

Notes to the Financial Statements

31 March 2001

1. CORPORATE INFORMATION

During the year, the Group was engaged in the marketing and distribution of electronic household appliances, paper and related personal products; the production, marketing and distribution of food and beverage products; the production of paper and related personal products; the provision of sourcing services for and the trading of apparel products; property investment for rental income purpose; and the provision of logistics and other services. As detailed in note 7 to the financial statements, the sourcing and trading of apparel products has been discontinued subsequent to the balance sheet date.

2. BASIS OF PRESENTATION

The Group sustained a consolidated net loss attributable to shareholders of approximately HK\$132 million for the year ended 31 March 2001 and had consolidated net current liabilities of approximately HK\$113 million as at that date. As at 31 March 2001, the Group had total bank loans and overdrafts of approximately HK\$132 million, of which approximately HK\$78 million was overdue. Subsequent to the balance sheet date, the Group was unable to honour the first loan instalment due on 3 September 2001, which amounted to approximately HK\$5 million, in accordance with the repayment schedule as stipulated in a supplemental agreement entered into with one of the Group's bankers on 1 March 2001. Accordingly, the entire loan in the sum of HK\$40 million was due for repayment in full on demand. On the date on which these financial statements were approved, as further detailed in notes 30(b) and 30(c) to the financial statements, certain Group creditors had initiated legal measures against the Group to protect their positions. On the same date, the amount of overdue indebtedness stood at approximately HK\$124 million, including accrued interest and penalties in respect thereof.

In preparing these financial statements, the directors have given careful consideration to the current and anticipated future liquidity of the Group. The Group is in active negotiations with its bankers and other creditors with a view to reschedule the repayment terms of certain of its banking facilities and other liabilities (the "Rescheduling") and to obtain the ongoing support of its major bankers (the "Ongoing Support"). The directors are also in the process of identifying/negotiating with potential investors in respect of new equity or other financing for the Group (the "New Funding"). In addition, the Group is endeavouring to reduce its indebtedness through an orderly programme for the disposal of certain assets (the "Disposals").

Notwithstanding the foregoing and the post balance sheet events as disclosed in notes 30(b) and 30(c) to the financial statements, the directors remain confident as to the eventual successful outcome of the Rescheduling; the availability of the Ongoing Support; the successful procurement of the New Funding; and the Group's ability to reduce its indebtedness through the Disposals.



2. BASIS OF PRESENTATION *(Continued)*

On the basis that the Rescheduling will be successful, the Ongoing Support will continue to be in place, the New Funding will be procured and the Disposals will be successfully implemented, the directors consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare these financial statements on a going concern basis.

However, should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and long term liabilities as current assets and current liabilities, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

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

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly-controlled entity

A jointly-controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and where none of the participating parties has unilateral control over the economic activity.

The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for diminution in value, other than temporary in nature, deemed necessary by the directors.

Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for permanent diminutions in values deemed necessary by the directors.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any diminutions in values, other than temporary in nature deemed necessary by the directors.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on the consolidation of subsidiaries represents the excess purchase consideration paid for subsidiaries over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition.

Upon the disposal of such subsidiaries, the relevant portion of goodwill previously eliminated against reserves is realised and taken into account in calculating the gain or loss on disposal.

Capital reserve

The capital reserve arising on the acquisition of a business represents the excess fair values ascribed to the net underlying assets acquired over the purchase consideration.

Upon the disposal of the business, the relevant portion of the capital reserve is released to the profit and loss account in calculating the gain or loss on disposal of the business.

Fixed assets and depreciation

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation (Continued)

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

Leasehold land held in Hong Kong	Over the remaining lease terms
Land and buildings held in the People's Republic of China (the "PRC")	Over the period of the land use rights
Buildings held in Hong Kong	4%
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and office equipment	20% – 25%
Brewery plant and machinery	2% – 10%
Other plant and machinery	5% – 20%
Equipment	15% – 20%
Motor vehicles	25% – 33%

Construction in progress represents the cost of buildings under construction in the PRC not yet ready for their intended use. Construction in progress is stated at cost, and depreciation commences upon transfer to other fixed assets accounts when such fixed assets are ready for their intended use.

Changes in the values of fixed assets are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. A subsequent revaluation increase is recognised as income to the extent that it reverses a revaluation deficit of the same asset previously charged to the profit and loss account.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the sales proceeds and the carrying amount of the relevant asset. On disposal or retirement, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation (Continued)

Where, in the opinion of the directors, the recoverable values of fixed assets have declined below their carrying values, provisions are made to write down the carrying values of such assets to their recoverable values. Recoverable value is determined using discounted cash flows where appropriate. Reductions of recoverable value are charged to the profit and loss account, except to the extent that they reverse previous revaluation surpluses in respect of the same items, when they are charged to the revaluation reserve.

Investment properties

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

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

Inventories

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred tax

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

Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Rentals payable and receivable under operating leases are recorded in the profit and loss account on the straight-line basis over the lease terms.

Revenue recognition

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

- (a) sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rendering of services, in the period in which such services are rendered;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) commission income on the sale of goods, when the goods concerned are sold to customers and when the relevant work is completed; and
- (e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pension costs

The Group operates a defined contribution pension scheme for certain of its employees, the assets of which are held separately from those of the Group in an independently administered fund. Prior to 1 December 2000, contributions were made based on a percentage of the eligible employees' salaries and were charged to the profit and loss account as they became payable in accordance with the rules of the scheme. When an employee left the scheme prior to his/her interest in the Group employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions.

On 1 December 2000, all of the members of the existing Pension Scheme were transferred to a Mandatory Provident Fund (the "MPF Scheme"). All of the underlying assets of the existing Pension Scheme have been transferred to the MPF scheme. Contributions to the MPF Scheme are made based on rates applicable to the respective employees' monthly salaries and are charged to the profit and loss account as they become payable in accordance with government regulations. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions to the MPF Scheme vest fully with the employees when contributed into the Scheme.

