

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared under the historical cost convention, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30 April. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account 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 are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Any surplus arising on consolidation, which represents the excess of fair values ascribed to the separable net assets of subsidiaries over purchase consideration, is credited directly to reserves. Goodwill on consolidation, which represents the excess of purchase consideration over the fair value ascribed to the separable net assets of subsidiaries, is taken to reserves in the year of acquisitions to the extent that such reserves are available and any excess is charged against the consolidated profit and loss account.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Fixed assets

Construction in progress is stated at cost which comprises cost of land use rights and development costs including attributable interest capitalised during the development period. No depreciation is provided on construction in progress.

Tangible fixed assets other than construction in progress are stated at cost less accumulated depreciation. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use. Leasehold land and buildings (including land use rights) and leasehold improvements are depreciated over the shorter of the periods of the leases or their expected useful lives to the Group. Other tangible fixed assets (excluding construction in progress) are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight line basis. The principal annual rates are as follows:

| | |
|---|-----------|
| Leasehold land, land use rights and buildings | 2% to 7% |
| Leasehold improvements | 5% to 50% |
| Plant and machinery | 20% |
| Furniture, fixtures and office equipment | 20% |
| Motor vehicles and motor launch | 30% |

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

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

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated in accordance with the policies set out in note 1(c).

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(e) Investments securities

Investment securities are stated at cost less provision for permanent diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. In general, costs are assigned to items on a first-in first-out basis and are arrived at as follows:-

- (i) Raw materials purchased for use in manufacturing process – invoiced price plus freight and insurance charges.
- (ii) Work in progress and finished manufactured goods – cost of direct materials, direct labour and an appropriate proportion of production overheads.
- (iii) Finished goods purchased for resale – invoiced price plus freight and insurance charges.

Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(i) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transactions dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries expressed in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Translation of foreign currencies *(Continued)*

Forward exchange contracts are entered into as a hedge of firm commitments denominated in foreign currencies. No gain or loss is recognised during the commitment period. Any gain or loss will be charged to the profit and loss account upon settlement of the contracts.

(j) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from provision of installation services is recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Franchise income is recognised when the right to receive payment is established.

(k) Retirement benefit costs

The Group's contributions to the defined contribution retirement schemes (including the scheme set up pursuant to the Mandatory Provident Fund Schemes Ordinance) are expensed as incurred. The Group's contribution to the non-mandatory scheme may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

(l) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

2. REVENUE AND TURNOVER

The Group is principally engaged in the manufacturing and trading of office furniture and building materials, together with supply and installation of kitchen cabinets. Revenues, included those related to discontinued operations of trading of home furniture as shown in note 3(b), recognised during the year are as follows:

| | Group | |
|-----------------------|-----------------|-----------------|
| | 2001 | 2000 |
| | HK\$'000 | <i>HK\$'000</i> |
| Turnover | | |
| Sale of goods | 752,846 | 758,168 |
| Other revenues | | |
| Rendering of services | 8,393 | 6,871 |
| Interest income | 1,966 | 484 |
| Franchise income | 1,047 | 409 |
| | 11,406 | 7,764 |
| Total revenues | 764,252 | 765,932 |

NOTES TO THE ACCOUNTS

2. REVENUE AND TURNOVER (Continued)

An analysis of the Group's turnover and contribution to loss before taxation for the year by principal activity and market is as follows:

| | Turnover | | (Loss)/profit before taxation | |
|--|------------------|------------------|----------------------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| By principal activity: | | | | |
| Continuing operations | | | | |
| Manufacturing and trading of office furniture and building materials | 701,319 | 673,840 | (16,597) | (25,941) |
| Supply and installation of kitchen cabinets | 51,527 | 74,368 | (11,562) | (2,656) |
| | <u>752,846</u> | <u>748,208</u> | <u>(28,159)</u> | <u>(28,597)</u> |
| Discontinued operations | | | | |
| Trading of home furniture | - | 9,960 | 4,330 | (36,281) |
| | <u>752,846</u> | <u>758,168</u> | <u>(23,829)</u> | <u>(64,878)</u> |
| By geographical location: | | | | |
| Continuing operations | | | | |
| Hong Kong | 341,336 | 400,491 | (16,761) | (15,434) |
| The People's Republic of China excluding Hong Kong ("PRC") | 390,422 | 328,754 | (9,586) | (13,396) |
| Overseas | 21,088 | 18,963 | (1,812) | 233 |
| | <u>752,846</u> | <u>748,208</u> | <u>(28,159)</u> | <u>(28,597)</u> |
| Discontinued operations | | | | |
| PRC | - | 9,960 | 4,330 | (36,281) |
| | <u>752,846</u> | <u>758,168</u> | <u>(23,829)</u> | <u>(64,878)</u> |

