

# NOTES TO FINANCIAL STATEMENTS

31 March 2001

## 1. CORPORATE INFORMATION

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"). Pursuant to a special resolution passed by shareholders in a special general meeting on 22 October 2000, the name of the Company was changed from Dragonfield Holdings Limited to Everbest Century Holdings Limited.

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

During the year, the Group was involved in the following principal activities:

- the trading and distribution of leather, fur and garment accessories;
- the manufacture and sale of leather garments; and
- investment in a coal-fired electricity power plant (the "Power Plant") located in Fujian Province, the People's Republic of China ("PRC").

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

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

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

# NOTES TO FINANCIAL STATEMENTS

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

### **Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been diminutions in values other than those considered to be temporary in nature, when they are written down to values determined by the directors.

### **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### **Fixed assets and depreciation**

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost thereof.

Changes in the values of fixed assets are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. A subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

# NOTES TO FINANCIAL STATEMENTS

31 March 2001

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

### Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal useful lives used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	50 years
Furniture, fixtures, equipment and leasehold improvements	5 years
Motor vehicles	5 years
Plant and machinery	5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

### Long term investment

The long term investment represents an investment in unlisted equity securities that are intended to be held on a continuing basis and for an identified long term purpose. The long term investment is stated at cost less provisions for impairments in value, other than those considered to be temporary in nature, as deemed necessary by the directors. The amounts of any provisions for impairments in value are charged to the profit and loss account for the year in which they arise.

# NOTES TO FINANCIAL STATEMENTS

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

### Long term investment (continued)

Where the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the provision for impairment in value previously charged is credited to the profit and loss account to the extent of the amount previously charged.

### Inventories

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

### Trade debtors

Trade debtors, which generally have credit terms of not more than 180 days, are recognised and carried at original invoiced amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

### Leased assets

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

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

# NOTES TO FINANCIAL STATEMENTS

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

### Deferred tax

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

### Pension costs

The Group has participated in a defined contribution Mandatory Provident Fund scheme (the "Scheme") for its employees in Hong Kong who are eligible to participate in the Scheme in accordance with the Mandatory Provident Fund Schemes Ordinance. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

### Revenue recognition

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

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

# NOTES TO FINANCIAL STATEMENTS

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

### Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries denominated in foreign currencies are translated to Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

### Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

# NOTES TO FINANCIAL STATEMENTS

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## 3. TURNOVER AND REVENUE

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for goods returns and trade discounts. All intra-group transactions have been eliminated on consolidation.

An analysis of the Group's turnover and revenue is as follows:

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Turnover — Sales of goods	<b>42,910</b>	68,167
Other revenue:		
Dividend income from long term investment	<b>2,021</b>	—
Gross rental income	<b>683</b>	748
Bank interest income	<b>825</b>	—
Gain on disposal of an investment property	<b>210</b>	—
Gains on disposal of fixed assets, net	—	802
Exchange gains, net	—	999
Others	<b>382</b>	503
	<b>4,121</b>	3,052
Total revenue	<b>47,031</b>	71,219

The Group's turnover by principal activity disclosed pursuant to the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), is as follows:

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
By principal activity:		
Manufacture and sale of leather garments	<b>11,431</b>	25,992
Trading and distribution of leather, fur and garment accessories	<b>31,479</b>	42,175
Turnover	<b>42,910</b>	68,167

The Group's turnover for the years ended 31 March 2000 and 2001 was principally derived from its operations in Hong Kong.

# NOTES TO FINANCIAL STATEMENTS

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## 4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	<b>39,451</b>	99,627
Auditors' remuneration	<b>500</b>	500
Depreciation:		
Owned fixed assets	<b>1,367</b>	1,563
Leased fixed assets	<b>70</b>	248
Operating lease rentals on land and buildings	<b>353</b>	1,042
Loss on disposal of investment properties	<b>—</b>	1,650
Deficit on revaluation of leasehold land and buildings	<b>—</b>	1,536
Deficit on revaluation of investment properties	<b>390</b>	1,100
Loss on disposal of fixed assets	<b>40</b>	—
Exchange losses, net	<b>25</b>	—
Staff costs (directors' remuneration included — note 5):		
Salaries and wages	<b>3,118</b>	7,567
Pension contributions	<b>37</b>	—
	<b>3,155</b>	7,567
and after crediting:		
Dividend income from unlisted long term investment	<b>2,021</b>	—
Net rental income	<b>610</b>	707
Bank interest income	<b>825</b>	22
Exchange gains, net	<b>—</b>	999



# NOTES TO FINANCIAL STATEMENTS

31 March 2001

## 4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (continued)

The Group's profit/(loss) from operating activities by principal activity for the year ended 31 March 2001 is as follows:

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
By principal activity:		
Manufacture and sale of leather garments	<b>(946)</b>	(25,120)
Trading and distribution of leather, fur and garment accessories	<b>(35)</b>	(32,153)
Others	<b>3,517</b>	(1,746)
	<hr/> <b>2,536</b> <hr/>	<hr/> (59,019) <hr/>
Profit/(loss) from operating activities	<b>2,536</b>	(59,019)

The Group's profit/(loss) from operating activities for the years ended 31 March 2000 and 2001 was principally derived from its operations in Hong Kong.

