

Notes to the Financial Statements



For the year ended 31 March 2001

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its securities are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Group are the trading of ceramic tiles, bathroom accessories, trading of listed trading securities and derivatives and money lending.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group. As disclosed in note 29 to the financial statements, the Group fails to repay certain part of its convertible loan of HK\$92,302,049. Accordingly, such convertible loan has become technically repayable on demand and has been reclassified as a current liability. Also, the Group is in breach of a covenant in respect of certain banking facilities; the amount utilised was HK\$34,900,040 as at 31 March 2001.

Against this background, the Group is currently negotiating with the convertible noteholder and the relevant banks to restructure these borrowings. Provided that such negotiations can be successfully completed, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities. The financial statements have been prepared in accordance with the 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 31 March 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.



3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

Any premium or discount arising on the acquisition of an interest in an associate, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

On disposal of investments in subsidiaries or associates, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary or associate.

Investments in 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 losses recognised.

Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.



3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Development properties

Income from properties developed for sale, where there are no pre-sales prior to completion of development, is recognised on the execution of a binding sales agreement or when the relevant occupation permit is issued by the binding authority, whichever is the later.

Income from properties pre-sold prior to completion of development is recognised over the period from the execution of a binding sales agreement to the completion of development on the basis of development costs to date as a proportion of estimated total development costs subject to the limit that income recognised at any time does not exceed the amount of deposits already received.

Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the period. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of construction contract can be estimated reliably, revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Other

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

Service income is recognised when services are provided.

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

Sales proceeds on dealing of listed trading securities are recognised on trade date.

Gains on trading of derivatives are recognised on settlement date.

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

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

Notes to the Financial Statements



For the year ended 31 March 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation or amortisation. 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 assets have 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 proceeds and the carrying amount of the asset and is recognised in the income statement.

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

Land use rights are stated at cost less accumulated amortisation. The value of land use rights is amortised on a straight-line basis over the period of the lease.

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

Land	Over the remainder of lease terms
Buildings	
– Long lease in Hong Kong and The People's Republic of China (the "PRC")	2%
– Medium-term lease in the PRC	4.5%
Leasehold improvements	
– Owned premises	15%
– Leased premises	Over the unexpired term of the lease
Furniture, fixtures and equipment	15% – 18%
Computer software	15%
Motor vehicles	18% – 30%
Plant and machinery	9% – 15%
Yacht	30%

Notes to the Financial Statements



For the year ended 31 March 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Factory under construction

Factory under construction represents land use rights, construction cost of factory and production line and is stated at cost less impairment loss identified. Cost includes development expenditure and other attributable expenses capitalised.

When the construction is completed, the factory and plant will be transferred to appropriate asset categories and depreciated in accordance with the Group's accounting policies.

Investments in securities

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

At subsequent reporting dates, investments in securities are measured at fair value. Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises 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 weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Properties under development held for sale

Properties under development held for sale are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalised, attributable to unsold units. Net realisable value represents the estimated selling price less direct selling expenses, if any.

The amount of any write-down of or provision for properties under development held for sale is recognised as an expense in the period when the write-down or loss occurs. The amount of any reversal of any write-down or provision arising from an increase in net realisable value is recognised in the income statement in the period when the reversal occurs.

Notes to the Financial Statements



For the year ended 31 March 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by reference to the value of work carried out to date bears the estimated total value of work carried out for each contract.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenues of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when they were negotiated as a single package and are so closely inter-related that they constitute a single project with an overall profit margin.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases.

Rentals receivable and payable under operating leases are credited or charged to the income statement on a straight-line basis over the term of the relevant lease.

Retirement benefit schemes

The Group operates two defined contribution provident funds for its employees. Contributions to the defined contribution schemes are charged to the income statement. Forfeited contributions are used to reduce the existing level of contributions.

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 under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Notes to the Financial Statements



For the year ended 31 March 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. Profits and losses arising on exchange are dealt with in the income statement.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

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.

Convertible loans

Convertible loans are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance cost, including the premium payable upon the final redemption of the convertible loans, recognised in the income statement in respect of the convertible loans is calculated so as to produce a constant periodic rate of charge on the remaining balances of the convertible loans for each accounting period.

Notes to the Financial Statements



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4. TURNOVER

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less discounts allowed and goods returned, interest income on money lending, results on trading of derivatives and sales proceeds of short-term listed trading securities during the year.

	Turnover		Segment Result	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
<i>By activity</i>				
Trading of ceramic tiles	254,242	310,251	28,923	59,465
Trading of bathroom accessories	27,198	15,105	4,658	1,656
Trading of marketable securities	363,950	568,005	(42,409)	159,218
Loss on trading of derivatives	(132,200)	(63,390)	(132,200)	(63,390)
Interest income on money lending	11,144	9,000	361	3,854
	<u>524,334</u>	<u>838,971</u>	<u>(140,667)</u>	<u>160,803</u>
Other revenue			29,020	47,655
Selling and administrative expenses			(90,486)	(83,716)
Finance costs			(18,213)	(23,855)
Gain on deemed disposal of an associate			7,811	57,493
Gain on disposal of an associate			52	3,576
Impairment loss arising in relation to properties under development held for sale			(47,366)	–
Provision for bad and doubtful debts			(167,490)	(12,904)
Share of loss of associates			(295,793)	(32,876)
Loss on disposal of a subsidiary			–	(259)
(Loss) profit before taxation			<u>(723,132)</u>	<u>115,917</u>
<i>By geographical segment</i>				
Hong Kong	409,787	712,264	(738,271)	75,540
Other regions of the PRC	109,213	126,707	15,541	40,377
USA	5,334	–	(402)	–
	<u>524,334</u>	<u>838,971</u>	<u>(723,132)</u>	<u>115,917</u>

Notes to the Financial Statements

For the year ended 31 March 2001



5. OTHER REVENUE

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Interest earned on bank deposits	1,098	6,517
Gain on disposal of property, plant and equipment	12,487	–
Forfeiture of deposits	–	14,778
Management fee income	537	1,573
Commission income	10,737	14,656
Transportation income	1,010	1,466
Sundry income	3,151	8,665
	<u>29,020</u>	<u>47,655</u>

6. (LOSS) PROFIT FROM OPERATIONS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
(Loss) profit from operations has been arrived at after charging (crediting):		
Staff costs		
– Directors' fee (note 8)	20	–
– Directors' emoluments (note 8)	4,805	6,421
– Contribution to retirement benefit scheme, net of forfeiture excluding HK\$89,000 (2000: HK\$34,000) included in directors' emolument	1,370	1,279
– Other	24,192	34,837
	<u>30,387</u>	<u>42,537</u>
Auditors' remuneration		
Current year	1,117	740
Underprovision in prior years	12	7
	<u>1,129</u>	<u>747</u>
Bad debt written off	325	178
Depreciation		
– Owned assets	30,520	26,227
– Assets held under finance leases	19	–
(Gain) loss on disposal of property, plant and equipment	(12,487)	1,208
Net foreign exchange loss (gain)	8	(1,487)
Provision for stock	4,103	–
Rental payments on premises under operating leases	18,064	18,728
Rental income under operating leases after negligible outgoings	–	(276)
	<u>–</u>	<u>(276)</u>