3. LOSS BEFORE FINANCE COSTS

(a) Loss before finance costs is stated after crediting and charging the following:

| | Group | |
|--|-------------------------|-------------------------|
| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
| Crediting | | |
| Gain on disposal of fixed assets | - | 12,175 |
| Charging | | |
| Cost of inventories sold | 458,049 | 458,091 |
| Auditors' remuneration | 1,382 | 1,000 |
| Depreciation: | | |
| Owned fixed assets | 20,370 | 24,133 |
| Leased fixed assets | 791 | 157 |
| Staff cost (of which included in cost of sales amounted to HK\$12,454,000 (2000: HK\$13,157,000)) | 173,783 | 172,117 |
| Operating lease rentals for land and buildings | 22,490 | 41,328 |
| Increase in provision for diminution in value of investment and loan | 4,410 | - |
| Retirement benefit costs (<i>note 8</i>) | 1,191 | 527 |
| Net exchange losses | 585 | 421 |
| Loss on disposal of fixed assets | 357 | - |

(b) The contribution to turnover and the loss before taxation in respect of the discontinued operations, which comprise home furniture trading operations in PRC, are as follows:

| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Sales of goods included in turnover | - | 9,960 |
| Profit/(loss) before taxation: | | |
| Operating loss | - | (23,858) |
| Insurance claim received | 4,330 | - |
| Net loss on writing off subsidiaries | | |
| Write-off and provisions against assets | - | (35,778) |
| Minority interests eliminated | - | 23,355 |
| | - | (12,423) |
| | 4,330 | (36,281) |

NOTES TO THE ACCOUNTS

4. FINANCE COSTS

| | 2001 HK\$'000 | 2000 HK\$'000 |
|--|------------------|------------------|
| Interest on bank loans and overdrafts wholly repayable within five years | 8,043 | 9,577 |
| Interest element of finance leases | 321 | 67 |
| Bank charges and other borrowing costs | 2,287 | 2,791 |
| Less: amount capitalised in construction in progress | <u>(1,041)</u> | <u>(569)</u> |
| | <u>9,610</u> | <u>11,866</u> |

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is between 7% and 7.5% per annum.

5. TAXATION CREDIT

No provision for Hong Kong profits tax has been made in the accounts as the companies comprising the Group either have no assessable profit for the year or have available tax losses brought forward. Certain PRC subsidiaries were exempted from PRC income tax or subjected to a reduced income tax rate for the financial year. Hong Kong profits tax for 2000 has been provided at the rate of 16% on the estimated assessable profit for that year. PRC taxation for 2000 represented tax charges on the estimated assessable profit of certain subsidiaries operating in the PRC, calculated at rates applicable thereto.

The amount of taxation credited to the consolidated profit and loss account represents:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|--------------------------------------|------------------|------------------|
| Hong Kong profits tax | | |
| Current year | - | (18) |
| Over provision in previous years | 770 | 935 |
| PRC taxation | | |
| Current year | - | (507) |
| Deferred taxation (<i>note 19</i>) | <u>454</u> | <u>43</u> |
| | <u>1,224</u> | <u>453</u> |

6. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Included in the Group's loss attributable to shareholders is a profit of HK\$11,970,000 (2000: HK\$63,000) which has been dealt with in the accounts of the Company.

7. LOSS PER SHARE

The calculation of the basic loss per share is based on the Group's loss attributable to shareholders of HK\$22,605,000 (2000: HK\$63,988,000) and the weighted average of 3,261,740,866 (2000: 2,304,615,411 adjusted) ordinary shares in issue after adjustment for the rights and bonus issues on 17 November 2000. The loss per share for 2000 has been adjusted accordingly.