## 5. DIRECTORS' REMUNERATION

Details of the remuneration of the directors of the Company for the year disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Fees:		
Executive directors	<b>80</b>	120
Independent non-executive directors	<b>40</b>	40
	<hr/> <b>120</b> <hr/>	<hr/> 160 <hr/>
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	<b>2,435</b>	1,780
Bonus	<b>376</b>	—
Pension contributions	<b>12</b>	—
	<hr/> <b>2,823</b> <hr/>	<hr/> 1,780 <hr/>
	<b>2,943</b>	1,940

# NOTES TO FINANCIAL STATEMENTS

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## 5. DIRECTORS' REMUNERATION (continued)

There were no other emoluments paid or payable to the independent non-executive directors for the year (2000: Nil).

The remuneration of the directors fell within the following bands:

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	7	11
HK\$1,000,001 to HK\$1,500,000	1	—
	<u>8</u>	<u>11</u>

There was no arrangement under which a director waived or agreed to waive any remuneration in respect of the year (2000: Nil). No emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2000: Nil).

During the year, the Company granted a total of 249,745,713 share options to certain directors of the Company, details of which are set out in the section headed "Directors' rights to acquire shares or debentures" in the Report of the Directors and in note 24 to the financial statements. In the absence of a readily available market value for options on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of these options, and therefore, no value in respect of such has been included in the remuneration set out above.

## 6. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2000: three) directors of the Company, details of whose remuneration are set out in note 5 above. The remuneration of the remaining (2000: two) non-director, highest paid employee, which fell within the band of nil – HK\$1,000,000, is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	285	1,056
Bonus	42	—
Pension contributions	3	—
	<u>330</u>	<u>1,056</u>

# NOTES TO FINANCIAL STATEMENTS

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## 6. FIVE HIGHEST PAID EMPLOYEES (continued)

During the year, the Company granted a total of 3,500,000 share options to the above Company's employee. In the absence of a readily available market value for options on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of these options, and therefore, no value in respect of such has been included in the remuneration set out above.

No emoluments were paid by the Group to any of the five highest paid employees as an inducement to join, or upon joining the Group, or as a compensation for loss of office.

## 7. FINANCE COSTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest on:		
Bank loans and other loans wholly repayable within five years	<b>2,738</b>	6,713
Bank loans wholly repayable beyond five years	<b>2,267</b>	2,690
Finance leases	<b>75</b>	66
Amounts due to related companies	<b>531</b>	295
Convertible note	<b>700</b>	—
	<hr/>	<hr/>
Total finance costs	<b>6,311</b>	9,764
	<hr/> <hr/>	<hr/> <hr/>

## 8. TAX

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current year provision:		
Hong Kong	—	—
Elsewhere	—	—
Overprovision in prior years	<b>4,266</b>	—
Deferred tax credit	<b>234</b>	—
	<hr/>	<hr/>
Tax credit for the year	<b>4,500</b>	—
	<hr/> <hr/>	<hr/> <hr/>

No provisions for Hong Kong and overseas profits taxes have been made as the Group did not generate any assessable profits arising in Hong Kong or in the overseas countries in which the Group operates during the year (2000: Nil).

# NOTES TO FINANCIAL STATEMENTS

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## 8. TAX (continued)

All of the subsidiaries of the Company operating in the PRC are exempt from income tax for two years starting from their first profitable year of operations, and thereafter, are entitled to a 50% relief from income tax for the following three years under the Income Tax Law of the PRC. No provision for income tax has been made for the year (2000: Nil) as none of the PRC subsidiaries of the Company generated any profits for the year.

The movements of deferred tax during the year are as follows:

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Balance at beginning of year	<b>234</b>	234
Credit for the year	<b>(234)</b>	—
	<hr/>	<hr/>
At 31 March	<b>—</b>	234
	<hr/> <hr/>	<hr/> <hr/>

The provision for deferred tax was made in prior years in respect of accelerated capital allowances to the extent that a liability was expected to crystallise in the foreseeable future. At the balance sheet date, the Group had an unrecognised deferred tax asset in respect of tax losses carried forward of HK\$15,240,000 (2000: HK\$17,037,000).

The revaluation of the Group's investment properties does not constitute timing differences and, consequently, the amount of potential deferred tax thereon has not been quantified.

The Company did not have any significant unprovided deferred tax liabilities at the balance sheet date (2000: Nil).

## 9. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$936,000 (2000: Loss of HK\$68,783,000).

## 10. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2001 (2000: Nil).

# NOTES TO FINANCIAL STATEMENTS

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## 11. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders for the year of HK\$725,000 (2000: Loss of HK\$68,783,000), and the weighted average of 2,169,762,000 (2000: 531,744,000) ordinary shares in issue during the year, adjusted to reflect the rights issues during the year and after the balance sheet date.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$725,000. The weighted average number of ordinary shares used in the calculation is 2,261,045,000 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 91,283,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of certain of the Company's share options outstanding during the year.

The diluted loss per share for the year ended 31 March 2000 has not been shown as no diluting events existed during that year.