Notes to the Financial Statements

For the year ended 31 March 2001



7. FINANCE COSTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Interest on:		
Bank loans and overdrafts and other borrowings wholly repayable within five years	18,249	16,871
Bank loans and other borrowings repayable over five years	215	195
Convertible loan	9,660	10,753
Obligation under finance lease	11	–
Bank charges	862	1,032
	<u>28,997</u>	<u>28,851</u>
Total borrowing costs	<u>28,997</u>	<u>28,851</u>

8. DIRECTORS' EMOLUMENTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Directors' fees:		
Executive	–	–
Independent non-executive	20	–
	<u>20</u>	<u>–</u>
Other emoluments – Executive:		
Salaries, housing allowances and other benefits	4,716	6,387
Contributions to retirement benefit scheme	89	34
	<u>4,805</u>	<u>6,421</u>
Total emoluments to the Company's directors	<u>4,825</u>	<u>6,421</u>

Emoluments of the directors were within the following bands:

	THE GROUP	
	2001 Number of directors	2000 Number of directors
HK\$Nil to HK\$1,000,000	11	8
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	–	1
	<u>11</u>	<u>10</u>

Notes to the Financial Statements



For the year ended 31 March 2001

9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2000: five) were directors of the Company whose emoluments are included in the disclosures in note 8 above. The emolument of the remaining individual for 2001 was within the band of HK\$Nil to HK\$1,000,000.

10. RETIREMENT BENEFIT SCHEMES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
The Company and subsidiaries in Hong Kong (note a)		
Contribution	1,133	1,027
Less: Forfeited amount	(366)	(251)
	<hr/>	<hr/>
	767	776
Subsidiaries in the PRC (note b)	692	536
	<hr/>	<hr/>
	1,459	1,312
	<hr/>	<hr/>

Notes:

- (a) The Group has two defined contribution provident fund schemes for its Hong Kong employees. The scheme assets of the first scheme are being held under a provident fund operated by The Prudential Assurance Company Limited with BOCI-Prudential Trustee Limited as Trustee (the "Old ORSO Scheme"). The second one is operated by CMG Asia Pensions and Retirement Limited with Butterfield Trust (Hong Kong) Limited as Trustee (the "New ORSO Scheme").

The Group is required to make contributions to the above schemes calculated at 5% of the employees' basic salaries and commissions on a monthly basis. The Old ORSO Scheme was granted an exemption from the Mandatory Provident Fund Schemes Authority on 20 July 2000. Under the Old ORSO Scheme, the employees are entitled to 100% of the employers' contributions and the accrued interest after 12 years of completed service, or at a vesting scale of between 30% and 100% after completion of 5 to 12 years' service. With effect from 1 October 2000, the Group participates in the New ORSO Scheme, which was granted an exemption from the Mandatory Provident Fund Schemes Authority on 22 June 2001. Under the New ORSO Scheme, the employees are entitled to 100% of the employers' contributions and the accrued interest after 10 years of completed service, or at a vesting scale of between 30% to 100% after completion of 3 to 10 years' service. The forfeited contributions and related accrued interest can be used to reduce the employers' contributions. The principal deed and the rules of the above provident fund schemes were amended accordingly to comply with the rules of the Mandatory Provident Fund Schemes Ordinance.

With effect from 1 December 2000, the Group also participates in a mandatory provident fund scheme. The schemes assets are held under a mandatory provident fund operated by CMG Asia Pensions and Retirement Limited. Under the scheme, the Group is required to make contributions to the scheme calculated at 5% of the employees' relevant income (as defined in the Mandatory Provident Fund Schemes Ordinance) on a monthly basis.

Notes to the Financial Statements



For the year ended 31 March 2001

10. RETIREMENT BENEFIT SCHEMES (continued)

Notes: (continued)

The employees entitled to the defined contribution provident fund schemes before 1 December 2000 were allowed an option between joining the mandatory provident fund scheme or continuing to making contributions to the New ORSO Scheme. All newly employed employees are required to join the mandatory provident fund scheme or the New ORSO Scheme. The Group is required to make contributions to either of the two schemes according to the employees' options.

At the balance sheet date, there were no forfeited contributions available to offset future employers' contributions to the schemes (2000: HK\$88,000).

- (b) Employees in subsidiaries in the PRC are members of the Central Pension Scheme operated by the PRC government. These subsidiaries are required to contribute a certain percentage of their payroll to the Central Pension Scheme to fund the benefits. The only obligation of the Group with respect to the Central Pension Scheme is the required contribution under the Central Pension Scheme.

11. TAXATION

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
The charge comprises:		
Profit for the year		
Hong Kong	–	3,142
Other regions in the PRC	3,271	3,501
Overseas	86	134
Prior years		
Hong Kong	605	(35)
Deferred taxation		
Current year	1,062	7
	<u>5,024</u>	<u>6,749</u>
Share of tax on results of associates	12	2,186
	<u>5,036</u>	<u>8,935</u>

Hong Kong profits tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the year. PRC income tax and taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

Details of the deferred tax charge provided for in the year are set out in note 35.

Notes to the Financial Statements



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12. (LOSS) PROFIT FOR THE YEAR

Of the Group's loss for the year of HK\$731,310,000 (2000: a profit of HK\$100,167,000), a loss of HK\$3,764,000 (2000: a profit of HK\$23,834,000) has been dealt with in the financial statements of the Company.

13. (LOSS) EARNINGS PER SHARE

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
(Loss) earnings		
(Loss) profit for the year for the purpose of basic (loss) earnings per share	<u>(731,310)</u>	100,167
Effect of dilutive potential ordinary shares		
Interest on convertible loan		10,753
Effect of dilutive earnings per share of an associate		<u>(7)</u>
Profit for the year for the purpose of diluted earnings per share		<u>110,913</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<u>1,242,922,627</u>	1,141,318,097
Effect of dilutive potential ordinary shares		
Convertible loan		<u>527,556,352</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share		<u>1,668,874,449</u>

No diluted loss per share for the year ended 31 March 2001 has been presented as the exercise of the potential ordinary shares would result in a reduction in loss per share.

Earnings per share for the year ended 31 March 2000 has been adjusted for the rights issue on 2 June 2000, the bonus issue on 31 July 2000 and the share consolidation on 26 February 2001.

The calculation of the diluted earnings per share for the year ended 31 March 2000 has not assumed the exercise of share options as the exercise of the Company's outstanding options existed during the year ended 31 March 2000 would be anti-dilutive.