Employees in subsidiaries in Mainland China are members of the Central Pension Scheme operated by the Chinese government. These subsidiaries are required to contribute a certain percentage of their covered payroll to the Central Pension Scheme to fund the benefits. The only obligation for the Group with respect to the Central Pension Scheme is the associated required contributions under the Central Pension Scheme, which are charged to the profit and loss account in the year to which they related.

Borrowing costs

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. To the extent that funds are borrowed to finance contributions to jointly-controlled entities for the acquisition, construction or production of a qualifying asset, the borrowing costs are capitalised as part of the Group's investment in the jointly-controlled entities. All other borrowing costs are recognised as expenses in the period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

Related parties

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

Cash equivalents

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

Notes to the Financial Statements

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4. TURNOVER AND REVENUE

Turnover represents the invoiced value of goods sold together with revenue from logistics and other services provided, net of discounts and allowances; and gross rental income derived from investment properties.

An analysis of turnover and other revenue is as follows:

	2001	2000
	HK\$'000	HK\$'000
Continuing operations:		
Sale of goods	52,395	66,165
Logistic and other services	2,568	2,612
Rental income	7,730	7,489
	62,693	76,266
Discontinuing operations – sale of goods	149,837	179,016
Turnover	212,530	255,282
Consultancy fee	–	1,026
Commission income	377	2,095
Gain on disposal of fixed assets	–	215
Interest income	1,371	1,066
Others	2,296	1,865
	4,044	6,267
Total revenue	216,574	261,549

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5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2001	2000
	HK\$'000	HK\$'000
Cost of inventories sold	182,638	222,996
Depreciation	10,535	13,432
Operating lease rentals in respect of land and buildings	1,286	1,432
Auditors' remuneration	850	1,380
Staff costs (excluding directors' remuneration – note 8)		
Wages and salaries	12,715	23,528
Pension contributions	220	178
Less: Forfeited contributions	(84)	(148)
Net pension contributions	136	30
	12,851	23,558
Provision for inventory obsolescence	689	1,903
Foreign exchange losses, net	675	–
Loss on disposal of fixed assets	239	–
Provision for bad and doubtful debts	3,892	2,987
Redundancy and group restructuring costs	–	1,022
Net rental income derived from investment properties (gross amount of HK\$7,730,000 (2000: HK\$7,489,000) less outgoings of HK\$45,000 (2000: HK\$164,000))	(7,685)	(7,325)

At 31 March 2001, there were no forfeited contributions (2000: HK\$105,000) available for the Group to reduce its contributions to the pension scheme in future years.

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6. FINANCE COSTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest on:		
Bank loans and overdrafts wholly repayable within five years	13,501	15,950
Amounts due to related companies (notes 20 and 29(ii))	-	1,506
	13,501	17,456
Less: Amount capitalised as interest in a jointly-controlled entity	-	(2,326)
Amount capitalised as fixed assets	-	(2,644)
Net interest expense	13,501	12,486

7. DISCONTINUING OPERATIONS

As more fully explained in note 30(a), subsequent to the balance sheet date, in April 2001, the Group disposed of its 50.01% interest in Dransfield Apparel Limited and its subsidiaries (collectively referred to as "the Apparel sub-group") to third party at a consideration of HK\$1,230,000. The Apparel sub-group was engaged in the sourcing and trading of garments and following the disposal of such equity interests, the Group's apparel trading operations were discontinued since then. The turnover of approximately HK\$149,837,000 attributable to the apparel sourcing and trading operations for the current year was disclosed under discontinuing operations. The attributable turnover of the prior year amounting to approximately HK\$179,016,000 which had previously been classified as "continuing operations" has been reclassified under "discontinuing operations" for comparative purpose.

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7. DISCONTINUING OPERATIONS (Continued)

The consolidated net assets of the Group prepared on a pro forma basis as if the Apparel sub-group has been deconsolidated on 31 March 2001 are summarised below:

	As at 31 March 2001 HK\$'000
NON-CURRENT ASSETS	
Fixed assets	266,665
Interest in an associate	45,350
Interest in a jointly-controlled entity	8,105
Loan to a minority shareholder of a subsidiary	7,630
	327,750
CURRENT ASSETS	
Due from a minority shareholder of a subsidiary	5,746
Inventories	12,568
Accounts and bills receivable	4,011
Prepayments, deposits and other receivables	4,876
Due from the Apparel sub-group	13
Dividend receivable from the Apparel sub-group	2,626
Cash and cash equivalents	4,736
	34,576
CURRENT LIABILITIES	
Accounts and bills payable	14,909
Tax payable	722
Accrued liabilities and other payables	17,384
Due to related companies	5,505
Due to directors	393
Interest-bearing bank loans, secured	117,969
	156,882
NET CURRENT LIABILITIES	(122,306)
TOTAL ASSETS LESS CURRENT LIABILITIES	205,444
NON-CURRENT LIABILITIES	
Interest-bearing bank loans, secured	(13,661)
Deferred tax	(300)
	(13,961)
MINORITY INTERESTS	(15,690)
NET ASSETS	175,793



8. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

Details of the directors' remuneration are set out below:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Fees:		
Executive	80	200
Non-executive	85	–
Independent non-executive	–	150
	165	350
Other emoluments – executive directors:		
Salaries, allowances and benefits in kind	2,465	2,967
Pension scheme contributions	43	45
Other emoluments – non-executive directors:		
Salaries, allowances and benefits in kind	–	–
Other emoluments – independent non-executive directors:		
Salaries, allowances and benefits in kind	–	–
	2,673	3,362

As referred to in the report of the directors, options to acquire shares of the Company and an associate (2000: a subsidiary), DF China Technology Inc. ("DFCT"), were granted to certain directors during the year. These options remained unexercised as at 31 March 2001. In the absence of a readily available market value for the options, the directors are unable to arrive at an accurate assessment of the value of these options. Accordingly, no value is included in directors' remuneration in respect of share options granted during the year.

8. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION (Continued)

The remuneration of the above directors fell within the following bands:

	2001	2000
	Number of directors	Number of directors
Nil – HK\$1,000,000	12	7
HK\$1,000,001 – HK\$1,500,000	–	2
	12	9

There was no arrangement under which a director waived or agreed to waive any remuneration.