# NOTES TO FINANCIAL STATEMENTS

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## 12. FIXED ASSETS

### Group

	<b>Medium term leasehold land and buildings</b> HK\$'000	<b>Furniture, fixtures, equipment and leasehold improvements</b> HK\$'000	<b>Motor vehicles</b> HK\$'000	<b>Plant and machinery</b> HK\$'000	<b>Total</b> HK\$'000
Cost or valuation:					
At beginning of year	15,810	6,747	2,893	1,268	26,718
Additions	—	207	—	—	207
Disposals	(7,680)	—	(888)	—	(8,568)
Disposals of subsidiaries	—	(3,040)	(1,020)	(469)	(4,529)
Transfers to investment properties	(8,130)	—	—	—	(8,130)
At 31 March 2001	<u>—</u>	<u>3,914</u>	<u>985</u>	<u>799</u>	<u>5,698</u>
Accumulated depreciation:					
At beginning of year	—	4,671	1,857	968	7,496
Provided during the year	40	1,024	263	110	1,437
Disposals	—	—	(488)	—	(488)
Disposals of subsidiaries	—	(2,684)	(705)	(397)	(3,786)
Transfers to investment properties	(40)	—	—	—	(40)
At 31 March 2001	<u>—</u>	<u>3,011</u>	<u>927</u>	<u>681</u>	<u>4,619</u>
Net book value:					
At 31 March 2001	<u>—</u>	<u>903</u>	<u>58</u>	<u>118</u>	<u>1,079</u>
At 31 March 2000	<u>15,810</u>	<u>2,076</u>	<u>1,036</u>	<u>300</u>	<u>19,222</u>

The Group's leasehold land and buildings situated in Hong Kong were revalued individually as at 31 March 2000 by Francis Lau & Co., (Surveyors) Ltd., an independent firm of professional valuers, at an aggregate open market value of HK\$15,810,000 based on their existing use. Had these leasehold land and buildings been stated at cost less accumulated depreciation, the carrying value of these assets as at 31 March 2000 would be restated at HK\$27,726,000. During the year, certain of the Group's leasehold land and buildings were leased out to an independent third party. Accordingly, these leasehold land and buildings with an aggregate carrying value of HK\$8,090,000 were transferred to the investment properties (note 13).

# NOTES TO FINANCIAL STATEMENTS

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## 12. FIXED ASSETS (continued)

The net book value of the fixed assets of the Group held under finance leases included in the total amount of motor vehicles as at 31 March 2001 amounted to approximately HK\$58,000 (2000: HK\$527,000). The depreciation charge for the year in respect of such assets amounted to approximately HK\$70,000 (2000: HK\$248,000).

## 13. INVESTMENT PROPERTIES

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
At beginning of year	<b>1,700</b>	10,400
Transfers from fixed assets	<b>8,090</b>	—
Disposals	<b>(1,700)</b>	(7,600)
Deficit on revaluation	<b>(390)</b>	(1,100)
	<hr/> <b>7,700</b> <hr/>	<hr/> 1,700 <hr/>
At 31 March	<b>7,700</b>	1,700

The Group's investment properties are all situated in Hong Kong and are held on medium term leases.

As at 31 March 2001, the Group's investment properties were revalued by RHL Appraisal Ltd., an independent firm of professional valuers, at HK\$7,700,000 on an open market, subject to existing tenancy basis. The revaluation deficit of HK\$390,000 was charged to the profit and loss account (note 4).

The Group's investment properties as at 31 March 2001 were pledged to a bank to secure banking facilities granted to the Group, as set out in note 20.

# NOTES TO FINANCIAL STATEMENTS

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## 14. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>82,058</b>	82,058
Due from subsidiaries	<b>282,688</b>	110,473
Due to subsidiaries	<b>(60,399)</b>	(503)
	<b>304,347</b>	192,028
Less: Provisions	<b>(176,724)</b>	(176,724)
	<b>127,623</b>	15,304

The balances with subsidiaries are unsecured, interest-free and not repayable in the next twelve months.

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

Particulars of the principal subsidiaries of the Company as at 31 March 2001 were as follows:

<b>Name</b>	<b>Place of incorporation/ registration</b>	<b>Nominal value of issued ordinary share/ registered capital</b>	<b>Percentage of equity attributable to the Company</b>	<b>Principal activities</b>
<b>Directly held</b>				
Dragonfield Group (BVI) Limited	British Virgin Islands ("BVI")	US\$1,000	100%	Investment holding
<b>Indirectly held</b>				
Best Concept Industrial Limited	Hong Kong	HK\$10,000	100%	Property investment
Dragonfield Group (HK) Limited	Hong Kong	HK\$2	100%	Provision of management services



# NOTES TO FINANCIAL STATEMENTS

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## 14. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<b>Indirectly held</b> (continued)				
Dragonfield Management Limited <sup>#</sup>	Hong Kong	HK\$2	100%	Provision of management services
Flying Gain Holdings Limited	BVI	US\$2	100%	Investment holding
Grand Gain International Limited	Hong Kong	HK\$2	100%	Provision of management services
King Fair Properties Limited	Hong Kong	HK\$2	100%	Property investment
Longyan Longtian Fashion Leather Products Co., Ltd. <sup>##</sup>	PRC	RMB6 million	100%	Manufacturing and trading of leather garments
Luchino (Int'l) Leatherware & Garment Limited	Hong Kong	HK\$2	100%	Trading of leather garments
New Eastern Harbour Fur & Leather Manufacturing (Shenzhen) Co., Ltd. <sup>##</sup>	PRC	HK\$3 million	100%	Manufacturing and trading of leather garments
New Eastern Harbour Fur & Leather Trading Company Limited <sup>##</sup>	Hong Kong	HK\$2	100%	Investment holding
New Eastern Harbour (Int'l) Trading Limited	Hong Kong	HK\$2	100%	Trading of leather, fur and garment accessories
New Times Leatherware Industries Company Limited <sup>##</sup>	Hong Kong	HK\$500,000	100%	Investment holding

