

For the year ended 31st March, 2001

16. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place/country of incorporation/ operations	Issued share capital	Principal activities
<i>Indirect subsidiary (continued)</i>			
National Ebauch Limited	Hong Kong	100 ordinary shares of HK\$10 each and 100,000 non-voting deferred shares of HK\$10 each	Manufacture and sale of electronic watches
National Electronics and Watch Company Limited	Hong Kong	100 ordinary shares of HK\$10 each and 200,000 non-voting deferred shares of HK\$10 each	Manufacture and sale of LCD and quartz analogue watches
National Hong Kong Electronics & Watch Corp.	U.S.A.	10,000 common stocks of US\$10 each	Liaise for sale of watches
National Time Limited	Hong Kong	100 ordinary shares of HK\$10 each and 55,000 non-voting deferred shares of HK\$10 each	Trading of electronic watches
National Telecommunication System Limited	Hong Kong	100 ordinary shares of HK\$10 each and 200,000 non-voting deferred shares of HK\$10 each	Provision of inspection service
Rever Limited	Hong Kong	100 ordinary shares of HK\$1 each	Property investment
Samford Limited	Hong Kong	100 ordinary shares of HK\$1 each	Property investment
Super Fortune Group Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US\$1 each	Investment holding
Super Plus Limited	Hong Kong	2 ordinary shares of HK\$10 each	Property development
733954 Ontario Limited	Ontario, Canada	100 common shares for C\$2,000	Property development
1061383 Ontario Limited	Ontario, Canada	100 common shares for C\$100	Property holding

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. All these subsidiaries are wholly-owned and private limited companies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2001	2000
	HK\$	HK\$
Share of net assets	500,000	–
Amounts due from jointly controlled entities	49,277,753	–
Less: Unrealised gain on disposal of subsidiaries (note 29)	(18,059,154)	–
	<u>31,718,599</u>	<u>–</u>

The amounts due from jointly controlled entities are unsecured, interest free and have no fixed repayment terms.

Particulars of the Group's jointly controlled entities at 31st March, 2001 are as follows:

Name	Form of business structure	Place/country of incorporation/ operations	Attributable interest to the Group		Nature of business
			Direct	Indirect	
			%	%	
New Height Developments Limited	Incorporated	British Virgin Islands/Hong Kong	50	–	Investment holding
Parklane Limited	Incorporated	Hong Kong	–	50	Property development
Phoenix Limited	Incorporated	Hong Kong	–	50	Property development

Pursuant to a joint venture deed dated 30th March, 2001 (the "Deed"), the other joint venture partner is entitled to a preferential distribution of profit up to an amount as specified in the Deed (the "Agreed Return") and the Group is entitled to the remaining profit up to an amount equivalent to the Agreed Return. Thereafter, the Group is entitled to share the profit equally with the joint venture partner.

18. INVESTMENTS IN UNLISTED SECURITIES

	THE GROUP	
	2001	2000
	HK\$	HK\$
Other securities		
Equity securities, unlisted at fair value	<u>239,520</u>	<u>239,520</u>

19. OTHER NON-CURRENT ASSETS

	THE GROUP	
	2001	2000
	HK\$	HK\$
Club debentures, at cost	9,395,799	9,402,895
Antiques and pictures, at cost	9,506,246	9,506,246
	<u>18,902,045</u>	<u>18,909,141</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

20. INVENTORIES

	THE GROUP	
	2001	2000
	HK\$	HK\$
Raw material and consumables	44,589,561	40,092,684
Work in progress	2,953,801	9,009,194
Finished goods	66,064,801	53,299,828
	<u>113,608,163</u>	<u>102,401,706</u>

Included above are work in progress of HK\$278,156 (2000: HK\$614,619) and finished goods of HK\$613,770 (2000: HK\$674,192) which are carried at net realisable value.

21. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing an average credit period of 30-60 days to its trade customers.

Included in trade receivables, deposits and prepayments are trade receivables of HK\$45,334,642 (2000: HK\$36,184,190) with an aged analysis as follows:

	THE GROUP	
	2001	2000
	HK\$	HK\$
Within 30 days	23,069,515	23,490,300
31 to 90 days	15,388,592	7,852,738
91 to 180 days	4,466,259	2,662,468
Over 180 days	2,410,276	2,178,684
	<u>45,334,642</u>	<u>36,184,190</u>

22. TRADE PAYABLES AND ACCRUED EXPENSES

Included in trade payables and accrued expenses are trade payables of HK\$120,974,424 (2000: HK\$36,869,551) with an aged analysis as follows:

	THE GROUP	
	2001	2000
	HK\$	HK\$
Within 30 days	61,660,934	18,484,824
31 to 90 days	33,351,918	6,258,650
91 to 180 days	25,961,572	11,870,965
Over 180 days	–	255,112
	<u>120,974,424</u>	<u>36,869,551</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

23. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP	
	2001	2000
	HK\$	HK\$
The maturity of obligations under finance leases is as follows:		
Within one year	4,863,420	4,805,000
More than one year, but not exceeding two years	4,225,880	5,300,538
More than two years, but not exceeding five years	1,345,160	547,667
	<u>10,434,460</u>	<u>10,653,205</u>
Less: Amounts due within one year shown under current liabilities	<u>(4,863,420)</u>	<u>(4,805,000)</u>
Amounts due after one year	<u><u>5,571,040</u></u>	<u><u>5,848,205</u></u>

24. BANK BORROWINGS

	THE GROUP	
	2001	2000
	HK\$	HK\$
Secured		
Bank overdrafts	56,941	56,100
Bank loans	218,525,771	442,174,593
	<u>218,582,712</u>	<u>442,230,693</u>
Unsecured		
Bank overdrafts	8,313	7,352
Bank loans	30,419,107	71,913,367
	<u>30,427,420</u>	<u>71,920,719</u>
	<u><u>249,010,132</u></u>	<u><u>514,151,412</u></u>

The maturity of the above bank overdrafts and loans is as follows:

On demand or within one year	93,963,500	314,627,022
More than one year, but not exceeding two years	16,004,396	22,140,420
More than two years, but not exceeding five years	52,219,552	79,521,107
More than five years	86,822,684	97,862,863
	<u>249,010,132</u>	<u>514,151,412</u>
Less: Amounts due within one year shown under current liabilities	<u>(93,963,500)</u>	<u>(314,627,022)</u>
Amounts due after one year	<u><u>155,046,632</u></u>	<u><u>199,524,390</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

25. SHARE CAPITAL

	Number of shares	Share capital HK\$
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1st April, 1999, 2000 and 31st March, 2001	<u>1,500,000,000</u>	<u>150,000,000</u>
Issued and fully paid:		
At 1st April, 1999 and 2000	1,179,337,928	117,933,793
Cancelled on repurchase of shares	(8,442,000)	(844,200)
	<u>1,170,895,928</u>	<u>117,089,593</u>
At 31st March, 2001		

During the year, the Company repurchased certain of its own shares on The Stock Exchange of Hong Kong Limited. The directors considered that, as the Company's shares were trading at a discount to the expected net asset value per share, the repurchase would be beneficial to the Company.

These repurchased shares were cancelled upon repurchase and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on repurchase was charged to retained profits.

Month of repurchase	Number of shares of HK\$0.1 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
June 2000	860,000	0.184	0.182	158,195
August 2000	630,000	0.165	0.161	103,660
September 2000	4,144,000	0.166	0.158	669,332
October 2000	998,000	0.145	0.134	141,261
November 2000	510,000	0.150	0.145	75,960
December 2000	800,000	0.141	0.132	110,540
January 2001	500,000	0.136	0.134	68,106
	<u>8,442,000</u>			<u>1,327,054</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

26. RESERVES

THE GROUP	Share premium <i>HK\$</i>	Exchange reserve <i>HK\$</i>	Capital reserve on consolidation <i>HK\$</i>	Investment property revaluation reserve <i>HK\$</i>	Investment revaluation reserve <i>HK\$</i>	Contributed surplus <i>HK\$</i>	Capital redemption reserve <i>HK\$</i>	Retained profits <i>HK\$</i>	Total <i>HK\$</i>
At 1st April, 1999	22,785,730	6,124,581	2,256,230	-	-	66,141,751	11,387,040	202,049,057	310,744,389
Exchange difference	-	(782,412)	-	-	-	-	-	-	(782,412)
Revaluation decrease in investment properties	-	-	-	3,548,372	-	-	-	-	3,548,372
Revaluation decrease in investment securities	-	-	-	-	(760,480)	-	-	-	(760,480)
Net loss for the year	-	-	-	-	-	-	-	(35,933,625)	(35,933,625)
At 31st March, 2000	22,785,730	5,342,169	2,256,230	3,548,372	(760,480)	66,141,751	11,387,040	166,115,432	276,816,244
Exchange difference	-	1,423,958	-	-	-	-	-	-	1,423,958
Revaluation decrease in investment properties	-	-	-	(3,548,372)	-	-	-	-	(3,548,372)
Repurchase of own shares	-	-	-	-	-	-	844,200	(1,327,054)	(482,854)
Net loss for the year	-	-	-	-	-	-	-	(38,975,888)	(38,975,888)
Dividend	-	-	-	-	-	-	-	(5,842,990)	(5,842,990)
At 31st March, 2001	<u>22,785,730</u>	<u>6,766,127</u>	<u>2,256,230</u>	<u>-</u>	<u>(760,480)</u>	<u>66,141,751</u>	<u>12,231,240</u>	<u>119,969,500</u>	<u>229,390,098</u>