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14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Plant and machinery HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Yacht HK\$'000	Computer software HK\$'000	Total HK\$'000
THE GROUP								
COST								
At 1 April 2000	189,551	276,224	12,821	21,573	12,648	2,393	1,272	516,482
Additions	217	801	1,593	430	237	-	21	3,299
Reduction in cost	(280)	-	-	-	-	-	-	(280)
Transfer from factory under construction	110	3	-	-	-	-	-	113
Disposals	(43,623)	(100)	(2,830)	(1,502)	(1,094)	(2,393)	-	(51,542)
Exchange adjustment	241	629	(4)	39	12	-	-	917
At 31 March 2001	146,216	277,557	11,580	20,540	11,803	-	1,293	468,989
DEPRECIATION								
At 1 April 2000	34,743	114,372	7,779	16,238	9,544	2,378	255	185,309
Provided for the year	4,363	21,285	1,198	2,121	1,372	8	192	30,539
Eliminated on disposals	(5,092)	(44)	(1,295)	(1,238)	(935)	(2,386)	-	(10,990)
Exchange adjustment	42	199	-	28	9	-	-	278
At 31 March 2001	34,056	135,812	7,682	17,149	9,990	-	447	205,136
NET BOOK VALUES								
At 31 March 2001	112,160	141,745	3,898	3,391	1,813	-	846	263,853
At 31 March 2000	154,808	161,852	5,042	5,335	3,104	15	1,017	331,173

The net book value of properties shown above comprises:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Land in Hong Kong:		
Long lease	2,932	45,555
Medium-term lease	63,724	61,786
Land outside Hong Kong:		
Long lease	2,658	2,658
Medium-term lease	42,846	44,809
	112,160	154,808

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15. FACTORY UNDER CONSTRUCTION

	2001 HK\$'000
THE GROUP	
Beginning balance	13,895
Exchange adjustment	58
Additions	451
Less: Transferred to property, plant and equipment during the year	(113)
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Ending balance	<u>14,291</u>

The factory under construction is situated in the PRC and held under medium term lease.

16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2001 HK\$'000	2000 HK\$'000
Investments at cost:		
Unlisted shares	<u>286,876</u>	<u>286,876</u>

Details of the Company's subsidiaries are set out in note 45.

17. INTERESTS IN ASSOCIATES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Share of net assets		
– listed	78,304	350,153
– unlisted	54,380	44,509
Amount due from an associate	499	499
	<hr/>	<hr/>
	<u>133,183</u>	<u>395,161</u>
Market value of listed shares	<u>39,338</u>	<u>518,935</u>

Details of the associates are set out in note 46.

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17. INTERESTS IN ASSOCIATES (continued)

The following details have been extracted from the audited financial statements of the Group's significant associate.

Operating results for the year ended 31 March 2001

	Skynet (International Group) Holdings Limited	
	2001	2000
	HK\$'000	HK\$'000
Turnover	336,540	479,175
Depreciation	12,872	10,561
(Loss) profit before taxation	(601,929)	3,232
(Loss) profit after taxation attributable to the Group	<u>(288,264)</u>	<u>2,695</u>

Financial position at 31 March 2001

Non-current assets	111,406	145,210
Current assets	172,254	633,018
Current liabilities	(78,058)	(72,543)
Non-current liabilities	–	(17)
Minority interest	(42,094)	–
Net assets	<u>163,508</u>	<u>705,668</u>
Net assets attributable to the Group	<u>78,304</u>	<u>350,153</u>

Skynet (International Group) Holdings Limited had the following significant contingent liabilities:

	Skynet (International Group) Holdings Limited	
	2001	2000
	HK\$'000	HK\$'000
Outstanding performance bonds in respect of contract works	20,466	32,487
Discounted bills with recourse	1,318	161
	<u>21,784</u>	<u>32,648</u>

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18. INVESTMENTS IN SECURITIES

	Trading securities		Other securities		Total	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Equity securities:						
Listed	5,702	28,851	–	–	5,702	28,851
Unlisted	–	–	936	1,780	936	1,780
	<u>5,702</u>	<u>28,851</u>	<u>936</u>	<u>1,780</u>	<u>6,638</u>	<u>30,631</u>
Other investments:						
Club debentures	–	–	622	622	622	622
Total:						
Listed						
Hong Kong	5,702	28,851	–	–	5,702	28,851
Unlisted	–	–	1,558	2,402	1,558	2,402
	<u>5,702</u>	<u>28,851</u>	<u>1,558</u>	<u>2,402</u>	<u>7,260</u>	<u>31,253</u>
Market value of listed securities	<u>5,702</u>	<u>28,851</u>	<u>–</u>	<u>–</u>	<u>5,702</u>	<u>28,851</u>
Carrying amount analysed for reporting purpose as:						
Current	5,702	28,851	–	–	5,702	28,851
Non-current	–	–	1,558	2,402	1,558	2,402
	<u>5,702</u>	<u>28,851</u>	<u>1,558</u>	<u>2,402</u>	<u>7,260</u>	<u>31,253</u>

19. STAFF HOUSING LOANS – UNSECURED

The loans receivable are interest-free, unsecured and for the benefit of employees of a PRC subsidiary.

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
The loans are receivable within a period of:		
Within one year	–	101
Within two to five years	–	380
	–	481
Less: Amount shown under current assets	–	(101)
	<u>–</u>	<u>380</u>

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For the year ended 31 March 2001



20. LOANS RECEIVABLE

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Secured	59,327	91,369
Unsecured	3,554	15,425
	62,881	106,794
Less: Provision for doubtful debts	(50,794)	(102)
	12,087	106,692
Less: Portion repayable within one year included in current assets	(9,729)	(105,515)
	2,358	1,177

21. INVENTORIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Raw materials	17,867	16,803
Work in progress	634	733
Finished goods and general merchandise	66,659	82,951
	85,160	100,487

Included above are finished goods of HK\$16,105,000 (2000: HK\$27,283,000) carried at net realisable value.

The cost of inventories recognised as an expense during the year was HK\$305,235,000 (2000: HK\$367,002,000).

22. PROPERTIES UNDER DEVELOPMENT HELD FOR SALE

	HK\$'000
At 1 April 2000	95,746
Additions	6,620
Impairment loss	(47,366)
	55,000

The lands are situated in Hong Kong and held under medium term lease.

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For the year ended 31 March 2001



23. AMOUNT DUE FROM AN INVESTEE COMPANY

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Principal	–	1,000
Less: Provision for bad and doubtful debt	–	(1,000)
	<u>–</u>	<u>–</u>

24. AMOUNTS DUE FROM (TO) ASSOCIATES/AMOUNT DUE TO AN INVESTEE COMPANY/AMOUNT DUE FROM (TO) SUBSIDIARIES/AMOUNTS DUE FROM (TO) MINORITY SHAREHOLDERS OF SUBSIDIARIES

The balances are in the nature of current accounts which are interest free, unsecured and have no fixed repayment term.

25. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Contracts in progress at the balance sheet date:		
Contract costs incurred	19,787	14,470
Recognised profits less recognised losses	812	756
	<u>20,599</u>	<u>15,226</u>
Progress billings	(21,119)	(14,482)
	<u>(520)</u>	<u>744</u>
Analysed for reporting purposes as:		
Due from customers included in current assets	297	846
Due to customers included in current liabilities	(817)	(102)
	<u>(520)</u>	<u>744</u>

26. TRADE DEBTORS

The Group does not define a fixed credit policy.