# NOTES TO FINANCIAL STATEMENTS

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## 14. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<b>Indirectly held</b> (continued)				
Perfect Yield Holdings Limited	BVI	US\$7	100%	Investment holding
Region Link Holdings Limited	BVI	US\$2	100%	Investment holding
Royce Group Limited	BVI	US\$1	100%	Investment holding
Telcone Star Co., Ltd. (Formerly known as Luchino (HK) Fashion & Leatherware Limited)	Hong Kong	HK\$2	100%	Material sourcing
Yi Lok Limited	Hong Kong	HK\$2	100%	Material sourcing

# Newly acquired during the year

## Disposed of during the year

The turnover and loss attributable to shareholders contributed by the subsidiaries disposed of during the year amounted to, in aggregate, approximately HK\$10,670,000 and HK\$917,000, respectively.

All subsidiaries operate principally in their places of incorporation/registration unless otherwise specified.

# NOTES TO FINANCIAL STATEMENTS

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## 15. LONG TERM INVESTMENT

	Group	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	<b>91,404</b>	—

The amount represents an indirect 12.6% attributable interest in a Sino-foreign equity joint venture established in the PRC, namely Longyan Hengfa Electric Industry Co., Ltd. ("Longyan Hengfa", 龍岩恒發電業有限公司), acquired by the Group during the year. Longyan Hengfa is principally engaged in the management and operation of the Power Plant located in Fujian Province, the PRC. In the opinion of the directors, no provision for impairment in value was required as at the balance sheet date.

## 16. INVENTORIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	<b>11,951</b>	46,622
Work in progress	—	205
Finished goods	—	19,897
	<b>11,951</b>	66,724

The carrying amount of inventories carried at net realisable value and included in the above is HK\$11,951,000 (2000: HK\$66,724,000).

# NOTES TO FINANCIAL STATEMENTS

31 March 2001

## 17. TRADE RECEIVABLES

The ages of the Group's trade receivables are as follows:

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Current – 90 days	<b>9,137</b>	19,117
91 – 180 days	<b>7,463</b>	7,938
Over 180 days	<b>11,351</b>	20,103
	<b>27,951</b>	47,158
Less: Provisions	<b>(3,269)</b>	(4,978)
	<b>24,682</b>	42,180

## 18. CASH AND CASH EQUIVALENTS

The cash and cash equivalents represent cash and bank balances.

## 19. TRADE AND BILLS PAYABLES

The ages of the Group's trade and bills payables are as follows:

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Current – 90 days	<b>—</b>	1,564

# NOTES TO FINANCIAL STATEMENTS

31 March 2001

## 20. INTEREST-BEARING BANK AND OTHER LOANS

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Bank loans repayable:		
Within one year	<b>5,306</b>	19,116
In the second year	<b>1,301</b>	6,370
In third to fifth years, inclusive	<b>1,243</b>	6,394
Beyond five years	<b>8,455</b>	43,245
	<b>16,305</b>	75,125
Other loans repayable:		
Within one year	—	7,679
In the second year	—	905
In third to fifth years, inclusive	—	224
	—	8,808
	<b>16,305</b>	83,933
Portion classified as current liabilities	<b>(5,306)</b>	(26,795)
Non-current portion	<b>10,999</b>	57,138
Analysed as follows:		
Bank loans:		
Secured	—	75,125
Unsecured	<b>16,305</b>	—
	<b>16,305</b>	75,125
Other loans:		
Secured	—	637
Unsecured	—	8,171
	—	8,808
	<b>16,305</b>	83,933

# NOTES TO FINANCIAL STATEMENTS

31 March 2001

## 20. INTEREST-BEARING BANK AND OTHER LOANS (continued)

The Group's banking facilities as at 31 March 2001 were secured by:

- (i) corporate guarantees executed by the Company; and
- (ii) legal charges over the Group's investment properties.

## 21. FINANCE LEASE PAYABLES

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

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Amounts payable:		
Within one year	<b>81</b>	328
In the second to fifth years, inclusive	<b>—</b>	177
	<hr/>	<hr/>
Total minimum lease payments	<b>81</b>	505
Future finance charges	<b>(25)</b>	(105)
	<hr/>	<hr/>
Total net finance lease payables	<b>56</b>	400
Portion classified as current liabilities	<b>(56)</b>	(261)
	<hr/>	<hr/>
Non-current portion	<b>—</b>	139
	<hr/> <hr/>	<hr/> <hr/>

## 22. CONVERTIBLE NOTE

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
4% convertible note	<b>30,000</b>	—
	<hr/> <hr/>	<hr/> <hr/>

On 23 August 2000, the Company issued a convertible note with a principal amount of HK\$30,000,000 as part of the consideration for the acquisition of a 12.6% attributable interest in the Power Plant located in Fujian Province, the PRC. The convertible note is issued at par and bears interest at 4% per annum. The convertible note is redeemable up to a maximum amount of HK\$12,000,000 on 22 November 2001, while the entire principal amount of HK\$30,000,000 is redeemable in full on 22 February 2002.