THE COMPANY	Share premium <i>HK\$</i>	Contributed surplus <i>HK\$</i>	Capital redemption reserve <i>HK\$</i>	Retained profits <i>HK\$</i>	Total <i>HK\$</i>
At 1st April, 1999	22,785,730	96,693,720	11,387,040	15,006,076	145,872,566
Net loss for the year	-	-	-	(2,085,558)	(2,085,558)
At 31st March, 2000	22,785,730	96,693,720	11,387,040	12,920,518	143,787,008
Repurchase of own shares	-	-	844,200	(1,327,054)	(482,854)
Net profit for the year	-	-	-	517,743	517,743
Dividend	-	(5,842,990)	-	-	(5,842,990)
At 31st March, 2001	<u>22,785,730</u>	<u>90,850,730</u>	<u>12,231,240</u>	<u>12,111,207</u>	<u>137,978,907</u>

The retained profits of the Group include HK\$nil (2000: HK\$nil) retained by its jointly controlled entities.

Note:

Under the applicable laws of Bermuda, the contributed surplus account of a 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 aggregate of its liabilities and its issued share capital and share premium accounts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

26. RESERVES (CONTINUED)

The Company's reserves available for distribution to shareholders were as follows:

	2001 HK\$	2000 HK\$
Contributed surplus	90,850,730	96,693,720
Retained profits	12,111,207	12,920,518
	102,961,937	109,614,238

27. DEFERRED TAXATION

	THE GROUP	
	2001 HK\$	2000 HK\$
Balance at beginning of the year	1,042,912	1,403,970
Credit for the year	(121,061)	(361,058)
	921,851	1,042,912

At the balance sheet date, the major components of deferred taxation liability (asset), provided and unprovided, are as follows:

	THE GROUP			
	PROVIDED		UNPROVIDED	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	921,851	818,912	2,148,428	643,780
Development expenditure	–	224,000	–	400,944
Tax losses not yet utilised	–	–	(32,902,000)	(61,824,124)
	921,851	1,042,912	(30,753,572)	(60,779,400)

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

27. DEFERRED TAXATION (CONTINUED)

The amount of unprovided deferred tax credit for the year is as follows:

	THE GROUP	
	2001	2000
	HK\$	HK\$
Tax effect of timing differences of:		
Excess (shortfall) of tax allowances over depreciation	1,504,648	(696,217)
Development expenditure	(400,944)	(580,710)
Tax losses utilised (arising)	28,922,124	(19,858,901)
	<u>30,025,828</u>	<u>(21,135,828)</u>

Deferred tax has not been provided on the revaluation increase arising on the revaluation of investment properties as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

28. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001	2000
	HK\$	HK\$
Loss before taxation	(27,119,986)	(35,135,451)
Depreciation	18,888,353	24,024,902
Amortisation of development costs	300,000	4,736,902
Write-off of development costs	–	2,474,880
Interest income	(3,201,909)	(3,841,905)
Interest expense	24,830,979	23,957,033
Provision for impairment loss on properties under development for sales contracted to be sold	–	35,530,000
Provision for impairment loss on properties under development for long-term investment	3,456,272	3,151,552
Revaluation decrease in investment properties	60,225,467	–
Loss (gain) on disposal of property, plant and equipment	801,395	(44,975)
Gain on disposal of subsidiaries	(18,059,155)	–
Increase in inventories	(11,206,457)	(16,363,892)
Decrease in properties under development for sale	371,131,223	210,058,872
(Increase) decrease in inventory of unsold properties	(1,826,150)	156,728,820
(Increase) decrease in bills receivable	(201,528)	3,423,486
Decrease (increase) in trade receivables, deposits and prepayments	8,958,873	(26,452,613)
Increase in trade payables and accrued expenses	94,942,503	22,204,354
(Decrease) increase in deposits received on sales of properties	(200,000,000)	149,000,000
Exchange realignment	6,320,913	(4,531,514)
Net cash inflow from operating activities	<u>328,240,793</u>	<u>548,920,451</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

29. DISPOSAL OF SUBSIDIARIES

	2001 HK\$	2000 HK\$
Properties under development	270,225,266	–
Deposits and prepayments	10,100	–
Bank balances and cash	88,016	–
Accrued expenses	(1,025,237)	–
Amounts due to fellow subsidiaries	(186,554,882)	–
Bank loans	(104,198,502)	–
	(21,455,239)	–
Gain on disposal of subsidiaries	36,118,309	–
	14,663,070	–
Satisfied by:		
Cash consideration received	14,663,070	–
Analysis of net cash inflow and cash and cash equivalents in connection with disposal of subsidiaries		
Cash consideration	14,663,070	–
Bank balances and cash disposed of	(88,016)	–
	14,575,054	–
Gain on disposal of subsidiaries 50% deferred and offset against interests in jointly controlled entities (note 17)	36,118,309 (18,059,154)	– –
	18,059,155	–
Gain recognised in the income statement		

The subsidiaries disposed of during the year did not have any material impact on the turnover and operating profit of the Group. The subsidiaries disposed of during the year paid approximately HK\$5 million in respect of servicing of finance, paid approximately HK\$109 million in respect of investing activities and received approximately HK\$59 million in respect of financing activities.

30. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Bank loans HK\$	Obligations under finance leases HK\$	Share capital and premium HK\$
At 1st April, 1999	660,953,647	6,789,562	140,719,523
Net cash outflow from financing	(191,223,766)	(4,961,597)	–
Inception of finance leases	–	8,825,240	–
	469,729,881	10,653,205	140,719,523
At 31st March, 2000	469,729,881	10,653,205	140,719,523
Exchange difference	(2,359,592)	–	–
Net cash outflow from financing	(164,660,798)	(6,839,053)	–
Repurchase of own shares			
– consideration paid	–	–	(1,327,054)
– premium charged to retained profits	–	–	482,854
Inception of finance leases	–	6,620,308	–
On disposal of subsidiaries	(104,198,502)	–	–
	198,510,989	10,434,460	139,875,323
At 31st March, 2001			

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

31. 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 HK\$6,620,308 (2000: HK\$8,825,240).

32. CONTINGENT LIABILITIES AND COMMITMENTS

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Contingent liabilities:				
Guarantees for banking facilities granted to subsidiaries	–	–	620,415,103	938,923,748
Guarantees for banking facilities granted to jointly controlled entities	184,500,000	–	184,500,000	–
Other guarantees	181,131	42,000	–	–
	<u>184,681,131</u>	<u>42,000</u>	<u>804,915,103</u>	<u>938,923,748</u>
Capital commitments:				
Contracted but not provided for:				
Acquisition of property, plant and equipment	338,120	585,250	–	–
Expenditure of leasehold improvements	488,271	1,143,870	–	–
Property development expenditure	–	72,602,075	–	–
	<u>826,391</u>	<u>74,331,195</u>	<u>–</u>	<u>–</u>
Annual commitments under non-cancellable operating leases in respect of office premises expiring:				
Within one year	3,322,445	2,258,766	–	–
In the second to fifth year inclusive	1,790,732	3,534,443	–	–
Over five years	157,021	–	–	–
	<u>5,270,198</u>	<u>5,793,209</u>	<u>–</u>	<u>–</u>

Pursuant to a joint venture deed dated 30th March, 2001 (the “Deed”) relating to the sale of 100 per cent. of the issued share capital of Phoenix Limited and Parkland Limited (collectively the “Project Companies”), former wholly-owned subsidiaries of the Company, to a jointly controlled entity of which the Group has a 50 per cent. equity interest, the Group and the Company has undertaken and guaranteed, among other things, that the development cost of the property projects of the Project Companies would not exceed HK\$40 million and HK\$63.5 million respectively and that the land premium payable to the Government for the modification of the site of Parkland Limited would not exceed HK\$26.5 million.

33. RETIREMENT BENEFIT SCHEME

Commencing from 1st December, 2000, the Group’s employees are required to join the Mandatory Provident Fund scheme (the “MPF Scheme”). Under the MPF Scheme, both the Group and the employees contribute 5% of the employee’s monthly remunerations or HK\$1,000 per month whichever is the smaller to the scheme. The Group’s total contribution to the scheme for the year ended 31st March, 2001 is HK\$601,700. There is no forfeiture of employer’s contribution from leaving scheme members under the MPF Scheme.

34. LONG SERVICE PAYMENTS

At 31st March, 2001, the Group had a number of employees who had completed the required number of years of service under Hong Kong's Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances which are specified in the Ordinance. Had the employment of all eligible employees been terminated on 31st March, 2001 under the circumstances specified by the Ordinance, the maximum potential exposure would have been approximately HK\$18,214,098 (2000: HK\$17,787,613). No provision has been made in the financial statements in respect of such long service payments.

35. PLEDGE OF ASSETS

At 31st March, 2001, the Group has pledged the following assets in favour of banks to secure the banking facilities:

	2001	2000
	HK\$	HK\$
Investment properties	170,800,000	57,500,000
Land and buildings	74,396,282	250,490,639
Properties under development	–	540,985,968
Inventory of unsold properties	44,826,150	–
Bank deposit	–	30,000,000
	<u> </u>	<u> </u>

36. POST BALANCE SHEET EVENT

On 1st June, 2001, the Group entered into a non-binding preliminary agreement to acquire properties in Canada for a consideration of C\$16,070,000 (equivalent to approximately HK\$81,635,600), details of which are included in the circular dated 20th June, 2001 issued to the shareholders of the Company.