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Within 60 days	14,789	25,996
61 – 90 days	9,709	3,270
Over 90 days	71,173	54,485
	<u>95,671</u>	<u>83,751</u>

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For the year ended 31 March 2001

27. TRADE CREDITORS

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Within 60 days	39,351	97,095
61 – 90 days	4,503	2,388
Over 90 days	19,751	17,472
	<u>63,605</u>	<u>116,955</u>

28. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Secured bank borrowings comprise the following:				
Long term bank loans	63,292	65,303	–	–
Short term bank loans	24,359	29,274	–	–
	<u>87,651</u>	<u>94,577</u>	<u>–</u>	<u>–</u>
Bank borrowings are repayable as follows:				
Loans repayable within a period of:				
One year	73,783	74,237	–	–
One to two years	5,452	4,265	–	–
Two to five years	6,287	10,826	–	–
Over five years	2,129	5,249	–	–
	<u>87,651</u>	<u>94,577</u>	<u>–</u>	<u>–</u>
Less: Portion due within one year included in current liabilities	<u>(73,783)</u>	<u>(74,237)</u>	<u>–</u>	<u>–</u>
	<u>13,868</u>	<u>20,340</u>	<u>–</u>	<u>–</u>

Notes to the Financial Statements



For the year ended 31 March 2001

29. OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Other borrowings comprise the followings:				
Convertible loan – unsecured (<i>note (a)</i>)	92,302	92,880	–	–
Secured advance from a financial institution in the PRC	43,849	45,227	–	–
Other short term loan	60,000	–	60,000	–
	<u>196,151</u>	<u>138,107</u>	<u>60,000</u>	<u>–</u>
Secured	43,849	45,227	–	–
Unsecured	152,302	92,880	60,000	–
	<u>196,151</u>	<u>138,107</u>	<u>60,000</u>	<u>–</u>
Other borrowings are repayable as follows:				
Loans repayable within a period of:				
One year	196,151	45,227	60,000	–
One to two years	–	–	–	–
Two to five years	–	92,880	–	–
Over five years	–	–	–	–
	<u>196,151</u>	<u>138,107</u>	<u>60,000</u>	<u>–</u>
Less: Portion due within one year included in current liabilities	<u>(196,151)</u>	<u>(45,227)</u>	<u>(60,000)</u>	<u>–</u>
	<u>–</u>	<u>92,880</u>	<u>–</u>	<u>–</u>

Notes:

- (a) In 1997, an unsecured convertible loan of US\$12,000,000 (“Loan”) which carries interest at the rate of 9.8% per annum compounded annually for a term of six years was advanced by an independent third party to Companion-China Limited, a wholly owned subsidiary of the Company. The Loan and the accrued interest thereon will, at the option of the convertible noteholder, be convertible into fully paid ordinary shares of the Company at a conversion price calculated as 90% of the average closing price of the shares of the Company quoted on the Stock Exchange for the twenty trading days immediately preceding the date of the notice under the terms and conditions of the convertible loan deed, details of which are set out in the circulars to the shareholders of the Company dated 13 May 1997 and 20 December 2000.

The Group fails to repay certain part of the Loan. Accordingly, the Loan has become technically repayable on demand and has been reclassified as a current liability.

- (b) No interest was capitalised by the Group during the year.

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For the year ended 31 March 2001

30. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
The maturity of obligations under finance leases is as follows:		
Within one year	62	–
Less: Amount due within one year shown under current liabilities	(62)	–
	<u>–</u>	<u>–</u>

31. SHARE CAPITAL

	THE COMPANY			
	Number of shares		Share capital	
	2001	2000	2001 HK\$'000	2000 HK\$'000
Authorised:				
At the beginning of the year				
Ordinary share of HK\$0.01 each	4,000,000,000	4,000,000,000	40,000	40,000
Increase in authorised share capital of HK\$0.01 each (note a)	1,000,000,000	–	10,000	–
Increase in authorised share capital of HK\$0.01 each (note b)	15,000,000,000	–	150,000	–
Increase in authorised share capital of HK\$0.01 each (note c)	10,000,000,000	–	100,000	–
Consolidation of shares from HK\$0.01 to HK\$0.1 each (note d)	(27,000,000,000)	–	–	–
Subdivided into ten shares of HK\$0.01 each (note d)	27,000,000,000	–	–	–
	<u>30,000,000,000</u>	<u>4,000,000,000</u>	<u>300,000</u>	<u>40,000</u>
At the end of the year				
Ordinary shares of HK\$0.01 (2000: HK\$0.01) each	<u>30,000,000,000</u>	<u>4,000,000,000</u>	<u>300,000</u>	<u>40,000</u>
Issued and fully paid:				
At the beginning of the year				
Ordinary shares of HK\$0.01 each	2,594,763,620	10,000,000	25,948	–
Rights issue of shares (note e)	1,556,858,172	–	15,569	–
Bonus issue of shares (note f)	8,303,243,584	–	83,032	–
Exercise of subscription rights of warrants	51,260,400	–	512	–
Issue of share under the Scheme of Arrangement	–	2,441,929,620	–	24,519
Issue of shares under placing (note g)	2,000,000,000	200,000,000	20,000	2,000
Repurchases of shares	–	(57,166,000)	–	(572)
Consolidation of shares and capital reduction (note d)	(13,055,513,199)	–	(130,555)	–
	<u>1,450,612,577</u>	<u>2,594,763,620</u>	<u>14,506</u>	<u>25,947</u>
At the end of the year				
Ordinary shares of HK\$0.01 (2000: HK\$0.01) each	<u>1,450,612,577</u>	<u>2,594,763,620</u>	<u>14,506</u>	<u>25,947</u>

Notes to the Financial Statements



For the year ended 31 March 2001

31. SHARE CAPITAL (continued)

Notes:

- (a) Pursuant to a special general meeting held on 15 May 2000, the Company increased its authorised share capital from HK\$40,000,000 to HK\$50,000,000 by the creation of an additional 1,000,000,000 shares of HK\$0.01 each in the share capital of the Company ("Shares").
- (b) Pursuant to a special general meeting held on 24 July 2000, the Company increased its authorised share capital from HK\$50,000,000 to HK\$200,000,000 by the creation of an additional 15,000,000,000 Shares.
- (c) Pursuant to a special general meeting held on 29 December 2000, the authorised share capital of the Company was increased from HK\$200,000,000 to HK\$300,000,000 by the creation of an additional 10,000,000,000 Shares, such new Shares to rank pari passu in all respects with the existing Shares in issue.
- (d) Pursuant to a special resolution passed on 23 February 2001, every ten Shares in the issued and unissued share capital of the Company were consolidated ("Share Consolidation") into one share of HK\$0.1 each ("Consolidated Share"). After the Share Consolidation, the par value of each of the issued Consolidated Shares was reduced from HK\$0.1 to HK\$0.01 ("Capital Reduction") and each of the unissued Consolidated Shares (including the unissued Consolidated Shares arising from the Capital Reduction) was subdivided into ten new shares of HK\$0.01 each ("New Shares").
- (e) On 2 June 2000, 1,556,858,172 new Shares were issued by way of a rights issue on the basis of three rights shares for every five existing Shares then held on 15 May 2000 at an issue price of HK\$0.07 per Share.
- (f) On 31 July 2000, the Company issued 8,303,243,584 bonus shares by way of capitalising a sum of HK\$83,032,000 standing to the credit of the share premium account of the Company on the basis of two bonus shares for every existing Share held on 31 July 2000.
- (g) On 10 November 2000, a placing agreement was entered into between the Company, Shiu & Leung Enterprises Ltd. ("Shiu & Leung") and the placing agents and a conditional subscription agreement was entered into between the Company and Shiu & Leung, pursuant to which Shiu & Leung sold 2,000,000,000 existing issued Shares to professional, institutional and individual investors through a private placement at a price of HK\$0.016 per Share and the Company agreed to issue 2,000,000,000 new Shares to Shiu & Leung at the same price. The Company intended to use the estimated net proceeds of the subscription of approximately HK\$30.8 million as to approximately HK\$10 million to repay bank borrowing and as to the remaining balance for the Company's working capital. The placement and subscription of Shares were completed on 15 November 2000 and 23 November 2000 respectively.