Five highest paid employees

The five highest paid employees during the year included five (2000: three) directors, details of whose remuneration are set out above.

Details of the remuneration of the remaining two non-director, highest paid employees in the prior year were set out below.

	2001	2000
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	–	1,668
Pension scheme contributions	–	22
	–	1,690

The remuneration of the above non-director, highest paid employees fell within the following band:

	2001	2000
	Number of employees	Number of employees
Nil – HK\$1,000,000	–	2

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9. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. No provision for tax has been made for the associate and the jointly-controlled entity as these companies had no assessable profits at the balance sheet date.

	Group	
	2001	2000
	HK\$'000	HK\$'000
Company and subsidiaries:		
Hong Kong	1,330	1,850
Under provision in prior year	-	11
Deferred tax	-	300
Tax charge for the year	1,330	2,161

The principal components of the Group's provision for deferred tax assets/(liabilities) and the amounts not provided for, calculated at the rate of 16% (2000: 16%) on the timing differences between taxable profits and profits reported in the financial statements, are as follows:

	Provided		Not provided	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accelerated depreciation allowances	(300)	(300)	296	(1,012)
Tax losses	-	-	9,886	10,754
Other	-	-	(20)	(6)
	(300)	(300)	10,162	9,736

The revaluation of the Group's fixed assets does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

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

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$124,790,000 (2000: net profit of HK\$26,361,000).

11. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$131,521,000 (2000: net profit of HK\$2,109,000) and the weighted average of 1,772,747,000 shares (2000: 1,388,058,000) in issue during the year.

The diluted loss per share was not shown as the options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year. In the prior year, the calculation of the diluted earnings per share was based on the net profit from ordinary activities attributable to shareholders for the year of HK\$2,109,000 and the weighted average of 1,388,058,000 shares in issue during the year plus 7,289,174 dilutive ordinary shares deemed to have been issued for no consideration throughout the year in respect of share options. The potential ordinary shares to be issued upon exercise of the share options of an associate (2000: a subsidiary), DFCT had not been taken into consideration in arriving at the diluted earnings per share as the effect is anti-dilutive.

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12. FIXED ASSETS

Group

	Investment properties	Leasehold land and buildings	Construc- tion in progress	Leasehold improve- ments	Furniture, fixtures and office equipment	Brewery plant and machinery	Other plant and machinery	Equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:										
At beginning of year	73,400	190,029	157,048	9,989	38,608	57,315	49,134	9,462	3,974	588,959
Additions	-	5,372	2,416	42	379	318	230	-	38	8,795
Disposals	-	(311)	(60)	-	-	-	-	-	(30)	(401)
Arising on deemed disposal of a subsidiary	-	(22,156)	(159,225)	(224)	(3,986)	-	(25,917)	(86)	(1,133)	(212,727)
Revaluation deficit	(2,500)	-	-	-	-	-	-	-	-	(2,500)
Provision for diminutions in values	-	(40,821)	-	-	-	(8,652)	(16,053)	-	-	(65,526)
Exchange realignments	-	(2,121)	-	(32)	(343)	(5,077)	(333)	-	(76)	(7,982)
At 31 March 2001	70,900	129,992	179	9,775	34,658	43,904	7,061	9,376	2,773	308,618
Analysis of cost or valuation:										
At cost	-	7,090	179	9,775	34,658	-	-	9,376	2,773	63,851
At cost less diminution	-	118,912	-	-	-	43,904	7,061	-	-	169,877
At 1992 valuation less diminution	-	3,990	-	-	-	-	-	-	-	3,990
At 31 March 2001 valuation	70,900	-	-	-	-	-	-	-	-	70,900
	70,900	129,992	179	9,775	34,658	43,904	7,061	9,376	2,773	308,618
Accumulated depreciation:										
At beginning of year	-	9,469	-	6,439	16,571	9,799	4,919	4,351	2,968	54,516
Provided during the year	-	3,895	-	457	2,186	2,071	1,820	1	105	10,535
Disposals	-	(17)	-	-	-	-	-	-	(30)	(47)
Arising on deemed disposal of a subsidiary	-	(2,854)	-	(132)	(827)	-	(1,528)	(85)	(609)	(6,035)
Provision for diminutions in values	-	(8,937)	-	-	-	(2,660)	(4,399)	-	-	(15,996)
Exchange realignments	-	(73)	-	(31)	(116)	(833)	(53)	-	(71)	(1,177)
At 31 March 2001	-	1,483	-	6,733	17,814	8,377	759	4,267	2,363	41,796
Net book value:										
At 31 March 2001	70,900	128,509	179	3,042	16,844	35,527	6,302	5,109	410	266,822
At 31 March 2000	73,400	180,560	157,048	3,550	22,037	47,516	44,215	5,111	1,006	534,443

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12. FIXED ASSETS (Continued)

The Group's leasehold land and buildings included above are held under the following lease terms:

	Hong Kong	Under land use rights in the PRC	Europe	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Long term leases:				
At cost less diminution	4,500	–	5,372	9,872
Medium term leases:				
At cost	–	7,090	–	7,090
At cost less diminution	–	109,530	–	109,530
At 1992 valuation less diminution	3,500	–	–	3,500
	8,000	116,620	5,372	129,992

The Group has adopted the transitional provisions of SSAP 17 of not making further revaluations by class of those assets stated at revalued amounts based on revaluations which were reflected in the financial statements for the year ended 31 March 1995.

The Group's leasehold land in Hong Kong was revalued as at 31 March 1992 on an open market value basis, based on its existing use, at HK\$5 million by Chesterton Petty Limited, a firm of independent, professional valuers. The brewery plant and machinery were valued on a continuing use basis on 25 October 1995 by Henry Butcher & Co., international property and plant consultants. This valuation was used in determining the fair value of plant and machinery subsequently acquired by the Group from the receiver after allowing for subsequent expenditure incurred by the Group in bringing the plant and machinery into a satisfactory condition. As at 31 March 2001, the directors, having taken advice from professional valuers, made provisions for diminution in values of certain fixed assets amounting to HK\$49,530,000 so as to reduce the carrying value of these assets to their estimated recoverable amounts on a continuing use basis. Out of the provisions made, HK\$48,520,000 was charged to the profit and loss account and HK\$1,010,000 was debited to the asset revaluation reserve (note 25).