No diluted loss per share has been presented as the exercise of subscription rights attached to share options would be anti-dilutive.

8. RETIREMENT BENEFIT COSTS

The Group contributes to defined contribution retirement schemes (including the scheme set up pursuant to the Mandatory Provident Fund Schemes Ordinance) which are available to salaried person in the employment in Hong Kong of the Group. Contributions to the schemes by the Group and the employees are calculated as a percentage of the employees' basic salaries.

The retirement benefit scheme cost charged to the profit and loss accounts represents contributions payable by the Group to the funds.

The Group's contributions are reduced by contributions forfeited by those employees who leave the non-mandatory scheme prior to vesting fully in the contributions. Forfeited contributions totalling HK\$762,691 (2000: HK\$480,642) were utilised during the year leaving HK\$6,615 (2000: HK\$Nil) available at the year end to reduce future contributions.

Contributions totalling HK\$915,914 (2000: HK\$94,925) were payable to the funds at the year end and are included in other payables. The assets of the schemes are held separately from those of the Group in independently administered funds.

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' remuneration

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:-

| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Fees | | |
| Executive directors | - | - |
| Independent non-executive directors | - | - |
| For management | | |
| Salaries, allowances and benefits in kind | 11,152 | 9,580 |
| Retirement benefits contributions | 165 | 20 |
| Discretionary bonuses | 1,032 | 1,205 |
| | <u>12,349</u> | <u>10,805</u> |

No directors have waived emoluments in respect of the years ended 30 April 2001 and 2000.

The emoluments of the directors fell within the following bands:

| Emolument bands | Number of directors | |
|-------------------------------|---------------------|----------|
| | 2001 | 2000 |
| Nil – HK\$1,000,000 | 3 | 4 |
| HK\$1,000,001 – HK\$1,500,000 | 2 | 1 |
| HK\$1,500,001 – HK\$2,000,000 | 3 | 3 |
| HK\$4,000,001 – HK\$4,500,000 | 1 | 1 |
| | <u>1</u> | <u>1</u> |

The Company had share options schemes for the employees (including directors) of the Group. Details of the share options schemes are set out in note 16(c) to the accounts. During the year, no share options had been granted to or exercised by the directors.

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year were also directors and their emoluments are reflected in the analysis presented above. In 2000, the five highest paid individuals included four directors. The emoluments payable to the remaining one individual during 2000 are as follows:

| | 2000 <i>HK\$'000</i> |
|---|-------------------------|
| Salaries, allowances and benefits in kind | 1,329 |
| Retirement benefits contributions | – |
| Bonuses | 293 |
| | 1,622 |

NOTES TO THE ACCOUNTS

10. FIXED ASSETS

| | Group | | | | | | |
|-------------------------------------|--|--|---|--|--|--|--------------------------|
| | Leasehold land, land use rights and buildings <i>HK\$'000</i> | Con- struction in progress <i>HK\$'000</i> | Leasehold improve- ments <i>HK\$'000</i> | Plant and machinery <i>HK\$'000</i> | Furniture, fixtures and office equipment <i>HK\$'000</i> | Motor vehicles and motor launch <i>HK\$'000</i> | Total <i>HK\$'000</i> |
| Cost | | | | | | | |
| At 1 May 2000 | 309,488 | 7,293 | 4,666 | 50,459 | 84,663 | 20,039 | 476,608 |
| Additions | - | 17,638 | 3,413 | 22,829 | 10,354 | 1,614 | 55,848 |
| Disposals/written off | - | - | (1,149) | (74) | (20,867) | (2,489) | (24,579) |
| Transfers | 17,597 | (17,597) | - | - | - | - | - |
| At 30 April 2001 | 327,085 | 7,334 | 6,930 | 73,214 | 74,150 | 19,164 | 507,877 |
| Accumulated depreciation | | | | | | | |
| At 1 May 2000 | 24,406 | - | 2,986 | 32,121 | 70,530 | 19,032 | 149,075 |
| Charge for the year | 7,479 | - | 1,391 | 6,523 | 4,955 | 813 | 21,161 |
| Disposals/written off | - | - | (950) | (74) | (20,548) | (2,489) | (24,061) |
| At 30 April 2001 | 31,885 | - | 3,427 | 38,570 | 54,937 | 17,356 | 146,175 |
| Net book value | | | | | | | |
| At 30 April 2001 | 295,200 | 7,334 | 3,503 | 34,644 | 19,213 | 1,808 | 361,702 |
| At 30 April 2000 | 285,082 | 7,293 | 1,680 | 18,338 | 14,133 | 1,007 | 327,533 |