# NOTES TO FINANCIAL STATEMENTS

31 March 2001

## 22. CONVERTIBLE NOTE (continued)

The convertible note carries the rights for the conversion of the note principal, in whole or in part and at the discretion of its holders, into 300,000,000 shares of the Company at a conversion price of HK\$0.10 per share during the period of seventeen months commencing from the date, being one month after the date of issue. The convertible note is freely transferable. The conversion price was subsequently adjusted to HK\$0.07 per share as a result of the rights issue of the Company in November 2000.

## 23. DUE TO RELATED COMPANIES

The amounts due to related companies were unsecured and bore interest at 1% above the prime rate per annum. The amounts were fully settled during the year.

## 24. SHARE CAPITAL

### Shares

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Authorised:		
20,000,000,000 ordinary shares of HK\$0.01 each (2000: 2,000,000,000 ordinary shares of HK\$0.10 each)	<b>200,000</b>	200,000
Issued and fully paid:		
3,108,000,000 ordinary shares of HK\$0.01 each (2000: 518,000,000 ordinary shares of HK\$0.10 each)	<b>31,080</b>	51,800

The following movements in the Company's authorised and issued share capital took place during the year and up to the date of this report:

- (i) On 18 April 2000, the Company raised approximately HK\$49 million, net of expenses, by way of a rights issue of 518,000,000 rights shares of HK\$0.10 each of the Company at a subscription price of HK\$0.10 per rights share, on the basis of one rights share for every existing share held by shareholders whose names appeared on the register on 28 March 2000. The net proceeds of the rights issue were raised for the purpose of funding the general working capital of the Group. Further details of the rights issue are set out in a circular to the shareholders of the Company dated 28 March 2000.

# NOTES TO FINANCIAL STATEMENTS

31 March 2001

## 24. SHARE CAPITAL (continued)

### Shares (continued)

(ii) On 20 October 2000, the shareholders of the Company approved a special resolution in relation to the capital reduction and subdivision which were effected in the following manner:

- (a) the issued share capital of the Company was reduced by HK\$93,240,000 from HK\$103,600,000 to HK\$10,360,000 by cancelling HK\$0.09 of the issued and fully paid capital standing to the credit of each ordinary share then in issue. The nominal value of each such ordinary share was therefore reduced to HK\$0.01;
- (b) each of the authorised, but unissued shares of the Company (which included, without limitation, those unissued shares resulting from the capital reduction pursuant to (a) above) was sub-divided into 10 shares. The authorised share capital of the Company remained as HK\$200,000,000, as it was before the capital reduction and subdivision, but now consists of 20,000,000,000 shares of HK\$0.01 each; and
- (c) the credit arising from the capital reduction pursuant to (a) above, in the amount of HK\$93,240,000, was applied to the contributed surplus account of the Company.

On 29 March 2001, the directors of the Company resolved that, in the best interests of the Company's shareholders, the amount of HK\$172,455,000 (that included HK\$93,240,000 arising from the capital reduction and credited to the contributed surplus account) in the contributed surplus account should be applied in eliminating the accumulated losses in the profit and loss account of the Company. According to an opinion issued by a Bermuda lawyer, such treatment of the credit amount arising from the capital reduction did not require a shareholders' approval and the application in eliminating the accumulated losses is permitted under the Companies Act 1981 of Bermuda (as amended).

Further details of the capital reduction and subdivision are set out in a circular to the shareholders of the Company dated 27 September 2000.



# NOTES TO FINANCIAL STATEMENTS

31 March 2001

## 24. SHARE CAPITAL (continued)

### Shares (continued)

- (iii) Following the completion of the capital reduction and subdivision, on 10 November 2000, the Company raised approximately HK\$49 million, net of expenses, by way of a rights issue of 2,072,000,000 rights shares of HK\$0.01 each of the Company at a subscription price of HK\$0.025 per rights share, on the basis of two rights shares for every existing share held by shareholders whose names appeared on the register on 20 October 2000. The net proceeds of the rights issue were raised for the purpose of funding the Group's future investment opportunities and for general working capital of the Group. Further details of the rights issue are set out in a circular to the shareholders of the Company dated 20 October 2000.
- (iv) Subsequent to the balance sheet date, in June 2001, the Company made an open offer of its shares, and also made two placements of the Company's shares, as further detailed in notes 30(ii), (iii) and (iv) to the financial statements.

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

	Notes	Number of ordinary shares of HK\$0.10 each '000	Number of ordinary shares of HK\$0.01 each '000	Amount HK\$'000
Authorised:				
At beginning of year		2,000,000	—	200,000
Subdivision of shares under the capital reduction	(ii)	(2,000,000)	20,000,000	—
At 31 March 2001		—	20,000,000	200,000
Issued and fully paid:				
At beginning of year		518,000	—	51,800
Rights issue in April 2000	(i)	518,000	—	51,800
Capital reduction of issued shares	(ii)	(1,036,000)	1,036,000	(93,240)
Rights issue in November 2000	(iii)	—	2,072,000	20,720
At 31 March 2001		—	3,108,000	31,080

# NOTES TO FINANCIAL STATEMENTS

31 March 2001

## 24. SHARE CAPITAL (continued)

### Share options

On 15 April 1997, the Company adopted a share option scheme under which the board of the directors may, at its discretion, invite any employees, including directors, of the Company or any of its subsidiaries, to take up options to subscribe for shares in the Company at HK\$1.00 per grant of options. The subscription price is the higher of 80% of the average of the closing price of the shares quoted on the Stock Exchange for the five trading days immediately preceding the date of the offer of the options and the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time, excluding, for this purpose, shares issued upon the exercise of any options granted under the share option scheme. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 15 May 1997.