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12. FIXED ASSETS (Continued)

Had the leasehold land and buildings been carried at historical cost (before provision for diminution in value of HK\$31,884,000) less accumulated depreciation, its carrying value would have been approximately HK\$157,827,000 (2000: HK\$177,938,000).

No interest paid on bank loans was capitalised as a cost of fixed assets which were under construction during the year because the construction work has been temporarily suspended. In the prior year, interest of HK\$2,644,000 was capitalised as a cost of fixed assets which were then under construction.

The Group's investment properties and leasehold land and buildings stated at net carrying value of HK\$68,700,000 (2000: HK\$71,200,000) and HK\$114,500,000 (2000: HK\$147,923,000), respectively, and certain plant and machinery with a net carrying value of HK\$6,556,000 (2000: HK\$19,330,000) were pledged to banks for bank facilities granted (see note 22).

As more fully explained in note 30(c) to the financial statements, subsequent to the balance sheet date, investment properties and leasehold land and buildings at net carrying value of HK\$700,000 and HK\$4,500,000, respectively, were foreclosed by one of the Group's bankers. In addition, as referred in note 30(b), furniture and office equipment at net carrying value of approximately HK\$200,000 were seized under court orders in the PRC.

The Group's investment properties are held under the following lease terms:

	Hong Kong	Elsewhere	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Medium term leases	68,700	2,200	70,900

The Group's investment properties were revalued on 31 March 2001 by Propertywise Surveyors Limited, a firm of independent professional qualified valuers, at HK\$70,900,000 on an open market, existing use basis.

Notes to the Financial Statements

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13. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	61,457	61,457
Listed shares, at cost	–*	167,537
Due from subsidiaries	502,389	613,068
Due to subsidiaries	(66,250)	(266,583)
	497,596	575,479
Provisions for permanent diminutions in values	(285,716)	(218,901)
	211,880	356,578
Market value of listed shares at balance sheet date	–	388,038

The amounts due from subsidiaries are unsecured and interest-free. Except for amounts totalling HK\$252,373,000 (2000: HK\$252,366,000) which are not repayable within one year, all the other balances have no fixed terms of repayment.

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

* As more fully explained in note 25, on 30 June 2000, the Company's interest in a subsidiary, DFCT, was reduced from 78.4% to 32.2% as a result of the distribution in specie. Accordingly, DFCT ceased to be a subsidiary of the Company and became an associate from that date onward (see note 14).

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13. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Company		Nominal value of issued and paid-up share capital/ registered capital	Principal activities
		Direct	Indirect#		
DF Cyber Services Limited (formerly A. Dransfield & Company, Limited)	Hong Kong	–	100%	Ordinary HK\$1,000 Deferred HK\$16,000,000	Provision of financial services to Group companies
Dransfield Apparel (Far East) Limited	British Virgin Islands/ Hong Kong	–	30%	US\$1	Trading of garments
Dransfield Electronics Limited	Hong Kong	–	100%	HK\$1,800,000	Distribution of electronic products
Dransfield Finance Limited	Hong Kong	100%	–	HK\$2	Provision of financial services to Group companies
Dransfield Food and Beverage Limited	Hong Kong	–	95%	HK\$10,000	Distribution of beverage products
Dransfield Secretarial & Administrative Services Limited	Hong Kong	–	100%	HK\$10,000	Secretarial and management services

Notes to the Financial Statements

31 March 2001

13. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Company		Nominal value of issued and paid-up share capital/ registered capital	Principal activities
		Direct	Indirect#		
Dransfield Trading Limited	Hong Kong	–	100%	HK\$10,000	General trading
Good Value Holdings Limited	British Virgin Islands/ Hong Kong	–	100%	US\$7	Property and investment holding
Grandom Investment Holding Limited	Hong Kong	–	90%	HK\$2,000,000	Property holding
Redruth Brewery (1742) Limited	United Kingdom	–	95%	£1,500,000	Manufacture and distribution of beverage products
Shenyang Dransfield Industrial Development Ltd. ##	People's Republic of China	–	57%	RMB60,000,000	Manufacture and trading of edible oil
Victorison Logistic Service (Shenzhen) Co., Ltd. ##	People's Republic of China	–	100%	HK\$35,000,000	Warehouse and delivery services and property and investment holding
Well Assessed Limited	Hong Kong	–	100%	HK\$2	Property holding

Notes to the Financial Statements

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13. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

Represents the effective holding of the Group after minority interests therein.

Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

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

14. INTERESTS IN AN ASSOCIATE

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Shares listed overseas, at cost	–	–	69,547	–
Share of net assets	40,407	–	–	–
	40,407	–	69,547	–
Provision for diminution in value of investment in an associate	–	–	(34,404)	–
	40,407	–	35,143	–
Amount due from/(to) an associate	4,943	–	(84,087)	–
	45,350	–	(48,944)	–
Market value of listed shares at balance sheet date	25,957	–	25,957	–

The associate, DFCT, is listed on the Nasdaq Smallcap Market. During the year, as detailed in notes 13 and 25 to the financial statements, the Group's effective interest in DFCT was reduced from 78.4% as at 31 March 2000 to 32.2% as at 30 June 2000. Thereafter, DFCT became an associate of the Group. In August 2000, DFCT acquired an investment through the issue of new shares and the Group's equity interests therein were further reduced to 29.67%. A loss of HK\$1,539,000 arising from such dilution of interests has been charged to the current year's profit and loss account.

The balances are unsecured, interest-free and have no fixed terms of repayment.