10. FIXED ASSETS *(Continued)*

- (a) The Group's interests in leasehold land, land use rights and buildings at their net book values are analysed as follows:

| | Group | |
|----------------------------------|-----------------|-----------------|
| | 2001 | 2000 |
| | HK\$'000 | <i>HK\$'000</i> |
| In Hong Kong, held on: | | |
| Leases of over 50 years | 7,008 | 7,233 |
| Leases of between 10 to 50 years | 80,664 | 83,653 |
| In the PRC, held on: | | |
| Leases of over 50 years | 3,981 | 4,047 |
| Leases of between 10 to 50 years | 203,547 | 190,149 |
| | 295,200 | 285,082 |

- (b) At 30 April 2001, the net book value of fixed assets held by the Group under finance leases amounted to HK\$2,805,000 (2000: HK\$2,275,000).
- (c) At 30 April 2001, the net book value of leasehold land and buildings pledged as security for the Group's bank loan and overdraft facilities amounted to HK\$182,488,000 (2000: HK\$180,938,000).
- (d) The construction in progress is located in the PRC and is held under leases of between 10 to 50 years. Included in construction in progress is net interest capitalised of HK\$513,000 (2000: HK\$308,000) at a capitalisation rate between 7% and 7.5% per annum.

NOTES TO THE ACCOUNTS

11. LONG-TERM INVESTMENTS

| | Group | |
|---|-----------------|-----------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Investment securities: unlisted shares, at cost (<i>note</i>) | 33,560 | 120 |
| Loan to an investee company (<i>note</i>) | 15,115 | 15,905 |
| | 48,675 | 16,025 |
| <i>Less:</i> Provision for diminution in value of investment and loan | (13,913) | (9,503) |
| | 34,762 | 6,522 |

Note:

Included in unlisted investment securities balance are shares amounting to HK\$120,000, which represent 50% interest in Chung Ngai Limited ("Chung Ngai"), a company incorporated in Hong Kong. Chung Ngai's principal activity is investment holding and it holds a passive interest of 5.26% in Maxdo Investments Limited ("Maxdo"), a company incorporated in Hong Kong, which is engaged in property development in the PRC. The directors consider that the Group holds an effective 2.63% interest in Maxdo as a long-term investment. The Group's interest in Chung Ngai has not been accounted for as an associated company because the directors are of the opinion that the Group does not exercise significant influence over the activities of Chung Ngai or Maxdo.

The fundings of Maxdo's property development projects were mainly provided through shareholders' loans. The loan was advanced through Chung Ngai to Maxdo, in proportion to Chung Ngai's percentage holding in Maxdo. The amount is unsecured, interest-free and has no fixed terms of repayment.

12. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|-------------------------------|-----------------|-----------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares, at cost | 135,857 | 135,857 |
| Amounts due from subsidiaries | 359,557 | 265,415 |
| | 495,414 | 401,272 |

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries at 30 April 2001 are set out in the table below. The table includes subsidiaries which, in the opinion of the directors, materially affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