Details of the movements in the Company's share options during the year were as follows:

Exercise price HK\$	Exercise period	Number of share options			Outstanding at 31 March 2001
		Outstanding at 1 April 2000	Granted during the year	Exercised/cancelled during the year	
0.07 (note (i))	10 April 2000 to 9 April 2002	—	71,428,571	—	<b>71,428,571</b>
0.017 (note (ii))	16 January 2001 to 15 January 2006	—	239,000,000	—	<b>239,000,000</b>
		—	310,428,571	—	<b>310,428,571</b>
		—	310,428,571	—	<b>310,428,571</b>

Notes:

- (i) On 10 April 2000, the Company granted a total of 50,000,000 share options to certain directors of the Company and an employee of the Group at a minimal cash consideration. The share options were exercisable at a price of HK\$0.10 per share. Following the completion of the rights issue of the Company in November 2000, the exercise price of the share options was adjusted from HK\$0.10 per share to HK\$0.07 per share in accordance with the terms of the share option agreement dated 3 April 2000. Due to the rights issue, the number of share options was also increased from 50,000,000 to 71,428,571 by granting an additional 21,428,571 share options to the holders.

# NOTES TO FINANCIAL STATEMENTS

31 March 2001

## 24. SHARE CAPITAL (continued)

### Share options (continued)

Subsequent to the balance sheet date, the exercise price and the number of share options were further adjusted to HK\$0.066 per share and 75,757,576 share options, respectively, following an open offer of 3,108,000,000 ordinary shares of the Company in June 2001. Further details of the open offer of the Company are set out in note 30(ii) to the financial statements and the circular to the shareholders of the Company dated 28 May 2001.

- (ii) On 4 January 2001, the Company granted a total of 239,000,000 share options to certain directors of the Company and employees of the Group at a minimal cash consideration. Subsequent to the balance sheet date, the exercise price and the number of share options were adjusted to HK\$0.016 per share and 253,937,500 share options, respectively, following the open offer of the Company as mentioned in (i) above.

Consequently, the Company had 310,428,571 (2000: Nil) outstanding share options at the balance sheet date. The exercise in full of all outstanding share options at the balance sheet date would, under the present capital structure of the Company, result in the issue of 310,428,571 (2000: Nil) additional ordinary shares in the Company with cash proceeds of approximately HK\$9,063,000, before expenses.

### Warrants

In connection with the rights issue of 518,000,000 rights shares in the Company on 18 April 2000, every holder of the five fully paid rights shares was issued with two warrants at no additional cost. A total of HK\$20,720,000 warrants were issued pursuant to the terms of the instrument constituting the issue of warrants dated 28 March 2000. Each warrant entitles the holder thereof to the right to subscribe for a new ordinary share at a subscription price of HK\$0.10 per share at any time during the period commencing from 26 April 2000 (the date of the commencement dealings in such warrants on the Stock Exchange) up to and including 1 May 2002. The subscription price was subsequently adjusted to HK\$0.07 per share as a result of the rights issue of the Company in November 2000.

There were no warrants exercised during the year. At the balance sheet date, the Company had HK\$20,720,000 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 296,000,000 additional ordinary shares of HK\$0.01 each at the adjusted subscription price of HK\$0.07 per share.

Subsequent to the balance sheet date, HK\$80 warrants with an aggregate amount of subscription price of approximately HK\$80 were exercised, which resulted in the issue of 1,142 ordinary shares of HK\$0.01 each.

# NOTES TO FINANCIAL STATEMENTS

31 March 2001

## 25. RESERVES

### Group

	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 1999	52,502	378	(641)	(21,551)	30,688
Issue of shares	1,720	—	—	—	1,720
Share issue expenses	(308)	—	—	—	(308)
Net loss for the year	—	—	—	(68,783)	(68,783)
At 31 March 2000 and 1 April 2000	53,914	378	(641)	(90,334)	(36,683)
Issue of shares	31,080	—	—	—	31,080
Share issue expenses	(6,605)	—	—	—	(6,605)
Capital reduction — note 24	—	93,240	—	—	93,240
Transfers to accumulated losses — note 24	—	(90,334)	—	90,334	—
Net profit for the year	—	—	—	725	725
At 31 March 2001	78,389	3,284	(641)	725	81,757

### Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 1999	52,502	81,858	(103,672)	30,688
Issue of shares	1,720	—	—	1,720
Share issue expenses	(308)	—	—	(308)
Net loss for the year	—	—	(68,783)	(68,783)
At 31 March 2000 and 1 April 2000	53,914	81,858	(172,455)	(36,683)
Issue of shares	31,080	—	—	31,080
Share issue expenses	(6,605)	—	—	(6,605)
Capital reduction — note 24	—	93,240	—	93,240
Transfers to accumulated losses — note 24	—	(172,455)	172,455	—
Net profit for the year	—	—	936	936
At 31 March 2001	78,389	2,643	936	81,968

# NOTES TO FINANCIAL STATEMENTS

31 March 2001

## 25. RESERVES (continued)

The contributed surplus of the Group arose as a result of the Group reorganisation in 1997 and represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme and the nominal value of the aggregate share capital of the subsidiaries acquired. During the year, the amount of HK\$90,334,000 in the contributed surplus account was applied in eliminating the Group's accumulated losses brought forward from prior years.