Notes to the Financial Statements

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14. INTERESTS IN AN ASSOCIATE (Continued)

Details of the principal activities are as follows:

Name	Business structure	Place of incorporation/ operations	Percentage of equity attributable to the Company	Nominal value of issued and paid-up share capital	Principal activities
DFCT	Corporate	British Virgin Islands/ Hong Kong and People's Republic of China	29.67%	19,916,218 shares of common stock at no par value	Investment holding, manufacture and distribution of paper and related personal products

The condensed summary of the financial position of DFCT accounted for by the Group using the equity method as at 31 March 2001 and its turnover for the year then ended:

	<i>HK\$'000</i>
Current assets	4,650
Non-current assets	136,757
Current liabilities	(6,192)
Non-current liabilities	(4,943)
Turnover	(9,343)

Notes to the Financial Statements

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15. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets	8,361	24,334
Unrealised profit on disposal of fixed assets to a jointly-controlled entity	(256)	(256)
Interest capitalised	9,549	9,549
	17,654	33,627
Provision for diminution in values	(9,549)	–
	8,105	33,627

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of registration/ operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Wuxi Dransfield Broadsino Beverage Co., Ltd.	Corporate	People's Republic of China	45.79%	60%	45.79%	Manufacture of beverage products

The Group's interest in Wuxi Dransfield Broadsino Beverage Co., Ltd. is effectively that of a partner in a joint venture, as all significant decisions are required to be agreed collectively by all investing parties.

16. LOANS TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

During the year, one of the two loans with minority shareholders of subsidiaries as disclosed in the prior year's annual report amounting to HK\$14,328,000 was no longer carried in the Group's consolidated balance sheet as at 31 March 2001 upon the deconsolidation of DFCT as detailed in notes 13 and 14.

Notes to the Financial Statements

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16. LOANS TO MINORITY SHAREHOLDERS OF SUBSIDIARIES (Continued)

As at 31 March 2001, the loan to a minority shareholder of a subsidiary is unsecured, bears compound interest at a rate of 6% per annum and is repayable on demand. Pursuant to an agreement signed by the Group and the minority shareholder of a subsidiary in prior years, the minority shareholder re-invested the loan to a subsidiary of the Group, in which the minority shareholder has 20% interests, in the form of interest-free loan. The minority shareholder has undertaken to apply any amount, including dividends, which may be distributed by the subsidiary to the minority shareholder to repay, in full, the loan advanced by the Group.

The corresponding loan advanced from the minority shareholder to the subsidiary is classified as loan from minority interests (note 23).

At 31 March 2001, the Group was entitled to interest income receivable of HK\$1,864,000 (2000: HK\$4,602,000) derived from a loan to the minority shareholder, which has not been received and accordingly, the revenue has not been recognised in the Group's profit and loss account.

17. INVENTORIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	3,149	4,694
Work in progress	300	642
Finished goods	9,119	13,605
	12,568	18,941

The carrying amount of inventories carried at net realisable value included in the above is HK\$5,859,000 (2000: HK\$7,067,000).

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18. ACCOUNTS AND BILLS RECEIVABLE

Credit is offered to customers following a financial assessment by the Group and periodic reviews on the credit limit are performed with regard to the customers' established payment record. The Group's credit period varies and depends on individual trade customers. Overdue balances are regularly reviewed by senior management and collections are followed up by accounting personnel. The following is an aged analysis of trade receivables (net of provision for bad and doubtful debts), based on the payment due date, as at 31 March 2001 and 2000:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Less than 3 months	12,976	14,230
3 – 6 months	401	1,055
6 – 12 months	391	638
	13,768	15,923

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	10,159	20,110	35	135
Time deposits, unpledged	2,000	–	–	–
	12,159	20,110	35	135

20. DUE TO RELATED COMPANIES

The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment.

Notes to the Financial Statements

31 March 2001

21. ACCOUNTS AND BILLS PAYABLE

The following is an aged analysis of accounts and bills payables based on the date of the goods purchased and services rendered as at 31 March 2001 and 2000.

	Group	
	2001	2000
	HK\$'000	HK\$'000
Less than 3 months	15,075	14,217
3 – 6 months	1,192	819
6 –12 months	92	76
Over 1 year	5,000	6,155
	21,359	21,267

22. INTEREST-BEARING BANK LOANS, SECURED

	Group	
	2001	2000
	HK\$'000	HK\$'000
Bank loans wholly repayable:		
Within one year	117,969	43,480
In the second year	13,661	33,398
In the third to fifth years, inclusive	-	62,807
	131,630	139,685
Trust receipt loans repayable within one year	-	459
	131,630	140,144
Portion classified as current liabilities	(117,969)	(43,939)
Long term portion	13,661	96,205

Notes to the Financial Statements

31 March 2001



22. INTEREST-BEARING BANK LOANS, SECURED (Continued)

All the bank borrowings are secured by:

- (a) guarantees from the Company and minority shareholders of the subsidiaries of the Company;
- (b) certain leasehold land and buildings, investment properties, and plant and machinery of the Group (note 12); and
- (c) bank deposits amounting to HK\$8,799,000 as at 31 March 2001 (2000: HK\$8,238,000).

As at 31 March 2001 and subsequent to the balance sheet date, the Group failed to meet with the repayment schedules of certain loans granted by banks amounting to approximately HK\$118 million in aggregate. As the repayment schedules as stipulated in these banking facility letters have not been complied with, these loans are due for immediate repayment in full on demand. Accordingly, HK\$118 million has been classified under current liabilities. The directors are negotiating with the banks to restructure these bank loans.

23. MINORITY INTERESTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets attributable to minority interests	14,739	72,238
Due to minority shareholders of subsidiaries	1,868	6,068
Loans from minority shareholders of subsidiaries – <i>note 16</i>	7,630	21,958
	24,237	100,264

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

Notes to the Financial Statements

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24. SHARE CAPITAL

Shares

	Company	
	2001 HK\$'000	2000 HK\$'000
<i>Authorised:</i>		
3,000,000,000 ordinary shares of HK\$0.10 each	300,000	300,000
<i>Issued and fully paid:</i>		
1,825,150,000 (2000: 1,630,650,000) ordinary shares of HK\$0.10 each	182,515	163,065

During the year, the following movements in the Company's issued share capital took place:

	Number of shares issued	Nominal value HK\$'000
<i>Note</i>		
At beginning of year	1,630,650,000	163,065
Issue of 34,500,000 new shares upon exercise of share options	(a) 34,500,000	3,450
Issue of 160,000,000 new shares through placement to third party investors	(b) 160,000,000	16,000
At 31 March 2001	1,825,150,000	182,515

(a) On 26 June 2000, 33,000,000 and 1,500,000 ordinary shares were issued upon the exercise of the share options by the directors and employees, respectively, at an exercise price of HK\$0.10 per share for a total amount of HK\$3,450,000 before expenses.