| Name | Country/ place of incorporation/ establishment | Principal activities and place of operation | Particulars of issued share capital | Interest held | |
|--|---|--|---|---------------|----------|
| | | | | Direct | Indirect |
| South Horizon Inc. | British Virgin Islands | Investment holding in Hong Kong | 5,400 Ordinary shares of HK\$1 each | 100% | - |
| High Citadel Inc. | British Virgin Islands | Investment holding in Hong Kong | 200 Ordinary shares of HK\$1 each | 100% | - |
| Lamex China Limited | British Virgin Islands | Investment holding in Hong Kong | 1 Ordinary share of US\$1 each | 100% | - |
| Lamex Trading Company Limited | Hong Kong | Trading of office furniture in Hong Kong | 2 Ordinary shares of HK\$1 each 3,000,000 Non-voting deferred shares of HK\$1 each | - | 100% |
| Lamex Trading (Overseas) Company Limited | Hong Kong | Export trading of office furniture | 2 Ordinary shares of HK\$1 each | - | 100% |
| Momentum Office Solutions Limited (formerly known as "Momentum Furniture Limited") | Hong Kong | Trading of office furniture in Hong Kong | 2 Ordinary shares of HK\$1 each | - | 100% |
| Dongguan Fort Worth Furniture Company Limited | PRC | Manufacture and trading of office furniture in PRC | HK\$11,500,000 paid up capital | - | Note |
| PDD Limited | Hong Kong | Design and development of office furniture in PRC | 10,000 Ordinary shares of HK\$1 each | - | 100% |

NOTES TO THE ACCOUNTS

12. INVESTMENTS IN SUBSIDIARIES (Continued)

| Name | Country/ place of incorporation/ establishment | Principal activities and place of operation | Particulars of issued share capital | Interest held | |
|--|---|--|---|---------------|----------|
| | | | | Direct | Indirect |
| LBM Limited | Hong Kong | Trading of carpet tiles and building materials in Hong Kong | 100,000 Ordinary shares of HK\$1 each | - | 100% |
| LBM China Limited | Hong Kong | Trading of carpet tiles and building materials in PRC | 2 Ordinary shares of HK\$1 each | - | 100% |
| The Ultimate Collection Limited | Hong Kong | Supply and installation of kitchen cabinets and sanitary ware in Hong Kong and PRC | 2,000,000 Ordinary shares of HK\$1 each | - | 100% |
| Central Project Company Limited | Hong Kong | Property holding in Hong Kong | 2 Ordinary shares of HK\$1 each 1,000,000 Non-voting deferred shares of HK\$1 each | - | 100% |
| Dongguan Lamex Furniture Company Limited | PRC | Property holding, manufacture and trading of office furniture in PRC | HK\$87,613,690 paid up capital | - | 100% |
| Anko Limited | Hong Kong | Trading of office furniture in Hong Kong and PRC | 2 Ordinary shares of HK\$1 each | - | 100% |
| Rising Top Limited | British Virgin Islands | Investment holding in Hong Kong | 1 Ordinary share of US\$1 each | - | 100% |

12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Note:

The subsidiary is a co-operative joint venture between the Group and a PRC party whose respective rights and obligations with respect to the said joint venture are specified in a co-operative joint venture agreements and supplementary agreements. The Group has sole right to manage and operate the joint venture and, after payment of annual fixed fees to the PRC party, is entitled to all profits and is liable for all losses of the joint venture.

13. INVENTORIES

| | Group | |
|------------------|-----------------------|----------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Raw materials | 57,315 | 61,273 |
| Work in progress | 2,934 | 6,512 |
| Finished goods | 74,955 | 77,715 |
| | <u>135,204</u> | <u>145,500</u> |

At 30 April 2001, the carrying amount of inventories that are carried at net realisable value amounted to HK\$2,471,000 (2000: HK\$4,666,000).

14. ACCOUNTS RECEIVABLE

The Group maintains a defined credit policy. At 30 April 2001, the ageing analysis of the accounts receivable was as follows:

| | Group | |
|----------------|-----------------------|----------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Within 60 days | 121,219 | 156,440 |
| 60 – 120 days | 17,635 | 16,592 |
| 120 – 180 days | 9,691 | 15,916 |
| Over 180 days | 19,668 | 16,690 |
| | <u>168,213</u> | <u>205,638</u> |

NOTES TO THE ACCOUNTS

15. ACCOUNTS AND BILLS PAYABLE

At 30 April 2001, the ageing analysis of the accounts and bills payable was as follows:

| | Group | |
|----------------|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Within 60 days | 70,177 | 78,221 |
| 60 – 120 days | 22,155 | 14,426 |
| 120 – 180 days | 2,727 | 5,466 |
| Over 180 days | 2,273 | 2,563 |
| | 97,332 | 100,676 |