32. WARRANTS

On 14 August 2000, the Company issued 2,490,973,075 units of warrants to the shareholders on the basis of one bonus warrant for every five existing Shares held on 14 August 2000 conferring rights to subscribe in cash for new Shares at the initial subscription price of HK\$0.02 per Share at any time from 14 August 2000 up to and including 13 August 2002.

On 25 August 2000, registered holders of the warrants exercised their rights to subscribe for 51,260,400 Shares in the Company at HK\$0.02 per Share.

As a consequence of the share consolidation on 26 February 2001, the subscription price for New Shares under the terms of the warrants was adjusted upwards to HK\$0.2 per New Share. At 31 March 2001, the Company had outstanding 2,439,712,675 units of warrants carrying rights to subscribe for 243,971,267 New Shares.

Notes to the Financial Statements



For the year ended 31 March 2001

33. SHARE OPTION SCHEME

Pursuant to a share option scheme adopted by the Company (the "Scheme") on 13 October 1998, the Board may at their discretion grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company in accordance with the terms of the Scheme. The subscription price (subject to adjustments as provided therein) is the higher of the nominal value of the shares and an amount which is not less than 80% of the average of the closing price per share on the Stock Exchange for the five trading days immediately preceding the date of the option is granted. The maximum number of option shares in respect of which options may be granted under the Scheme shall not exceed 10% of the share capital of the Company in issue from time to time. An option may be exercised in whole or in part in accordance with the terms of the Scheme at any time after the date on which the option is deemed to be granted and exercised before the date, which is three years after such date.

Pursuant to the Scheme of Arrangement, the share option scheme adopted by Companion Building Material (Holdings) Limited ("CBM") (the "CBM Scheme") on 27 August 1993 was terminated on 24 December 1999. The share options so granted under the CBM Scheme were transferred to the Scheme. No options under the Scheme were granted or exercised during the year.

A summary of movements in the options during the year under Scheme are as follows:

Capacity	Exercisable period	Exercise price per Share HK\$	Number of share options			Balance at 31.3.2001	Consideration for option HK\$
			Balance at 1.4.2000	Adjustment during the year	Lapsed during the year		
A director	24.12.1999 to 2.5.2000	0.433	10,850,000	-	(10,850,000)	-	10
Directors	24.12.1999 to 17.10.2000	0.0658 (Note)	8,000,000	30,419,452	(38,419,452)	-	20
			<u>18,850,000</u>	<u>30,419,452</u>	<u>(49,269,452)</u>	<u>-</u>	

Note: The exercise price was adjusted from HK\$0.316 to HK\$0.0658 as a result of the rights issue of Shares and the bonus issue of Shares on 2 June 2000 and 31 July 2000 respectively.

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34. RESERVES

	Goodwill reserve	Capital reserve on consoli- dation	Share premium of CBM	Share premium of the Company	Special reserve	Capital redemption reserve of CBM	Capital redemption reserve of the Company	Enterprises expansion reserve	Revenue reserve	Contributed surplus	Retained profit (Accumu- lated loss)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP												
At 1 April 1999	(19,408)	33,468	216,758	-	-	12,663	-	199	199	-	192,996	436,875
Placement expenses of CBM	-	-	(705)	-	-	-	-	-	-	-	-	(705)
Premium arising from issue of shares under placing	-	-	-	31,000	-	-	-	-	-	-	-	31,000
Placement expenses	-	-	-	(870)	-	-	-	-	-	-	-	(870)
Expenses incurred in connection with the Scheme of Arrangement	-	-	-	(2,030)	-	-	-	-	-	-	-	(2,030)
Capital reserve arising from increase in interests in subsidiaries	-	77	-	-	-	-	-	-	-	-	-	77
Goodwill reserve arising from acquisition of subsidiaries	(4,856)	-	-	-	-	-	-	-	-	-	-	(4,856)
Transferred to special reserve as a result of the Scheme of Arrangement	-	-	(216,053)	-	228,716	(12,663)	-	-	-	-	-	-
Special reserve arising upon the Scheme of Arrangement	-	-	-	-	465,867	-	-	-	-	-	-	465,867
Premium and expenses paid on repurchase of shares	-	-	-	-	-	-	-	-	-	-	(11,239)	(11,239)
Transferred to capital redemption reserve upon repurchase of shares	-	-	-	-	-	-	572	-	-	-	(572)	-
Goodwill reserve arising from increase in interest in an associate	(94,681)	-	-	-	-	-	-	-	-	-	-	(94,681)
Profit for the year	-	-	-	-	-	-	-	-	-	-	100,167	100,167
At 31 March 2000	(118,945)	33,545	-	28,100	694,583	-	572	199	199	-	281,352	919,605

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34. RESERVES (continued)

	Goodwill reserve	Capital reserve on consolidation	Share premium of CBM	Share premium of the Company	Special reserve	Capital redemption reserve of CBM	Capital redemption reserve of the Company	Enterprises expansion reserve	Revenue reserve	Contributed surplus	Retained profit (Accumulated loss)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Consolidation of shares from HK\$0.01 to HK\$0.1 each	-	-	-	-	-	-	-	-	-	130,555	-	130,555
Premium arising from issue of shares under placing	-	-	-	12,000	-	-	-	-	-	-	-	12,000
Placement expenses	-	-	-	(136)	-	-	-	-	-	-	-	(136)
Rights issue of shares	-	-	-	93,411	-	-	-	-	-	-	-	93,411
Rights issue expense	-	-	-	(2,913)	-	-	-	-	-	-	-	(2,913)
Bonus issue	-	-	-	(83,032)	-	-	-	-	-	-	-	(83,032)
Bonus issue expense	-	-	-	(803)	-	-	-	-	-	-	-	(803)
Exercise of warrants	-	-	-	513	-	-	-	-	-	-	-	513
Goodwill reserve arising from increase in interest in an associate	(255)	-	-	-	-	-	-	-	-	-	-	(255)
Goodwill reserve arising from acquisition of an associate	(34,439)	-	-	-	-	-	-	-	-	-	-	(34,439)
Loss for the year	-	-	-	-	-	-	-	-	-	-	(731,310)	(731,310)
At 31 March 2001	(153,639)	33,545	-	47,140	694,583	-	572	199	199	130,555	(449,958)	303,196

Included in the above in the Group's share of post-acquisition reserves of its associates as follows:

At 1 April 1999	-	-	-	-	-	-	-	-	-	-	37,396	37,396
Share of associates' movement during the year	(29,391)	-	-	-	-	-	-	-	-	-	(34,850)	(64,241)
At 31 March 2000	(29,391)	-	-	-	-	-	-	-	-	-	2,546	(26,845)
Share of associates' movement during the year	(20,620)	-	-	-	-	-	-	-	-	-	(295,793)	(316,413)
At 31 March 2001	(50,011)	-	-	-	-	-	-	-	-	-	(293,247)	(343,258)