(b) On 11 July 2000, 160,000,000 ordinary shares of HK\$0.10 each were allotted and issued, for cash, at HK\$0.10 per share for a total consideration of HK\$16,000,000 (before expenses) to certain substantial shareholders and a director of the Company. These shares were then placed to third party investors at HK\$0.10 per share.



24. SHARE CAPITAL (Continued)

Share options

On 3 April 1993, the Company approved a share option scheme under which the directors may, at their discretion, grant to employees and executive directors of the Group options to subscribe for shares of the Company at any time during the ten years from the scheme's date of approval. The maximum number of shares over which options may be outstanding may not exceed 10% of the ordinary share capital in issue from time to time. The scheme became effective upon the listing of the Company's shares and warrants on The Stock Exchange of Hong Kong Limited on 30 April 1993.

During the year, the Company granted share options at nil consideration which entitle the holders to subscribe for 33,850,000 shares of the Company at any time during the period from 1 December 2001 to 2 April 2003. The subscription price per share payable upon the exercise of each option is HK\$0.10, subject to adjustment.

34,500,000 and 16,900,000 share options were exercised and cancelled upon the termination of employment of certain employees and resignation of directors, respectively, during the year. At the balance sheet date, the Company had 53,275,000 (2000: 70,825,000) outstanding share options and details of these outstanding options as at 31 March 2001 are as follows:

Exercise period	Exercise price	Number of options outstanding at 31 March 2001
25 August 1999 to 24 August 2001	HK\$0.30 per share	975,000
21 June 2000 to 2 April 2003	HK\$0.10 per share	2,050,000
6 March 2001 to 5 March 2002	HK\$0.20 per share	
or	or	
6 March 2002 to 2 April 2003	HK\$0.18 per share	16,750,000
1 December 2001 to 2 April 2003	HK\$0.10 per share	33,500,000
		53,275,000

Options to subscribe for 975,000 shares expired on 24 August 2001. The exercise in full of the remaining unexpired share options would, under the present capital structure of the Company, result in the issue of 52,300,000 (2000: 70,825,000) additional ordinary shares of HK\$0.10 each and aggregate proceeds before issue expenses of HK\$6,570,000 (2000: HK\$10,657,500).

24. SHARE CAPITAL (Continued)

Share options of an associate

On 20 November 1996, the Company's associate, DFCT, whose shares are listed on the Nasdaq SmallCap Market, approved a share option scheme under which the directors may, at their discretion, grant to employees and directors of DFCT options to subscribe for shares of DFCT's common stock on or before 2 April 2003. The maximum number of shares over which options may be outstanding may not exceed 10% of the number of shares of DFCT's common stock in issue from time to time.

During the year, the following share options were granted:

- (i) on 17 May 2000, 30,000 share options at an exercise price of US\$4.375 per share were granted to employees of DFCT;
- (ii) on 20 June 2000, all unexercised share options which entitle option-holders to subscribe for 425,000 DFCT shares granted in the period between 1 January to 31 May 2000 were redeemed and replaced with options to subscribe for the same number of shares at an exercise price of US\$1.75 per share;
- (iii) on 1 December 2000, 313,000 share options were granted to its directors and employees at an exercise price of US\$1.5781 per share; and
- (iv) on 2 March 2001, DFCT redeemed all the outstanding 799,500 share options previously granted and replaced them by new share options which entitle option-holders to subscribe for the same number of shares at an exercise price of US\$0.82 per share.

During the year, 426,650 share options were cancelled upon the termination of employment of certain employees and resignation of directors.

Details of these outstanding options as at 31 March 2001 are as follows:

Exercise period	Exercise price	Number of options outstanding at 31 March 2001
31 October 1999 to 2 April 2003	US\$0.82	799,500

The exercise in full of such share options would result in the issue of 799,500 (2000: 883,150) additional shares of common stock with no par value and aggregate proceeds before issue expenses of approximately HK\$5,114,000 (2000: HK\$25,061,000).

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25. RESERVES

Group

	Share premium account <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Asset revalua- tion reserve <i>HK\$'000</i>	Exchange fluctua- tion reserve <i>HK\$'000</i>	Accumu- lated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 1999	282,681	31,920	2,845	9,710	(130,659)	196,497
Issue of new shares	42,348	-	-	-	-	42,348
Expenses on issue of new shares	(1,448)	-	-	-	-	(1,448)
Exchange differences on consolidation	-	-	-	1,749	-	1,749
Distribution in specie to shareholders *	(10,923)	-	-	-	-	(10,923)
Profit for the year	-	-	-	-	2,109	2,109
At 31 March 2000	312,658	31,920	2,845	11,459	(128,550)	230,332
Expenses on issue of new shares	(511)	-	-	-	-	(511)
Exchange differences on consolidation	-	-	-	(5,472)	-	(5,472)
Diminution in value of land and buildings	-	-	(1,010)	-	-	(1,010)
Distribution in specie to shareholders**	(97,990)	-	-	-	-	(97,990)
Loss for the year	-	-	-	-	(131,521)	(131,521)
At 31 March 2001	214,157	31,920	1,835	5,987	(260,071)	(6,172)

Notes to the Financial Statements

31 March 2001

25. RESERVES (Continued)

Group (Continued)

* On 26 November 1999, the directors proposed to distribute shares of DFCT held by the Company on the basis of 100 DFCT shares for every 120,000 of the Company's shares held on 31 December 1999. The proposed distribution in specie was conditional upon shareholders' approval of the amendment of the articles of association of the Company. Special resolutions were passed in the extraordinary general meeting on 24 December 1999 by shareholders approving of the amendment of the articles of association and the deduction of the distributions in specie, amounting to HK\$10,923,000, from the share premium account of the Company.