16. SHARE CAPITAL, WARRANTS AND OPTIONS

(a) Share capital

| | Authorised | | | |
|--|---|-----------------|----------------------|-----------------|
| | Ordinary shares of HK\$0.10 each | | | |
| | 2001 | | 2000 | |
| | No. of shares | HK\$'000 | No. of shares | HK\$'000 |
| At beginning of the year | 5,000,000,000 | 500,000 | 2,000,000,000 | 200,000 |
| Increase in authorised ordinary share capital | - | - | 3,000,000,000 | 300,000 |
| At end of the year | 5,000,000,000 | 500,000 | 5,000,000,000 | 500,000 |

| | Issued and fully paid | | | |
|--------------------------------------|---|-----------------|----------------------|-----------------|
| | Ordinary shares of HK\$0.10 each | | | |
| | 2001 | | 2000 | |
| | No. of shares | HK\$'000 | No. of shares | HK\$'000 |
| At beginning of the year | 2,224,297,450 | 222,430 | 1,670,265,772 | 167,027 |
| Issue of shares (note (i) & (ii)) | 1,607,186,725 | 160,718 | 363,389,678 | 36,339 |
| Exercise of warrants (note (b)) | 76,000 | 8 | 190,642,000 | 19,064 |
| At end of the year | 3,831,560,175 | 383,156 | 2,224,297,450 | 222,430 |

16. SHARE CAPITAL, WARRANTS AND OPTIONS *(Continued)*

(a) Share capital *(Continued)*

- (i) On 5 September 2000, the Company issued a total of 330,000,000 ordinary shares of HK\$0.10 each to independent third parties at HK\$0.10 per share as consideration for the acquisition of 16.5% interests in iD Innovation Limited.
- (ii) On 17 November 2000, the Company issued a total of 510,874,690 ordinary shares of HK\$0.10 each at par pursuant to a rights issue on the basis of one rights share for every five ordinary shares in issue on 31 October 2000. On the same date, a total of 766,312,035 bonus shares were issued on the basis of three bonus shares for every two fully paid rights shares.

All the new shares issued by the Company during the year rank *pari passu* with the then existing shares in all respects.

(b) Warrants

At 1 May 2000, the Company had 78,818,591 warrants outstanding entitling the holders to subscribe in cash at any time on or before 3 March 2001 for ordinary shares of the Company at a price of HK\$0.10 per share, subject to adjustment. During the year, 76,000 warrants were exercised. The remaining 78,742,591 warrants lapsed on 3 March 2001 and there were no outstanding warrants at 30 April 2001.

(c) Share options

Pursuant to the Company's share option schemes adopted on 4 November 1992 and 25 February 1999, the Company may grant options to employees (including directors) of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company. The options granted under the share option schemes are exercisable within four to ten years from the date of grant and would be lapsed when the share option holders ceased to be employees of the Group. The subscription price will be determined by the directors, and will not be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of granting the options.

16. SHARE CAPITAL, WARRANTS AND OPTIONS *(Continued)*

(c) Share options *(Continued)*

Movements in share options during the year were as follows:

| Date of grant | Exercise price per share <i>(note (i))</i> | Options outstanding at 1 May 2000 | Adjustment during the year <i>(note (i))</i> | Lapsed during the year | Options outstanding at 30 April 2001 | Exercisable period |
|----------------------|---|--|---|-----------------------------------|---|-------------------------------------|
| 3 January 2000 | HK\$0.1055 | 137,400,000 | 68,700,000 | - | 206,100,000 | 3 January 2000 to 2 January 2004 |
| 3 July 1997 | HK\$0.2619 | 36,912,000 | 18,288,000 | (552,000) | 54,648,000 | 3 July 1997 to 2 July 2007 |
| 13 July 1996 | HK\$0.3164 | 1,008,000 | 456,000 | (96,000) | 1,368,000 | 13 July 1996 to 12 July 2006 |

- (i) The number of options and their exercise prices were adjusted to take into account the changes in the capital structure of the Company during the year in accordance with the terms and conditions of the Company's share option schemes.