Notes to the Financial Statements



For the year ended 31 March 2001

34. RESERVES (continued)

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated (losses) profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY					
At 1 April 1999	-	-	-	(6)	(6)
Contributed surplus arising upon the Scheme of Arrangement	-	-	262,357	-	262,357
Issue of shares under placing	31,000	-	-	-	31,000
Placement expenses	(870)	-	-	-	(870)
Expenses incurred in connection with the Scheme of Arrangement	(2,030)	-	-	-	(2,030)
Premium and expenses paid on repurchase of shares	-	-	-	(11,239)	(11,239)
Transferred to capital redemption reserve upon repurchase of shares	-	572	-	(572)	-
Profit for the year	-	-	-	23,832	23,832
At 1 April 2000	28,100	572	262,357	12,015	303,044
Issue of shares under placing	12,000	-	-	-	12,000
Placement expenses	(136)	-	-	-	(136)
Consolidation of shares from HK\$0.01 to HK\$0.1 each	-	-	130,555	-	130,555
Rights issue of shares	93,411	-	-	-	93,411
Rights issue expenses	(2,913)	-	-	-	(2,913)
Bonus issue of shares	(83,032)	-	-	-	(83,032)
Bonus issue expenses	(803)	-	-	-	(803)
Exercise of warrants	513	-	-	-	513
Loss for the year	-	-	-	(3,764)	(3,764)
At 31 March 2001	<u>47,140</u>	<u>572</u>	<u>392,912</u>	<u>8,251</u>	<u>448,875</u>

The special reserve of the Group represents the difference between share capital, share premium and capital redemption reserve of CBM and the nominal amount of share capital issued by the Company pursuant to the Scheme of Arrangement.

The contributed surplus of the Company represents the difference between the fair value of the share capital of CBM whose shares were exchanged for the Company's shares and the nominal amount of the share capital issued by the Company pursuant to the Scheme of Arrangement.

Notes to the Financial Statements



For the year ended 31 March 2001

34. RESERVES (continued)

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

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

In the opinion of the directors, the Company's reserves available for distribution to shareholders were as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Contributed surplus	392,912	262,357
Retained earnings	8,252	12,015
Capital redemption reserve	572	572
	<u>401,736</u>	<u>274,944</u>

35. DEFERRED TAXATION

	THE GROUP	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Beginning and closing balance	<u>2,587</u>	<u>1,527</u>

At the balance sheet date, the major components of the deferred taxation provided are as follows:

	THE GROUP	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	5,952	7,862
Tax effect of taxation losses	(3,365)	(6,335)
	<u>2,587</u>	<u>1,527</u>

Effect on other timing difference of unprovided deferred taxation is immaterial.

Notes to the Financial Statements



For the year ended 31 March 2001

36. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
(Loss) profit before taxation	(723,132)	115,917
Share of results of associates	295,793	32,876
Interest expense	28,135	27,819
Interest income	(12,242)	(15,517)
Depreciation	30,539	26,227
Bad debts	325	178
(Gain) loss on disposal of property, plant and equipment	(12,487)	1,208
Loss on disposal of a subsidiary	–	259
Provision for stock	4,103	–
Impairment loss arising in relation to properties under development held for sale	47,366	–
Gain on disposal and deemed disposal of associates	(7,863)	(61,069)
Provision for bad and doubtful debts	167,490	12,904
Unrealised loss on trading securities	19,928	2,917
Decrease in inventories	11,224	23,183
Decrease (increase) in trading securities	3,221	(22,645)
(Increase) decrease in debtors, deposits and prepayments	(2,320)	65,067
Increase in amounts due from associates	(17,980)	(10,699)
Decrease (increase) in amounts due from customers for contract work	549	(847)
Decrease in amount due to an associate	(43)	(732)
Decrease in amount due from an investee company	–	499
Increase (decrease) in amounts due to customers for contract work	715	(1,269)
Decrease (increase) in short-term loans receivable	43,913	(28,248)
Decrease in staff housing loan	481	85
Increase (decrease) in rental and sales deposits received	13,444	(763)
Increase in bills payable and import loans	6,268	1,070
(Decrease) increase in creditors and accruals	(90,670)	60,500
	<hr/>	<hr/>
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES	(193,243)	228,920

Notes to the Financial Statements

For the year ended 31 March 2001



37. ACQUISITION OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Property, plant and equipment	-	1,612
Debtors, deposits and prepayments	-	575
Amounts due from former shareholders	-	753
Bank balances, deposits and cash	-	51
Creditors and accrued charges	-	(127)
Secured bank loan	-	(1,622)
Provision for taxation	-	(13)
Deferred taxation	-	(19)
Amounts due to former shareholders	-	(1,678)
	<u>-</u>	<u>(468)</u>
Interest in associates	-	(3,388)
Goodwill	-	4,856
	<u>-</u>	<u>1,000</u>
Satisfied by:		
Cash paid	<u>-</u>	<u>1,000</u>

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

	2001 HK\$'000	2000 HK\$'000
Cash consideration paid	-	1,000
Bank balances, deposits and cash received	-	(51)
	<u>-</u>	<u>(51)</u>
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>-</u>	<u>949</u>

The subsidiaries acquired did not make a significant contribution to the net cash flows or the results of the Group for the year ended 31 March 2000.

Notes to the Financial Statements

For the year ended 31 March 2001



38. DISPOSAL OF A SUBSIDIARY

	2001 HK\$'000	2000 <i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment	-	2,963
Creditors and accrued charges	-	(4)
	<hr/>	<hr/>
	-	2,959
Loss on disposal	-	(259)
	<hr/>	<hr/>
	-	2,700
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash received	-	2,700
	<hr/> <hr/>	<hr/> <hr/>

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

	2001 HK\$'000	2000 <i>HK\$'000</i>
Cash consideration received	-	2,700
	<hr/>	<hr/>
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	-	2,700
	<hr/> <hr/>	<hr/> <hr/>

The subsidiary disposed of did not make a significant contribution to the net cash flows or the results of the Group for the year ended 31 March 2000.

Notes to the Financial Statements



For the year ended 31 March 2001

39. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital (including share premium and capital reserve) HK\$'000	Convertible loan HK\$'000	Bank loans HK\$'000	Other loans HK\$'000	Obligation under finance leases HK\$'000	Minority interests HK\$'000	Amount due to shareholder of subsidiaries HK\$'000	Amount due to an investee company HK\$'000
Balance at 1 April 1999	667,144	92,880	115,981	41,836	-	44,299	6,198	934
Issue of shares under placing	73,000	-	-	-	-	-	-	-
Placement expenses	(1,575)	-	-	-	-	-	-	-
Expenses incurred in connection with the Scheme of Arrangement	(2,030)	-	-	-	-	-	-	-
Repurchase of own shares	(11,811)	-	-	-	-	-	-	-
Repayment to minority shareholders of subsidiaries	-	-	-	-	-	-	(3,715)	-
New bank loans obtained	-	-	61,220	-	-	-	-	-
Repayment of bank loans	-	-	(84,348)	-	-	-	-	-
New other loans obtained	-	-	-	4,668	-	-	-	-
Repayment of other loans	-	-	-	(1,384)	-	-	-	-
Advance from an investee company	-	-	-	-	-	-	-	147
Net cash inflow (outflow) from financing	57,584	-	(23,128)	3,284	-	-	(3,715)	147
Cancellation of shares under the Scheme of Arrangement	(681,920)	-	-	-	-	-	-	-
Transfer to capital redemption reserve upon repurchase of share	(572)	-	-	-	-	-	-	-
Acquisition of subsidiaries	-	-	1,622	-	-	-	-	-
Increase in interests in subsidiaries	-	-	-	-	-	(4,972)	-	-
Minority interests in loss for the year	-	-	-	-	-	6,815	-	-
Minority interests transferred to goodwill in respect of increase of interest in subsidiary	-	-	-	-	-	(77)	-	-
Minority interests in prior year adjustment on pre-operating expenses	-	-	-	-	-	(341)	-	-
Repurchase of own shares charged against retained profits	11,811	-	-	-	-	-	-	-
Exchange difference	-	-	102	107	-	-	-	-
	(613,097)	-	(21,404)	3,391	-	1,425	(3,715)	-
Balance at 1 April 2000	54,047	92,880	94,577	45,227	-	45,724	2,483	1,081