** On 30 June 2000, 8,325,700 shares of DFCT held by the Company was distributed to the Company's shareholders on the basis of 1,000 DFCT's shares for every 200,000 of the Company's shares held on 30 June 2000. The carrying value of DFCT's shares distributed in specie has been charged to the Company's share premium account.

	Share premium account HK\$'000	Capital reserve HK\$'000	Asset revalua- tion reserve HK\$'000	Exchange fluctua- tion reserve HK\$'000	Accumu- lated losses HK\$'000	Total HK\$'000
Reserves retained by:						
At 31 March 2001						
Company and subsidiaries	214,157	31,920	1,835	5,987	(215,994)	37,905
Associate	-	-	-	-	(26,000)	(26,000)
Jointly-controlled entity	-	-	-	-	(18,077)	(18,077)
	214,157	31,920	1,835	5,987	(260,071)	(6,172)
At 31 March 2000						
Company and subsidiaries	312,658	31,920	2,845	11,516	(126,569)	232,370
Jointly-controlled entity	-	-	-	(57)	(1,981)	(2,038)
	312,658	31,920	2,845	11,459	(128,550)	230,332

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31 March 2001



25. RESERVES (Continued)

Company

	Share premium account HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 1999	341,565	(205,924)	135,641
Issue of new shares	42,348	–	42,348
Expenses on issue of new shares	(1,448)	–	(1,448)
Distribution in specie to shareholders	(10,923)	–	(10,923)
Profit for the year	–	26,361	26,361
At 31 March 2000 and at 1 April 2000	371,542	(179,563)	191,979
Expenses on issue of new shares	(511)	–	(511)
Distribution in specie to shareholders	(97,990)	–	(97,990)
Loss for the year	–	(124,790)	(124,790)
At 31 March 2001	273,041	(304,353)	(31,312)

The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation on 29 October 1992, over the nominal value of the Company's shares issued in exchange therefor, together with the elimination of goodwill arising on consolidation of subsidiaries, and acquisition of associates and businesses.

The share premium account of the Company includes an amount of HK\$59,884,000 which represents the excess of the fair value of the shares in the subsidiaries acquired pursuant to the same Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor, net of a capitalisation issue of HK\$1,000,000. Under the Companies Law (2000 Revision) of the Cayman Islands, the share premium of the Company is available for dividends or distributions in specie to shareholders subject to the provisions of the Company's memorandum and articles of association and, provided that immediately following the distribution of dividends or distributions in specie, the Company is able to pay its debts as they fall due in the ordinary course of business. Pursuant to a special resolution passed in the extraordinary general meeting on 24 December 1999, articles 138 and 140 of the articles of association of the Company, which previously only permitted the payment of dividends or the making of distributions in specie out of the profits of the Company, were amended so that the Company is now able to pay dividends or make distributions in specie out of the profits or the share premium account of the Company. As at 31 March 2001, the share premium account of HK\$273,041,000 was available for cash distribution and/or distribution in specie under certain circumstances, including the circumstance as noted above, as stipulated in the Companies Law (2000 Revision) of Cayman Islands.

Notes to the Financial Statements

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26. NOTES TO THE CASH FLOW STATEMENT

- (a) Reconciliation of profit/(loss) from operating activities to net cash inflow from operating activities.

	2001	2000
	HK\$'000	HK\$'000
		(restated)
Profit/(loss) from operating activities	(77,310)	22,218
Interest income	(1,371)	(1,066)
Depreciation	10,535	13,432
Deficit on revaluation of investment properties	2,500	–
Gain/(Loss) on disposal of fixed assets	239	(215)
Gain on deemed disposal/dilution of interests in subsidiaries	(1,154)	(40,361)
Provision for bad and doubtful debts	3,892	2,987
Provision for inventory obsolescence	689	1,903
Loss on dilution of interests in an associate	1,539	–
Provision for diminution in values of fixed assets	48,520	–
Provision for diminution in values of interests in a jointly-controlled entity	9,549	–
Increase in accounts and bills receivable	(2,287)	(9,151)
Decrease in inventories	2,019	1,157
Decrease /(increase) in amount due from a minority shareholder of a subsidiary	830	(1,672)
Decrease in prepayments, deposits and other receivables	6,483	2,920
Increase/(decrease) in accounts and bills payable	1,134	(503)
Increase in accrued liabilities and other payables	5,852	58,759
Increase in amount due to related companies	7,046	–
Increase/(decrease) in amounts due to directors	213	(695)
Foreign exchange differences	552	(1,394)
Net cash inflow from operating activities	19,470	48,319

Notes to the Financial Statements

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26. NOTES TO THE CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Share capital (including share premium account) HK\$'000	Loans (including due to minority interests) HK\$'000	Minority interests HK\$'000
Balance at 1 April 1999	417,819	224,002	35,888
Net cash inflows/(outflows) from financing	68,827	(78,841)	5,410
Distribution in specie to shareholders	(10,923)	–	10,923
Arising on deemed disposal/dilution of interests in a subsidiary	–	–	23,648
Dividends paid to minority interests	–	–	(8,715)
Share of profit for the year	–	–	5,084
Effect of foreign exchange adjustments	–	592	–
Balance at 31 March 2000 and 1 April 2000	475,723	145,753	72,238
Net cash inflows/(outflows) from financing	18,939	(11,404)	–
Distribution in specie to shareholders	(97,990)	–	–
Arising on deemed disposal/dilution of interests in subsidiaries	–	–	2,827
Arising on deconsolidation of a subsidiary	–	–	(48,039)
Dividends paid to minority interests	–	–	(9,571)
Share of loss for the year	–	–	(2,716)
Effect of foreign exchange adjustments	–	(851)	–
Balance at 31 March 2001	396,672	133,498	14,739

