

# 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 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Online Credit International Limited ("OCIL"), another public company incorporated in Hong Kong with its shares listed on the Stock Exchange.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the retailing of fashion apparel and accessories, property investment and financial and securities investment.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared on a going concern basis because OCIL has agreed to provide adequate funds to enable the Company to meet in full its financial obligations as they fall due in the foreseeable future.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for revaluation of certain properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **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.

### **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 impairment loss. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

### **Revenue recognition**

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

Rental income under operating leases is recognised on a straight line basis over the terms of the relevant leases.

Sale proceeds on trading of securities are recognised on a trade date basis when a sale and purchase contract is entered into.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

### **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 revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to 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

## 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

### **Property, plant and equipment**

Property, plant and equipment are stated at cost or valuation less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present 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 sale proceed 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.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land	Over the remaining terms of the leases
Buildings	Over the shorter of the remaining terms of the leases or 50 years
Furniture and fixtures	15% – 50%
Motor vehicles	25%

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

### **Properties held for development**

Properties held for development are stated at the cost of acquisition to the Group together with any attributable expenses less provision for anticipated losses, where appropriate.

### **Inventories**

Inventories represent goods held for resale are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase, 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 first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

### **Investments in securities**

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

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.

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

### **Operating leases**

Rentals payable under operating leases are charged to the income statement on a straight line basis over relevant lease terms.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

### **Foreign currencies**

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

### **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 advance.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 4. TURNOVER AND SEGMENTAL INFORMATION

The Group's turnover and contribution to operating loss for the year ended March 31, 2001, analysed by principal activity, are as follows:

	Turnover		Operating profit (loss)	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Retailing of fashion apparel and accessories	3,586	8,907	1,818	564
Property investment	357	290	92	(1,009)
Financial and securities investment	226	1,769	33	1,429
	<u>4,169</u>	<u>10,966</u>	1,943	984
Other revenue			878	932
Corporate expenses			<u>(7,986)</u>	<u>(2,403)</u>
Loss from operations			<u>(5,165)</u>	<u>(487)</u>

All of the activities of the Group are based in Hong Kong and all of the Group's turnover and operating loss are derived from Hong Kong.

## 5. OTHER REVENUE

	2001	2000
	HK\$'000	HK\$'000
Bank interest income	128	171
Others	750	761
	<u>878</u>	<u>932</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 6. LOSS FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Auditors' remuneration		
– current year	360	340
– underprovision in respect of prior year	61	52
Depreciation	517	669
Dividend income from investments in securities	(5)	(41)
Loss on disposal of property, plant and equipment	35	69
Operating lease rentals		
– rented premises	870	2,290
– furniture and fixtures	12	12
	<u>882</u>	<u>2,302</u>
Directors' emoluments	180	180
Other staff costs	<u>1,829</u>	<u>2,474</u>
Total staff costs	<u>2,009</u>	<u>2,654</u>
Gross rents from investment properties	(357)	(290)
Less: outgoings	<u>265</u>	<u>81</u>
	<u>(92)</u>	<u>(209)</u>

## 7. FINANCE COSTS

Finance costs represented interest on bank loans, bank overdrafts and other borrowings wholly repayable within five years.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 8. DIRECTORS' EMOLUMENTS

	2001 HK\$'000	2000 HK\$'000
Directors' fees		
– executive	–	–
– non-executive	90	90
Independent non-executive	90	90
	<hr/>	<hr/>
	180	180
Other emoluments (executive directors):		
– salaries and other benefits	–	–
	<hr/>	<hr/>
Total emoluments	<u>180</u>	<u>180</u>

The aggregate emoluments of each of the six (2000: six) directors during the relevant periods were within the emoluments band ranging from HK\$Nil to HK\$1,000,000.

## 9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, none of them (2000: None) was a director of the Company. The emoluments of the five (2000: five) individuals were as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	<u>885</u>	<u>1,041</u>

Emoluments of each of the five (2000: five) individuals were within the band ranging from HK\$Nil to HK\$1,000,000.

## 10. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as there is no assessable profit for the Company and its subsidiaries.

Details of unprovided deferred taxation are set out in note 25.