Notes to the Financial Statements



For the year ended 31 March 2001

39. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR (continued)

	Share capital (including share premium and capital reserve) HK\$'000	Convertible loan HK\$'000	Bank loans HK\$'000	Other loans HK\$'000	Obligation under finance leases HK\$'000	Minority interests HK\$'000	Amount due to shareholder of subsidiaries HK\$'000	Amount due to an investee company HK\$'000
Issue of shares under placing	32,000	-	-	-	-	-	-	-
Placement expenses	(136)	-	-	-	-	-	-	-
Exercise of rights issue	108,980	-	-	-	-	-	-	-
Rights issue expense	(2,913)	-	-	-	-	-	-	-
Exercise of warrant issue	1,025	-	-	-	-	-	-	-
Bonus issue expenses	(803)	-	-	-	-	-	-	-
Advance from minority shareholders of subsidiaries	-	-	-	-	-	-	4,875	-
New bank loans obtained	-	-	65,112	-	-	-	-	-
Repayment of bank loans	-	-	(72,430)	-	-	-	-	-
Repayment of convertible loans	-	(578)	-	-	-	-	-	-
New other loans obtained	-	-	-	61,750	-	-	-	-
Repayment of other loans	-	-	-	(3,310)	-	-	-	-
Inception of finance lease	-	-	-	-	130	-	-	-
Repayment of finance lease	-	-	-	-	(68)	-	-	-
Net cash inflow (outflow) from financing	138,153	(578)	(7,318)	58,440	62	-	4,875	-
Consolidation of shares from HK\$0.01 to HK\$0.1 each	(130,554)	-	-	-	-	-	-	-
Minority interests in loss for the year	-	-	-	-	-	3,142	-	-
Exchange difference	-	-	392	182	-	-	-	-
	7,599	(578)	(6,926)	58,622	62	3,142	4,875	-
Balance at 31 March 2001	61,646	92,302	87,651	103,849	62	48,866	7,358	1,081

Notes to the Financial Statements



For the year ended 31 March 2001

40. RELATED PARTY TRANSACTIONS

During the year, the Group had transactions with the following companies:

Company	Nature	2001 HK\$'000	2000 HK\$'000
Received from:			
Companion Marble Limited	Management fee	537	1,573
Yixing United Ceramics Co. Ltd.	Sale of ceramic tiles	1,069	662
Yixing United Ceramics Co. Ltd.	Technical support	346	–
Paid to:			
Yixing United Ceramics Co. Ltd.	Purchase of ceramic tiles	<u>5,774</u>	<u>–</u>

Companion Marble Limited is a subsidiary of Skynet (International Group) Holdings Limited, an associate of the Company. The Group performed certain administrative services for Companion Marble Limited for which a management fee was received, being an appropriate allocation of cost incurred.

Yixing United Ceramics Co. Ltd. is an associate of the Group.

The above transactions were carried out at market price or where no market price was available, at cost plus a percentage profit mark-up.

Balances with related parties at 31 March 2001 are as follows:

	Amount due therefrom		Amount due thereto	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Associates	<u>80,460</u>	<u>62,480</u>	<u>–</u>	<u>43</u>

Notes to the Financial Statements



For the year ended 31 March 2001

41. CONTINGENT LIABILITIES

At 31 March 2001, the contingent liabilities of the Group and the Company so far not provided for in the financial statements are set out as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Outstanding performance bonds in respect of rental of retail shop	527	1,127	-	-
Corporate guarantee given to bankers in respect of banking facilities utilised by				
– an associate	26,783	39,733	18,963	-
– subsidiaries	-	-	133,146	3,980
Put option granted to a third party to require the Company to purchase certain shares in Skynet Limited	23,366	-	23,366	-

42. LEASE COMMITMENTS

At 31 March 2001, the Group and the Company had outstanding commitments under non-cancellable operating leases in respect of rented premises as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Operating leases which expire:		
Within one year	2,208	4,438
Within second to fifth year	11,859	10,866
	<u>14,067</u>	<u>15,304</u>

43. OTHER COMMITMENTS

At 31 March 2001, the Group had the following commitments, which had not been provided for in the financial statements:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Acquisition of property, plant and machinery	<u>203</u>	<u>-</u>

Notes to the Financial Statements



For the year ended 31 March 2001

44. PLEDGE OF ASSETS

The Group has pledged certain land and buildings, motor vehicles, plant and machinery with an aggregate carrying value of approximately HK\$163,520,000 (2000: HK\$147,940,000) to secure the banking facilities granted to the Group.

The Group has pledged the fixed deposit of US\$Nil (2000: US\$800,000) to secure the short-term bank loan granted to a subsidiary.

45. PARTICULARS OF SUBSIDIARIES

Name of company	Place/ country of incorporation/ registration	Class of share held	Paid up issued/ registered ordinary share capital	Proportion of nominal value of issued capital/ registered capital by the Company		Principal activities
				Directly %	Indirectly %	
Operate in Hong Kong:						
* Brightsilver Investments Limited	The British Virgin Islands	Ordinary	US\$2	–	100	Inactive
* Batch Profit Company Limited 羣溢有限公司	Hong Kong	Ordinary	HK\$2	–	100	Property investment
* C.B.M. Properties Limited 友暉地產有限公司	Hong Kong	Ordinary	HK\$10,000	–	100	Property investment
Companion Building Material (BVI) Limited	The British Virgin Islands	Ordinary	US\$2	100	–	Inactive
Companion Building Material (Holdings) Limited 友聯建築材料(集團)有限公司	Hong Kong	Ordinary	HK\$490,385,924	–	100	Investment holding and trading of ceramic tiles and sundry building materials
Companion Building Material Supplies (H.K.) Limited 友聯建築材料供應(香港)有限公司	Hong Kong	Ordinary	HK\$100	–	100	Wholesaling of ceramic tiles