17. RESERVES

| | Group | | | | |
|----------------------------|------------------|---------------------------------------|------------------------------------|----------------------|-----------------|
| | Share premium | Merger reserve on consolidation | Exchange fluctuation reserve | Retained earnings | Total |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At 1 May 1999 | 97,097 | 1,000 | 109 | 213,279 | 311,485 |
| Share issue expenses | (20) | - | - | - | (20) |
| Premium on issue of shares | 17,460 | - | - | - | 17,460 |
| Goodwill written off | - | - | - | (14,251) | (14,251) |
| Loss for the year | - | - | - | (63,988) | (63,988) |
| | 114,537 | 1,000 | 109 | 135,040 | 250,686 |
| At 30 April 2000 | 114,537 | 1,000 | 109 | 135,040 | 250,686 |
| Bonus shares issued | - | - | - | (76,631) | (76,631) |
| Share issue expenses | (2,064) | - | - | - | (2,064) |
| Loss for the year | - | - | - | (22,605) | (22,605) |
| | 112,473 | 1,000 | 109 | 35,804 | 149,386 |
| At 30 April 2001 | 112,473 | 1,000 | 109 | 35,804 | 149,386 |

The Group's merger reserve on consolidation represents the difference between the nominal value of the shares of the subsidiary acquired over the nominal value of the Company's shares issued in exchange therefor.

NOTES TO THE ACCOUNTS

17. RESERVES (Continued)

| | Company | | | |
|----------------------------|---|---|---|---------------------------------|
| | Share premium <i>HK\$'000</i> | Contributed surplus <i>HK\$'000</i> | Retained earnings <i>HK\$'000</i> | Total <i>HK\$'000</i> |
| At 1 May 1999 | 97,097 | 64,817 | 14 | 161,928 |
| Share issue expenses | (20) | - | - | (20) |
| Premium on issue of shares | 17,460 | - | - | 17,460 |
| Profit for the year | - | - | 63 | 63 |
| | <u>114,537</u> | <u>64,817</u> | <u>77</u> | <u>179,431</u> |
| At 30 April 2000 | 114,537 | 64,817 | 77 | 179,431 |
| Bonus shares issued | - | (64,817) | (11,814) | (76,631) |
| Share issue expenses | (2,064) | - | - | (2,064) |
| Profit for the year | - | - | 11,970 | 11,970 |
| | <u>112,473</u> | <u>-</u> | <u>233</u> | <u>112,706</u> |
| At 30 April 2001 | 112,473 | - | 233 | 112,706 |

The Company's contributed surplus represents the excess of net asset value of subsidiaries acquired over the nominal value of shares issued by the Company pursuant to the group reorganisation in November 1992 and the excess of fair market value of The Ultimate Collection Limited acquired over the nominal value of the shares issued by the Company in 1992. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders.

18. BORROWINGS

| | Group | |
|-----------------------------------|-------------------------|-------------------------|
| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
| Bank borrowings: | | |
| Trust receipt loans | 17,059 | 27,173 |
| Bank overdrafts | 545 | 16 |
| Bank loans – secured | 42,617 | 97,210 |
| | 60,221 | 124,399 |
| Obligations under finance leases | 2,344 | 2,146 |
| | 62,565 | 126,545 |
| Current portion of borrowings | (60,372) | (116,900) |
| Non-current portion of borrowings | 2,193 | 9,645 |

At 30 April 2001, the Group's bank loans and overdrafts and other borrowings were repayable as follows:

| | Trust receipt loans, bank overdrafts and bank loans | | Obligations under finance leases | |
|----------------------------|---|-------------------------|-------------------------------------|-------------------------|
| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
| Within one year | 59,221 | 116,199 | 1,151 | 701 |
| In second year | 1,000 | 7,200 | 999 | 1,445 |
| In the third to fifth year | – | 1,000 | 194 | – |
| | 60,221 | 124,399 | 2,344 | 2,146 |

At 30 April 2001, the bank loans and overdrafts were secured by bank deposits of HK\$6,000,000 (2000: nil) and legal charges on the properties of the Group with an aggregate net book value of HK\$182,488,000 (2000: HK\$180,938,000).

NOTES TO THE ACCOUNTS

19. DEFERRED TAXATION

| | Group | |
|--|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Brought forward | 454 | 497 |
| Transfer to profit and loss account (<i>note 5</i>) | (454) | (43) |
| Carried forward | - | 454 |
| Provided for in respect of accelerated depreciation allowances | - | 454 |

There are no other material potential deferred taxation balances not provided for in the accounts.

20. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash inflow from operating activities

| | 2001 | 2000 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Loss before taxation | (23,829) | (64,878) |
| Interest income | (1,966) | (484) |
| Interest expenses on bank loans and overdrafts | 7,002 | 9,008 |
| Interest element of finance leases | 321 | 67 |
| Bank charges and other borrowing costs | 2,287 | 2,791 |
| Depreciation of owned fixed assets | 20,370 | 24,133 |
| Depreciation of fixed assets held under finance leases | 791 | 157 |
| Loss/(gain) on disposal of fixed assets | 357 | (12,175) |
| Increase in provision for diminution in value of investment and loan | 4,410 | - |
| Net loss on writing off subsidiaries | - | 12,423 |
| Decrease in inventories | 10,296 | 4,582 |
| Decrease in accounts receivable | 37,425 | 11,178 |
| Decrease in prepayments, deposits and other receivables and pledged bank deposits | 15,224 | 13,370 |
| Increase in accounts and bills payable, accrued charges and other payables | 3,448 | 22,407 |
| (Decrease)/increase in sales deposits received | (11,825) | 12,200 |
| Net cash inflow from operating activities | 64,311 | 34,779 |

20. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Analysis of changes in financing during the year

| | Share capital including premium | | Obligations under finance leases | | Bank loans and trust receipt loans | | Minority interests | |
|---|------------------------------------|------------------|-------------------------------------|------------------|---------------------------------------|------------------|--------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| At beginning of the year | 336,967 | 264,124 | 2,146 | - | 124,383 | 155,849 | - | 37,600 |
| Cash inflow/(outflow) from financing | 49,031 | 59,784 | (1,052) | (265) | (64,707) | (31,466) | - | - |
| Non-cash transactions: | | | | | | | | |
| Share of loss by minority shareholders | - | - | - | - | - | - | - | (437) |
| Bonus shares issued | 76,631 | - | - | - | - | - | - | - |
| Acquisition of long-term investments/additional interests in subsidiaries | 33,000 | 13,059 | - | - | - | - | - | (13,808) |
| Inception of finance leases Attributable to subsidiaries written off | - | - | 1,250 | 2,411 | - | - | - | - |
| | - | - | - | - | - | - | - | (23,355) |
| At end of the year | 495,629 | 336,967 | 2,344 | 2,146 | 59,676 | 124,383 | - | - |

21. CONTINGENT LIABILITIES

| | Company | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Guarantees for bank loans and overdraft of certain subsidiaries | 69,457 | 169,342 |

The Company has executed guarantees to banks for facilities granted to certain subsidiaries totalling approximately HK\$153,098,000 (2000: HK\$197,764,000). The utilised amount of such facilities covered by the Company's guarantees which also represented the financial exposure of the Company at the balance sheet date amounted to approximately HK\$69,457,000 (2000: HK\$169,342,000).

The Group had no significant contingent liabilities as at 30 April 2001 (2000: Nil)

22. COMMITMENTS

(a) Capital commitments for property, plant and equipment

| | Group | |
|--|---------------------|----------------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Contracted but not provided for | 6,025 | 12,134 |
| Authorised by the directors but not contracted for | 67 | 330 |
| | <u>6,092</u> | <u>12,464</u> |

The Company had no capital commitments as at 30 April 2001 (2000: Nil).

(b) Commitments under operating leases

As at 30 April 2001, the Group had commitments to make payments in the next twelve months under operating leases in respect of land and buildings which expire as follows:

| | Group | |
|--|----------------------|----------------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Within one year | 1,698 | 5,790 |
| In the second to fifth years inclusive | 19,249 | 13,036 |
| | <u>20,947</u> | <u>18,826</u> |

The Company had no commitments under non-cancellable operating leases at the balance sheet date (2000: Nil).

22. COMMITMENTS *(Continued)*

(c) Commitments under foreign exchange contracts

As at 30 April 2001, the Group had the following commitments to buy foreign currencies under leveraged foreign exchange trading contracts for hedging against trade commitments:

| | Group | |
|------|-----------------|-----------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Euro | 33,013 | 21,683 |

23. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 24 August 2001.