## 11. NET LOSS FOR THE YEAR

Of the Group's net loss for the year of HK\$5,172,000 (2000: HK\$647,000), a loss of HK\$48,072,000 (2000: HK\$25,499,000) has been dealt with in the financial statements of the Company.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of HK\$5,172,000 (2000: HK\$647,000) and on 208,292,307 (2000: 201,356,620) weighted average number of ordinary shares outstanding during the year. No diluted loss per share is presented as the exercise of the potential dilutive ordinary shares would result in reduction in loss per share in both year 2000 and 2001.

## 13. INVESTMENT PROPERTIES

	<b>THE GROUP</b> <i>HK\$'000</i>
Valuation	
At April 1, 2000	2,370
On acquisition of subsidiary	13,300
Deficit on revaluation	<u>(40)</u>
At March 31, 2001	<u><u>15,630</u></u>

Investment properties were revalued at their open market value at March 31, 2001 by Sallmanns (Far East) Limited, a firm of independent professionally qualified valuers, on an open market existing use basis. This valuation gave rise to a deficit on revaluation of HK\$40,000 which has been charged to the investment property revaluation reserve.

Investment properties of the Group with a net book value of HK\$14,650,000 (2000: HK\$1,350,000) are rented out under operating leases.

The market value of investment properties shown above comprises:

	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Long lease in Hong Kong	13,300	–
Medium term lease in Hong Kong	<u>2,330</u>	<u>2,370</u>
	<u><u>15,630</u></u>	<u><u>2,370</u></u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 14. PROPERTY, PLANT AND EQUIPMENT

	<b>Leasehold land and buildings</b>	<b>Furniture and fixtures</b>	<b>Motor vehicles</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP				
COST OR VALUATION				
At April 1, 2000	14,000	4,167	152	18,319
On acquisition of subsidiaries	–	28	–	28
Additions	–	36	–	36
Disposals	–	(185)	–	(185)
Deficit on valuation	(420)	–	–	(420)
	13,580	4,046	152	17,778
At March 31, 2001	13,580	4,046	152	17,778
Comprising:				
At cost	–	4,046	152	4,198
At valuation	13,580	–	–	13,580
	13,580	4,046	152	17,778
DEPRECIATION				
At April 1, 2000	–	3,582	152	3,734
On acquisition of subsidiaries	–	25	–	25
Provided for the year	280	237	–	517
Eliminated on disposals	–	(135)	–	(135)
Adjustment on revaluation	(280)	–	–	(280)
	–	3,709	152	3,861
At March 31, 2001	–	3,709	152	3,861
NET BOOK VALUES				
At March 31, 2001	13,580	337	–	13,917
At March 31, 2000	14,000	585	–	14,585

The leasehold land and buildings are situated Hong Kong and are held under medium term leases.

The leasehold land and buildings of the Group were revalued at March 31, 2001 on an open market value basis by Sallmanns (Far East) Limited, a firm of independent professionally qualified valuers. The deficit arising on revaluation of leasehold land and buildings amounting to HK\$140,000 has been charged to the asset revaluation reserve.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 14. PROPERTY, PLANT AND EQUIPMENT – *continued*

If leasehold land and buildings had not been revalued, they would have been included in these financial statements on a historical cost basis at the following amounts:

	<i>HK\$'000</i>
Cost	12,500
Accumulated depreciation	<u>(2,155)</u>
Net book values	
At March 31, 2001	<u><u>10,345</u></u>
At March 31, 2000	<u><u>10,625</u></u>

## 15. PROPERTIES HELD FOR DEVELOPMENT

	<b>THE GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Medium term lease in Hong Kong – at cost	<u>43,100</u>	<u>–</u>

## 16. INTERESTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	51,504	51,474
Impairment loss recognised	<u>(51,504)</u>	<u>(51,474)</u>
	<u>–</u>	<u>–</u>
Amounts due from subsidiaries	185,384	81,321
Provision for amounts due from subsidiaries	<u>(128,278)</u>	<u>(81,321)</u>
	<u><u>57,106</u></u>	<u><u>–</u></u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 16. INTERESTS IN SUBSIDIARIES – continued

Particulars of the principal subsidiaries at March 31, 2001 are as follows:

