzhu Jewellery Goods (Shenzhen) Co., Ltd.	PRC	Registered capital HK\$6,800,000	100%		Purchasing and processing of pearls
Wealth-In Investment Limited	Hong Kong	Ordinary shares HK\$5,000	100%		Property holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

34. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held		Principal activities
			by the Company		
WiserU.com Limited	Hong Kong	Ordinary shares HK\$2	79%		Inactive
4376zone.com Limited (formerly known as Wet Wet Cyber Company Limited)	Hong Kong	Ordinary shares HK\$5,000	79%		Retail of jewelry, e-commerce trading and investment holding

Note 1: The Company directly holds the interests in Man Sang Enterprise Ltd., Man Sang Innovations Limited and Market Leader Technology Limited. All other interests shown above are indirectly held by the Company.

Note 2: The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meetings of the Company or to participate in any distribution on winding up.