26. NOTES TO THE CASH FLOW STATEMENT (Continued)

(c) Major non-cash transactions

- (i) The decrease in loans with minority shareholders of subsidiaries and the dividends paid to them of HK\$14,328,000 (2000: HK\$1,005,000) and HK\$9,571,000 (2000: HK\$8,715,000), respectively, did not contribute to or utilise the cash flows of the Group (note 16).
- (ii) The consideration for the dilution of interests in DFCT amounting to HK\$481,000 (2000: HK\$56,343,000) was settled by offsetting against certain accrued liabilities and other payables. Accordingly, this did not contribute to or utilise any cash flows of the Group in prior year.
- (iii) During the year, on 30 June 2000, 8,325,700 shares of DFCT held by the Company was distributed to the Company's shareholders on the basis of 1,000 DFCT's shares for every 200,000 of the Company's shares held on that date. The carrying value of DFCT's shares so distributed amounting to HK\$97,990,000 has been charged to the share premium account.
- (iv) Profits tax liability of HK\$1,541,000 (see note 29(ii)) has been reimbursed by certain related companies through current accounts with the Group.

Notes to the Financial Statements

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26. NOTES TO THE CASH FLOW STATEMENT (Continued)

(d) Deemed disposal of a subsidiary

Net assets deemed disposed of:

	2001 HK\$'000	2000 HK\$'000
Fixed assets	47,467	–
Construction in progress	159,225	–
Loan to a minority shareholder	14,328	–
Cash and bank balances	1,888	–
Accounts receivable	550	–
Prepayment, deposits and other receivable	6,708	–
Inventories	3,665	–
Accounts and bills payable	(561)	–
Accrued liabilities and other payables	(4,967)	–
Minority interests (including loan from a minority shareholder of the subsidiary of HK\$14,328,000)	(62,367)	–
	165,936	–
Satisfied by:		
Reclassification to interests in an associate	67,946	–
Reduction of share premium account	97,990	–
	165,936	–

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26. NOTES TO THE CASH FLOW STATEMENT (Continued)

(d) Deemed disposal of a subsidiary (Continued)

Analysis of net outflow of cash and cash equivalents in respect of the deconsolidation of the subsidiary:

	2001	2000
	HK\$'000	HK\$'000
Cash balances being excluded from consolidation and the net outflow of cash and cash equivalents in respect of the exclusion of the subsidiary from consolidation	1,888	–

The subsidiary of which the Group's interest was deemed disposed during the year utilised HK\$295,000 of the Group's net operating cash flows, paid HK\$656,000 in respect of returns on investments and servicing of finance, received HK\$83,000 in respect of tax refund, utilised HK\$2,455,000 for investing activities and contributed HK\$3,501,000 for financing activities.

27. CONTINGENT LIABILITIES

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees of banking facilities granted to subsidiaries	–	–	117,968	124,875

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28. COMMITMENTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Commitments for the acquisition of property, plant and equipment, contracted for, but not provided in the financial statements	6,475	17,278
Commitments to contribute to subsidiaries	848	16,482
Commitments to contribute to a jointly-controlled entity registered in the PRC	9,548	9,683
	16,871	43,443

	Group	
	2001	2000
	HK\$'000	HK\$'000
Annual commitments under non-cancellable operating leases on land and buildings expiring:		
After five years	770	745

As at 31 March 2001, the Company had no capital or operating lease commitments (2000: Nil).

Notes to the Financial Statements

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29. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the financial statements, the Group had the following transactions with related parties:

	Note	2001 HK\$'000	2000 HK\$'000
Logistics service income received from an associate	(i)	401	–
Interest expense paid to related companies	(ii)	–	1,506

Note:

- (i) The logistics service income was charged according to prices and conditions similar to those offered to other major customers of the Group.
- (ii) The interests were paid to related companies in which Sir Kenneth Fung Ping Fan and Mr. Horace Yao Yee Cheong, directors of the Company, have interests. The interests were charged at the prevailing market rates on loans advanced to the Group which were fully repaid in last year. During the year, the Inland Revenue Department disallowed the interest expenses paid by the Group to these related companies for the five years ended 31 March 2000, resulting in additional profits tax and related penalties amounting to HK\$1,541,000, in aggregate levied on the Group. These related companies agreed to indemnify the Group against these tax levies in the capacity of recipient of such interest income. Accordingly, the tax levies have been recorded as profits tax payable by the Group and the corresponding amounts have been charged to the current accounts with these related companies.

During the year, approximately HK\$7,046,000 was advanced by these related companies to the Group to meet the latter's working capital requirement. At 31 March 2001, advance from these related companies amounted to HK\$5,505,000, which are unsecured and interest-free and have no fixed terms of repayment.

Notes to the Financial Statements

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30. POST BALANCE SHEET EVENTS

- (a) On 7 April 2001, the Group and an independent third party entered into a sale and purchase agreement whereby the Group disposed of its entire equity interest in Dransfield Apparel Limited, a 50.01%-owned subsidiary of the Group, at a cash consideration of HK\$1,230,000. The gain arising from the disposal of approximately HK\$680,000 has been recorded in the Group's profit and loss account for the year ending 31 March 2002.
- (b) Subsequent to the balance sheet date, in July 2001, certain of the Group's furniture and office equipment located in the Mainland China were seized under court orders as security for an unsettled claim amounting to approximately HK\$4 million found against the Group. The unsettled claim has been provided for in the Group's financial statement as at 31 March 2001.
- (c) In August 2001, certain of the Group's mortgaged properties located in Hong Kong with an aggregate revalued amount of HK\$5,200,000 as at 31 March 2001 were foreclosed by a creditor bank. The total amount owed by the Group to this bank amounted to HK\$6,406,000 as at 31 March 2001. Accordingly, the shortfall of HK\$1,206,000 has been recorded as a liability of the Company, in the capacity of the guarantor of the mortgage facility, at the balance sheet date.

31. COMPARATIVE AMOUNTS

Gain on disposal/dilution of interests in subsidiaries of HK\$40,361,000 has been reclassified as other income and separately disclosed on the face of the profit and loss account, as in the opinion of the directors, due to the nature of the transaction the reclassification provides for a better presentation and accords with the presentation adopted for current year.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 5 September 2001.