Name of subsidiary	Place of incorporation/ operations	Paid up issued share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
eglobaljob.com Limited	Hong Kong	Ordinary HK\$2	100	–	Investment holding
Faith Profit Limited	Hong Kong	Ordinary HK\$10,000	100	–	Property holding
Fronteer Securities (HK) Limited	Hong Kong	Ordinary HK\$2	–	100	Financial and securities investment
instantstyle.com Limited	Hong Kong	Ordinary HK\$2	–	100	Sales of fashion via internet
Iwai Denmark Limited	Hong Kong	Ordinary HK\$10,000	–	100	Retailing of fashion apparel and accessories
Iwai's Holdings (Hong Kong) Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred shares HK\$1,000,000 (Note)	–	100	Investment holding, property investment and provision of management services to group companies
Iwai's Investments Limited	The British Virgin Islands/ Hong Kong	Ordinary HK\$10,000	100	–	Investment holding

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 16. INTERESTS IN SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation/ operations	Paid up issued share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Iwai Paris Limited	Hong Kong	Ordinary HK\$500,000	–	100	Retailing of fashion apparel and accessories
Luckford Enterprise Limited	Hong Kong	Ordinary HK\$10,000	100	–	Property development
Mall 368.com Limited	Hong Kong	Ordinary HK\$2	–	100	Retailing of fashion apparel and accessories
Masaru Iwai Enterprises (Hong Kong) Limited	Hong Kong	Ordinary HK\$1,000,000	–	100	Trading of fashion apparel and accessories
PhoneBox International Limited (formerly known as Cyber House Hong Kong Limited)	Hong Kong	Ordinary HK\$2	–	100	Investment holding
Wellgem Asia Limited	Hong Kong	Ordinary HK\$10,000	100	–	Property development
York Winner Investment Limited	Hong Kong	Ordinary HK\$2	–	100	Financial and securities investment

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

The above table lists the principal subsidiaries of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

*Note:* The deferred shares, which are not held by the Group, carry practically no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 17. INVENTORIES

### THE GROUP

Included in inventories is an amount of HK\$Nil (2000: HK\$410,000) which were carried at net realisable value.

## 18. TRADE AND OTHER RECEIVABLES

The Group does not allow any credit terms to its trade customers.

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

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
0 – 60 days	11	74
61 – 90 days	–	2
> 90 days	181	52
Deposits, prepayment and other receivables	298	488
	<u>490</u>	<u>616</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 19. INVESTMENTS IN SECURITIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Other investment securities listed in Hong Kong	<u>359</u>	<u>655</u>
Market value of listed securities	<u>359</u>	<u>655</u>

## 20. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
0 – 60 days	718	996
61 – 90 days	5	–
> 90 days	<u>1,530</u>	<u>1,167</u>
	<u>2,253</u>	<u>2,163</u>

## 21. AMOUNTS DUE TO SUBSIDIARIES

The amounts are unsecured, interest-free and have no fixed terms of repayment. The subsidiaries have confirmed that repayment of the amounts will not be demanded within one year from the balance sheet date and accordingly, the amounts are classified as non-current.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 22. SHARE CAPITAL

	Ordinary shares		Preference shares		Total
	No. of shares '000 HK\$0.01 each	HK\$'000	No. of shares '000 HK\$1 each	HK\$'000	HK\$'000
Authorised	<u>9,000,000</u>	<u>90,000</u>	<u>68,500</u>	<u>68,500</u>	<u>158,500</u>
Issued and fully paid:					
At April 1, 1999	200,600	2,006	68,500	68,500	70,506
Conversion of preference shares to ordinary shares	<u>7,692</u>	<u>77</u>	<u>(1,000)</u>	<u>(1,000)</u>	<u>(923)</u>
At March 31, 2000	208,292	2,083	67,500	67,500	69,583
Issuance of new preference shares	<u>–</u>	<u>–</u>	<u>56,402</u>	<u>56,402</u>	<u>56,402</u>
At March 31, 2001	<u>208,292</u>	<u>2,083</u>	<u>123,902</u>	<u>123,902</u>	<u>125,985</u>

The following changes in the Company's share capital have taken place during the past two years:

- During 2000, OCIL has exercised the option to convert 1,000,000 non-voting cumulative redeemable convertible preference shares ("CP shares") into 7,692,307 ordinary shares of HK\$0.01 each at HK\$0.13 per share.
- In connection with the acquisition of subsidiaries during the year, 56,402,477 CP shares at HK\$1 each were issued and allotted as consideration. The new CP shares can be converted into new shares at an initial conversion price of HK\$0.20 each, subject to adjustments.