The contributed surplus of the Company arose as a result of the same reorganisation and represents the excess of the fair value of the shares of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange thereof. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances prescribed by Section 54 thereof. During the year, the amount of HK\$172,455,000 in the contributed surplus account was applied in eliminating the Company's accumulated losses brought forward from prior years.

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Profit/(loss) from operating activities	<b>2,536</b>	(59,019)
Bank interest income	<b>(825)</b>	(22)
Dividend income from long term investment	<b>(2,021)</b>	—
Depreciation	<b>1,437</b>	1,811
Deficit on revaluation of leasehold land and buildings	<b>—</b>	1,536
Deficit on revaluation of investment properties	<b>390</b>	1,100
Loss/(gain) on disposal of fixed assets	<b>40</b>	(802)
Loss/(gain) on disposal of investment properties	<b>(210)</b>	1,650
Gain on disposal of subsidiaries	<b>(6,090)</b>	—
Decrease in inventories	<b>3,568</b>	58,489
Decrease/(increase) in trade receivables	<b>3</b>	(6,873)
Decrease/(increase) in prepayments, deposits and other receivables	<b>(13,909)</b>	10,745
Increase/(decrease) in trade and bills payables	<b>631</b>	(1,142)
Decrease in trust receipts loans with maturity over three months	<b>—</b>	(45,198)
Decrease in other payables and accruals	<b>(297)</b>	(2,268)
Net cash outflow from operating activities	<b>(14,747)</b>	(39,993)

# NOTES TO FINANCIAL STATEMENTS

31 March 2001

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

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

	<b>Share capital and share premium</b> HK\$'000	<b>Due to related companies</b> HK\$'000	<b>Finance lease obligations</b> HK\$'000	<b>Bank and other loans</b> HK\$'000
Balance at 1 April 1999	95,702	—	655	41,180
Net cash inflow/(outflow) from financing	10,012	8,397	(255)	42,612
Interest payable	—	295	—	141
Balance at 31 March 2000 and 1 April 2000	105,714	8,692	400	83,933
Net cash inflow/(outflow) from financing	96,995	(8,692)	(344)	(67,628)
Capital reduction — note 24	(93,240)	—	—	—
Balance at 31 March 2001	<u>109,469</u>	<u>—</u>	<u>56</u>	<u>16,305</u>

# NOTES TO FINANCIAL STATEMENTS

31 March 2001

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (c) Disposal of subsidiaries

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Net assets disposed of:		
Fixed assets	<b>743</b>	—
Inventories	<b>6,205</b>	—
Cash and bank balances	<b>272</b>	—
Trade receivables	<b>7,662</b>	—
Prepayments and other receivables	<b>207</b>	—
Trade payables	<b>(2,195)</b>	—
Other payables and accruals	<b>(9,922)</b>	—
	<hr/>	<hr/>
	<b>2,972</b>	—
Gain on disposal of subsidiaries	<b>6,090</b>	—
	<hr/>	<hr/>
	<b>9,062</b>	—
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash	<b>600</b>	—
Other receivables	<b>8,462</b>	—
	<hr/>	<hr/>
	<b>9,062</b>	—
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Cash consideration	<b>600</b>	—
Cash and bank balances disposed of	<b>(272)</b>	—
	<hr/>	<hr/>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<b>328</b>	—
	<hr/> <hr/>	<hr/> <hr/>

The subsidiaries disposed of during the year contributed HK\$5,949,000 to the Group's net operating cash outflow and paid HK\$1,324,000 in respect of returns on investments and servicing of finance.

# NOTES TO FINANCIAL STATEMENTS

31 March 2001

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (d) Major non-cash transactions

- (i) Part of the consideration for the acquisition of a 12.6% attributable interest in the Power Plant located in Fujian Province, the PRC during the year was satisfied by an assignment of certain trade and other receivables of the Group with an aggregate net book value of approximately HK\$15 million, an assignment of certain inventories of the Group with an aggregate carrying value of HK\$45 million, and the issue of a redeemable convertible note with a principle amount of HK\$30 million.

Further details of the acquisition are set out in the circular to the shareholders of the Company dated 30 June 2000.

- (ii) During the year, the Group's leasehold land and buildings with an aggregate carrying value of HK\$8,090,000 were reclassified to investment properties.

## 27. COMMITMENTS UNDER OPERATING LEASES

As at the balance sheet date, the Group had commitments under non-cancellable operating leases to make payments in the following year as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Land and buildings expiring:		
Within one year	—	95
In the second to fifth years, inclusive	940	—
After five years	—	118
	<hr/>	<hr/>
	940	213
	<hr/> <hr/>	<hr/> <hr/>

The Company had no significant commitments as at 31 March 2001 (2000: Nil).

## 28. CONTINGENT LIABILITIES

As at 31 March 2001, the Company had given guarantees to banks in connection with facilities granted to subsidiaries in an aggregate amount of HK\$16,305,000 (2000: HK\$54,825,000).

The Group had no significant contingent liabilities as at 31 March 2001 (2000: Nil).



# NOTES TO FINANCIAL STATEMENTS

31 March 2001

## 29. PLEDGE OF ASSETS

Details of the Group's banking facilities secured by assets of the Group are included in note 20 to the financial statements.