Notes to the Financial Statements



For the year ended 31 March 2001

45. PARTICULARS OF SUBSIDIARIES (continued)

Name of company	Place/ country of incorporation/ registration	Class of share held	Paid up issued/ registered ordinary share capital	Proportion of nominal value of issued capital/ registered capital by the Company		Principal activities
				Directly %	Indirectly %	
Companion Ceramic Machinery Trading Limited 友聯瓷磚機械有限公司	Hong Kong	Ordinary	HK\$2	–	100	Investment holding
Companion-China (Supplies) Limited 友聯中國(建材供應)有限公司	Hong Kong	Ordinary	HK\$2	–	100	Investment holding
Companion-China Limited 友聯中國有限公司	Hong Kong	Ordinary	HK\$137,839,000	–	100	Investment holding
Companion Finance Limited	The British Virgin Islands	Ordinary	US\$100	–	100	Money lending
* Companion-First Top Limited 友聯冠大廚櫃有限公司	Hong Kong	Ordinary	HK\$1,000,000	–	75	Inactive
Companion Glory Limited 友暉有限公司	Hong Kong	Ordinary	HK\$10,000	–	100	Retailing of ceramic tiles
* Companion Sanitaries Limited 友暉潔具有限公司	Hong Kong	Ordinary	HK\$2	–	100	Wholesaling of sanitaries
* Companion Transport Limited 友聯建材運輸有限公司	Hong Kong	Ordinary	HK\$1,500,000	–	100	Inactive
* Crown Empire Limited 國帝有限公司	Hong Kong	Ordinary	HK\$2	–	100	Inactive
* Crown Rise Investments Limited 高陞投資有限公司	Hong Kong	Ordinary	HK\$2	–	100	Property investment

Notes to the Financial Statements



For the year ended 31 March 2001

45. PARTICULARS OF SUBSIDIARIES (continued)

Name of company	Place/ country of incorporation/ registration	Class of share held	Paid up issued/ registered ordinary share capital	Proportion of nominal value of issued capital/ registered capital by the Company		Principal activities
				Directly %	Indirectly %	
* Ellca Company Limited 雅爾嘉有限公司	Hong Kong	Ordinary	HK\$10,000	–	100	Property investment
* Enrich Associates Limited	The British Virgin Islands	Ordinary	US\$100	–	100	Inactive
* Four Strong Winds Limited	Hong Kong	Ordinary	HK\$20	–	100	Inactive
* Fullyear Path Developments Limited	The British Virgin Islands	Ordinary	US\$100	–	100	Property investment
* Gedy (Hong Kong) Limited	Hong Kong	Ordinary	HK\$10,000	–	85	Inactive
* Keen Bird Limited 良鳥有限公司	Hong Kong	Ordinary	HK\$6,218,000	–	100	Inactive
King Unity Investments Limited 興盟投資有限公司	Hong Kong	Ordinary	HK\$20,000	–	80	Investment holding
* Livinson Enterprises Limited	Hong Kong	Ordinary	HK\$3,930,000	–	100	Inactive
* New Oriental Management Limited 新東方管理有限公司	Hong Kong	Ordinary	HK\$2	–	100	Inactive
Perfect International Engineering Limited 友暉裝飾工程有限公司	Hong Kong	Ordinary	HK\$10,000	–	100	Investment holding
Placemakers Limited	The British Virgin Islands	Ordinary	US\$100	–	100	Investment holding
* Saint Galerie Trading Company Limited	Hong Kong	Ordinary	HK\$4,000	–	100	Provision of agency services

Notes to the Financial Statements



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45. PARTICULARS OF SUBSIDIARIES (continued)

Name of company	Place/ country of incorporation/ registration	Class of share held	Paid up issued/ registered ordinary share capital	Proportion of nominal value of issued capital/ registered capital by the Company		Principal activities
				Directly %	Indirectly %	
Saint Galerie Tiles Limited 新嘉利瓷磚有限公司	Hong Kong	Ordinary	HK\$13,750,000	–	100	Manufacturing and trading of ceramic tiles
Shower Folder Supplies Limited 富聯浴門有限公司	Hong Kong	Ordinary	HK\$500,000	–	70	Wholesaling of bathroom accessories and related products
* Simulator Developments Limited	The British Virgin Islands	Ordinary	US\$100	–	100	Inactive
* Sino Hearts Corporation	The British Virgin Islands	Ordinary	US\$100	–	100	Investment holding
* Sino Pearl Limited 崇寶有限公司	Hong Kong	Ordinary	HK\$2	–	100	Property investment
* Super Trend Limited	Republic of Liberia	Ordinary	US\$4	–	100	Investment holding
* Union Faith Enterprises Limited 益暉企業有限公司	Hong Kong	Ordinary	HK\$2	–	100	Inactive
* Videotec Group Limited	The British Virgin Islands	Ordinary	US\$1	–	100	Inactive
* Weber Trading Company Limited 韋百貿易有限公司	Hong Kong	Ordinary	HK\$20	–	100	Inactive
Yes World Limited 通世有限公司	Hong Kong	Ordinary	HK\$10,000	–	100	Investment holding

Notes to the Financial Statements



For the year ended 31 March 2001

45. PARTICULARS OF SUBSIDIARIES (continued)

Name of company	Place/ country of incorporation/ registration	Class of share held	Paid up issued/ registered ordinary share capital	Proportion of nominal value of issued capital/ registered capital by the Company		Principal activities
				Directly %	Indirectly %	
Operate in the PRC:						
# Chongqing Golden Unity Ceramics Co., Ltd. ("Golden Unity") 重慶金聯陶瓷有限公司	PRC	Registered capital	RMB46,750,000	–	#56	Manufacturing of ceramic tiles
Dongguan Fulian Shower Folder Supplies Co., Ltd. 東莞富聯浴門有限公司	PRC	Registered capital	RMB3,662,467	–	70	Manufacturing of bathroom accessories and related products
Shanghai Companion Building Material Co., Ltd. 上海莘聯建材有限公司	PRC	Registered capital	RMB8,278,900	–	90	Inactive
Wenzhou Xishan United Ceramics Company Limited 溫州西山聯合陶瓷有限公司	PRC	Registered capital	RMB46,360,148	–	73.5	Manufacturing of ceramic tiles
新會市友聯專業陶瓷 有限公司	PRC	Registered capital	RMB14,280,640	–	100	Polishing of ceramic tiles
Operate in Malta:						
* Companion (Malta) Limited	Malta	Ordinary	US\$6,000	–	100	Buying agent of ceramic tiles

The subsidiary was an equity joint venture company established by the Group and an independent third party in the PRC. Under the management agreements with the Chinese party, the Group is responsible for all of the assets and liabilities of the equity joint venture company and is entitled to all of the net profits or losses of the operation (after payment of fixed amount as management fee to the Chinese party) each year during the term of the management agreement. The Group therefore effectively has a 100% attributable economic interest in Golden Unity.

* Companies not audited by Deloitte Touche Tohmatsu.

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

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For the year ended 31 March 2001

46. PARTICULARS OF ASSOCIATES

Name of entity	Form of business structure	Place/ country of incorporation/ registration	Principal place of operation	Class of share held	Proportion of nominal value of issued capital/ registered capital by the Company		Nature of business
					Directly %	Indirectly %	
ASEAN Fortune Corporation	Incorporated	The British Virgin Islands	Hong Kong	Ordinary	–	50	Investment holding
Skynet (International Group) Holdings Limited	Incorporated	Bermuda	Hong Kong	Ordinary	–	47.89	Investment holding
* Kippton Limited 勁通有限公司	Incorporated	Hong Kong	Hong Kong	Ordinary	–	20	Investment holding
* Mornington Industries Limited	Incorporated	The British Virgin Islands	Hong Kong	Ordinary	–	50	Inactive
* Winagain Limited	Incorporated	The British Virgin Islands	Hong Kong	Ordinary	–	33.33	Investment holding
Yixing United Ceramics Co. Ltd. 宜興聯合陶瓷有限公司	Incorporated	PRC	PRC	Capital contribution	–	47.56	Manufacturing of ceramic tiles

* Companies not audited by Deloitte Touche Tohmatsu.