The CP Shares shall carry equal rights and rank pari passu with one another as follows:

- Holder of the CP Shares are entitled in priority to any dividend payable in respect of the ordinary shares of the Company at cumulative annual preferential dividend rates of 3 per cent. per annum on the principal amount of the CP shares which are specified in the subscription agreement dated February 12, 1999 and two supplement agreements dated February 15, 1999 and March 9, 1999 respectively. Subject to the Companies Act of Bermuda, the dividend is cumulative and payable semi-annually in arrears on March 31 and September 30 in each year during the conversion period which falls after the second anniversary from the date of issue of the CP Shares and the first payment is due on September 30, 2001. No interest is payable for the first and second year in which the CP shares are outstanding. The conversion price of the CP Shares is HK\$0.13 and the maturity date of the CP shares is March 30, 2004.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 22. SHARE CAPITAL – continued

- (b) The CP Shares are convertible in multiples of 1,000,000 into the shares of the Company.
- (c) The CP Shares are also redeemable at the principal amounts on the maturity date or the earliest date permitted under the Companies Act of Bermuda, whichever is the later. The maturity date is the fifth anniversary of the issue date of the CP shares.
- (d) The CP Shares do not have any voting rights.

## 23. SHARE OPTIONS

Under the terms of the Share Option Scheme (the “Scheme”) which became effective on October 2, 1995, the board of directors of the Company may offer to any directors or full time employees of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80 per cent. of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10 per cent. of the issued share capital of the Company from time to time.

A summary of the options granted is as follows:

Name	Capacity	Exercise price HK\$	Number of option shares at April 1, 1999, April 1, 2000 and March 31, 2001
Chan Heng Fai	Director	0.11	3,136,000
Chan Yoke Keow	Director	0.11	3,136,000
Chan Sook Jin, Mary-ann	Director	0.11	1,500,000
Lau Man Tak	Director	0.11	1,500,000
			<hr/>
			9,272,000
			<hr/> <hr/>

No share option has been granted or exercised during the two years ended March 31, 2001.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 24. RESERVES

	Investment property revaluation reserve HK\$'000	Asset revaluation reserve HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Contributed surplus HK\$'000	Deficit HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
At April 1, 1999	1,033	7,049	21,820	1,602	-	(78,565)	(47,061)
Deficit on revaluation	(316)	(3,087)	-	-	-	-	(3,403)
Issue of ordinary shares	-	-	923	-	-	-	923
Share conversion expenses	-	-	(25)	-	-	-	(25)
Net loss for the year	-	-	-	-	-	(647)	(647)
At March 31, 2000	717	3,962	22,718	1,602	-	(79,212)	(50,213)
Deficit on revaluation	(40)	(140)	-	-	-	-	(180)
Net loss for the year	-	-	-	-	-	(5,172)	(5,172)
At March 31, 2001	<u>677</u>	<u>3,822</u>	<u>22,718</u>	<u>1,602</u>	<u>-</u>	<u>(84,384)</u>	<u>(55,565)</u>
<b>THE COMPANY</b>							
At April 1, 1999	-	-	21,820	-	48,474	(117,522)	(47,228)
Issue of ordinary shares	-	-	923	-	-	-	923
Share conversion expenses	-	-	(25)	-	-	-	(25)
Net loss for the year	-	-	-	-	-	(25,499)	(25,499)
At March 31, 2000	-	-	22,718	-	48,474	(143,021)	(71,829)
Acquisition of subsidiaries	-	-	-	-	46,238	-	46,238
Net loss for the year	-	-	-	-	-	(48,072)	(48,072)
At March 31, 2001	<u>-</u>	<u>-</u>	<u>22,718</u>	<u>-</u>	<u>94,712</u>	<u>(191,093)</u>	<u>(73,663)</u>

*Notes:*

The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1995.

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company as at the date of acquisition and the nominal amount of the Company's share capital issued as consideration for the acquisition.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 24. RESERVES – continued

Notes: – 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.

As at March 31, 2001, the Company had no reserve available for distribution.