## 30. POST BALANCE SHEET EVENTS

The following events took place subsequent to 31 March 2001 :

- (i) On 2 April 2001, the Group entered into a sale and purchase agreement with an independent third party for the acquisition of a 51% equity interest in a company, Royalink Industrial Limited ("Royalink"), at a cash consideration of HK\$1,020,000. Royalink was incorporated in Hong Kong and is principally engaged in garment trading.

The transaction was completed and became unconditional on 6 April 2001.

- (ii) On 18 April 2001, the Company entered into an underwriting agreement with Shenyin Wanguo Capital (H.K.) Limited in relation to an open offer of not less than 3,108,000,000, but not more than 3,415,482,857, offer shares of HK\$0.01 each of the Company at a subscription price of HK\$0.025 per offer share. The open offer was made on the basis of one offer share for every existing share held by shareholders whose names appeared on the register on 28 May 2001.

The open offer was completed on 18 June 2001 and the net proceeds received therefrom of approximately HK\$78 million will be used for the purpose of funding the Group's future investments and for general working capital of the Group.

- (iii) On 5 June 2001, the Company's substantial shareholder, Century Enterprise Investments Inc. ("Century Enterprise") entered into an agreement to place out 600 million ordinary shares of the Company to an independent third party at HK\$0.025 per share. On the same date, Century Enterprise entered into a subscription agreement with the Company to subscribe for 600 million new ordinary shares of HK\$0.01 each of the Company, to rank pari passu with the existing ordinary shares of the Company in issue in all respects, at a price of HK\$0.025 per share ("First Subscription"). The subscription price of HK\$0.025 per share represented a discount of approximately 3.85% to the closing price of HK\$0.026 per share as quoted on the Stock Exchange on 4 June 2001 and no premium or discount to the average closing price of HK\$0.025 per share as quoted on the Stock Exchange for the last ten trading days up to and including 4 June 2001.

The First Subscription was completed on 18 June 2001. The net proceeds of such subscription pursuant to the subscription agreement approximating HK\$14.8 million, will be used for the purpose of funding future possible investment opportunities and for general working capital of the Group.

# NOTES TO FINANCIAL STATEMENTS

31 March 2001

## 30. POST BALANCE SHEET EVENTS (continued)

- (iv) On 19 June 2001, Century Enterprise entered into an agreement to place out another 600 million ordinary shares of the Company to an independent third party at HK\$0.04 per share. On the same date, Century Enterprise entered into a subscription agreement with the Company to subscribe for 600 million new ordinary shares of HK\$0.01 each of the Company, to rank pari passu with the existing ordinary shares of the Company in issue in all respects, at a price of HK\$0.04 per share ("Second Subscription"). The subscription price of HK\$0.04 per share represented a premium of approximately 8.10% to the closing price of HK\$0.037 per share as quoted on the Stock Exchange on 18 June 2001 and a premium of approximately 11.11% to the average closing price of HK\$0.036 per share as quoted on the Stock Exchange for the last ten trading days up to and including 18 June 2001.

The Second Subscription was completed on 29 June 2001 and the net proceeds of such subscription pursuant to the subscription agreement approximating HK\$23.8 million, will be used for the purpose of funding future possible investment opportunities and for general working capital of the Group.

- (v) On 3 July 2001, the Company entered into a conditional sale and purchase agreement (the "Second Agreement") with For Good Investments Limited ("For Good"), a company incorporated in the BVI and beneficially owned by Mr. Chan Chun Keung, an executive director of the Company. Pursuant to the Second Agreement, among other things, the Company agreed conditionally to acquire an additional 27% attributable interest in the Power Plant located in Fujian Province, the PRC for a cash consideration of HK\$90 million.

The transaction constituted a disclosable and connected transaction under the Listing Rules. The transaction is subject to the approval of the Company's independent shareholders in a special general meeting to be held. Upon completion of the acquisition, the Group will hold an aggregate 39.6% attributable interest in the Power Plant. The Power Plant will become an associate of the Group and its result will be equity-accounted for in the financial statements of the Group.

# NOTES TO FINANCIAL STATEMENTS

31 March 2001

## 31. CONNECTED AND RELATED PARTY TRANSACTIONS

During the year and up to the date of this report, the Group had the following material transactions with connected and/or related parties in addition to the transaction disclosed in note 30(v):

- (i) The Company entered into a conditional sale and purchase agreement dated 12 June 2000 (the "First Agreement") with Halligan Profits Limited ("Halligan"), a company incorporated in the BVI which is controlled by Mr. Chan Chun Keung, an executive director of the Company. Pursuant to the First Agreement, among other things, the Company agreed conditionally to acquire a 12.6% attributable interest in the Power Plant and a loan amounting to approximately HK\$13.4 million.

The transaction constituted a major and connected transaction under the Listing Rules and was approved by shareholders in a special general meeting on 20 July 2000. The transaction was completed and became unconditional on 23 August 2000.

- (ii) A total amount of HK\$6,086,000 (2000: HK\$8,692,000) was advanced from related companies, in which Mr. Chan Chun Keung, an executive director of the Company, has beneficial interests, to the Group during the year. The amount was unsecured and bore interest at 1% above the prime rate per annum. The amount was repaid in full during the year. For the year ended 31 March 2001, interest of HK\$531,000 (2000: HK\$295,000) was charged on such amount.

## 32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 27 July 2001.