## 25. UNPROVIDED DEFERRED TAXATION

At the balance sheet date, the Group had a net deferred tax asset of HK\$8,153,000 (2000: HK\$4,863,000) not been recognised in the financial statements as realisation of this asset in the foreseeable future is uncertain. Details of the unprovided deferred tax asset are as follows:

	<b>THE GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax effect of timing differences because of:		
Shortfall (excess) of tax allowances over depreciation	49	(2,543)
Tax losses	8,104	7,406
	<u>8,153</u>	<u>4,863</u>
Net deferred tax asset	<u><u>8,153</u></u>	<u><u>4,863</u></u>

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

	<b>THE GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Shortfall of tax allowances over depreciation	2,592	2,618
Tax losses arising	698	566
	<u>3,290</u>	<u>3,184</u>
	<u><u>3,290</u></u>	<u><u>3,184</u></u>

The Company had no material unprovided deferred taxation for the year or at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

### 25. UNPROVIDED DEFERRED TAXATION – *continued*

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

### 26. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Loss before taxation	(5,172)	(490)
Depreciation	517	669
Loss on disposal of property, plant and equipment	35	69
Interest expense	7	3
Interest income	(128)	(171)
Dividend income from listed investments	(5)	(41)
Decrease in inventories	500	545
Decrease (increase) in trade and other receivables	159	(79)
Decrease in investments in securities	296	154
Increase (decrease) in trade and other payables	23	(2,907)
(Decrease) increase in bills payable	(217)	72
Increase in amount due to ultimate holding company	1,581	–
Increase in amounts due to fellow subsidiaries	113	276
	<hr/>	<hr/>
Net cash outflow from operating activities	<u>(2,291)</u>	<u>(1,900)</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 27. ACQUISITION OF SUBSIDIARIES

	<i>HK\$'000</i>
NET ASSETS ACQUIRED	
Investment properties	13,300
Properties held for development	43,100
Property, plant and equipment	3
Other receivables	33
Bank balances and cash	222
Other payables	(67)
Taxation	(189)
	<hr/>
	56,402
	<hr/> <hr/>
SATISFIED BY	
Preference shares allotted	56,402
	<hr/> <hr/>
NET CASH INFLOW ARISING ON ACQUISITION	
Bank balances and cash acquired	222
	<hr/> <hr/>

The subsidiaries acquired during the year did not have any material effect on the cashflow of the Group.

The subsidiaries acquired during the year did not have any material effect on the turnover and the operating loss of the Group.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	<b>Trust receipt loans</b> <i>HK\$'000</i>	<b>Share capital and premium</b> <i>HK\$'000</i>
At April 1, 1999	273	92,326
Share conversion expenses	–	(25)
Repayment of trust receipt loans	(72)	–
	201	92,301
At March 31, 2000	201	92,301
Repayment of trust receipt loans	(201)	–
Preference shares issued for acquisition of subsidiaries	–	56,402
	–	56,402
At March 31, 2001	–	148,703

## 29. MAJOR NON-CASH TRANSACTIONS

- (a) During 2000, 1,000,000 preference shares of HK\$1 each were converted into ordinary shares of HK\$0.01 each at conversion price of HK\$0.13 per share. Accordingly, 7,692,307 ordinary shares were issued and a resulting premium of HK\$923,000 was credited to share premium account.
- (b) During the year, consideration for the purchase of subsidiaries were settled by way of issue and allotment of 56,402,477 preference shares of the Company.

## 30. LEASE COMMITMENTS

At the balance sheet date, the Group had commitments payable within the next year under non-cancellable operating leases in respect of rented premises as follows:

	<b>THE GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating leases which expire:		
Within one year	–	142
In the second to fifth year inclusive	–	1,006
	–	1,148
	–	1,148

At the balance sheet date, the Company did not have any commitments under non-cancellable operating leases.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001

## 31. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged a bank deposit of HK\$1,051,000 (2000: HK\$2,020,000) to secure banking facilities granted to the Group.

## 32. CONTINGENT LIABILITIES

Certain former staff issued writs against the Company claiming for wrongful dismissal of approximately HK\$1,542,000 plus interest and related costs. The directors are advised by the legal counsel of the Company that it is unlikely that the former staff will succeed in their claims. Accordingly, no provision has been made in these financial statements.

## 33. MANDATORY PROVIDENT FUND SCHEME

With effective from 1st December, 2000, the Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The MPF Scheme contributions arising from the MPF Scheme charged to the income statement represent contributions paid or payable to the funds by the Group at rates specified in the rules of the schemes.

## 34. RELATED PARTY TRANSACTIONS

- (i) For the year ended March 31, 2000, OCIL has given an undertaking to make available to the Company by way of loan facilities the necessary ongoing funding for the Company's general working capital purposes for a maximum amount of HK\$50,000,000.
- (ii) During the year, the Company acquired subsidiaries at a consideration of HK\$56,402,477 from OCIL. The consideration was determined with reference to the audited net asset values of the subsidiaries acquired on November 24, 2000.