

Notes to the Financial Statements



For the year ended 31 March 2002

1. GENERAL

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

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in light of the net current liabilities of HK\$298,043,000 at 31 March 2002.

As disclosed in note 45, the Company entered into a Conditional Subscription Agreement and a Conditional Placing Agreement (as defined in note 45) with third parties in relation to the subscription of 20,000,000,000 shares at an issue price of HK\$0.01 per subscription share at a total subscription price of HK\$200,000,000 and the placing of 25,000,000,000 new shares of HK\$0.01 per placing shares to independent investors. The total consideration amounts to HK\$450,000,000. Completion of the Conditional Subscription Agreement is conditional upon, among other things, the waiver from the Securities and Futures Commission of Hong Kong to make a mandatory general offer for all the securities of the Company other than the 20,000,000,000 new shares subscribed under the Conditional Subscription Agreement. Completion of the Conditional Placing Agreement is conditional upon, among other things, the completion of the Conditional Subscription Agreement.

Provided that the Conditional Subscription Agreement and the Conditional Placing Agreement can be successfully completed, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of revised and new Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants.

Other than as disclosed below, the adoption of these revised and new SSAPs has not resulted in any changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods. In addition, the revised and new SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative disclosures for the prior year have been restated in order to achieve a consistent presentation.

Notes to the Financial Statements



For the year ended 31 March 2002

3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

Goodwill

In the current year, the Group has adopted SSAP 30 "Business Combinations" and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. However, impairment losses in respect of goodwill that arose between the date of acquisition of the relevant subsidiaries and associates and the date of adoption of SSAP 30 have been recognised retrospectively. Negative goodwill arising on acquisitions prior to 1 April 2001 will be credited to the income statement at the time of disposal of the relevant subsidiaries and associates.

Goodwill arising on acquisitions after 1 April 2001 is capitalised and amortised over its estimated useful life, i.e. over periods ranging from 5 to 20 years, as appropriate. Negative goodwill arising on acquisitions on or after 1 April 2001 is presented as a deduction from assets and will be released to the income statement based on an analysis of the circumstances from which the balance resulted.

The financial effect of the adoption of SSAP 30 is summarised below:

	Accumulated profits <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 April 2000			
As originally stated	281,352	(118,945)	162,407
Retrospective recognition of impairment of goodwill held in reserves	<u>(118,945)</u>	<u>118,945</u>	<u>–</u>
As restated	<u>162,407</u>	<u>–</u>	<u>162,407</u>

The effect of these changes in accounting policies on the results for the current and prior years is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Impairment of goodwill	<u>–</u>	<u>34,694</u>

4. SIGNIFICANT ACCOUNTING POLICIES

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

Notes to the Financial Statements



For the year ended 31 March 2002

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisitions prior to 1 April 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate or at such time as the goodwill is determined to be impaired.

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

Goodwill arising on acquisitions on or after 1 April 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of associates is included within the carrying amount of the associates. Goodwill arising on the acquisition of subsidiaries is presented as a separate intangible asset.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisitions results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid on acquisition in so far as it has not already been amortised to the income statement, less any identified impairment loss.

Notes to the Financial Statements



For the year ended 31 March 2002

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

Service income is recognised when services are provided.

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

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

Gains on trading of derivatives are recognised on settlement date.

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

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any accumulated impairment losses.

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

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

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Notes to the Financial Statements



For the year ended 31 March 2002

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Factory under construction

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

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investments in securities

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Properties under development held for sale

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

Notes to the Financial Statements



For the year ended 31 March 2002

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts

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

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

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

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

Operating leases

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

Retirement benefit schemes

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution schemes or Mandatory Provident Fund Scheme in Hong Kong and the General Pension Scheme in the People's Republic of China.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Notes to the Financial Statements



For the year ended 31 March 2002

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

Borrowing costs

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

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

Convertible loans

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

Notes to the Financial Statements



For the year ended 31 March 2002

5. TURNOVER

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

	2002	2001
	HK\$'000	HK\$'000
Trading of building materials	257,110	281,440
Trading of marketable securities	970	363,950
Loss on trading of derivatives	–	(132,200)
Interest income on money lending	185	11,144
	<u>258,265</u>	<u>524,334</u>

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two main operating divisions, namely trading of building materials and trading of marketable securities and derivatives. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Trading of building materials – trading and production of ceramic tiles and bathroom accessories.

Trading of marketable securities and derivatives – trading of marketable securities and derivatives.

Segment information about these businesses for the years ended 31 March 2002 and 2001 is presented below.

Notes to the Financial Statements

For the year ended 31 March 2002



6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Income statement for the year ended 31 March 2002

	Trading of building materials	Trading of marketable securities and derivatives	Other operations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE				
External sales	257,110	970	185	258,265
RESULT				
Segment loss	(205,487)	(1,307)	(4,205)	(210,999)
Other operating income				6,274
Unallocated corporate expenses				(2,592)
Write-down of properties under development held for sale				(43,326)
Provision for an onerous contract				(23,400)
Loss from operations				(274,043)
Finance costs				(33,712)
Share of loss of associates				(88,227)
Gain on deemed disposal of an associate				2,928
Impairment loss recognised on interest in an associate				(24,433)
Loss on disposal of associates				(11,325)
Allowance for amounts due from associates				(60,499)
Loss before taxation				(489,311)
Taxation credit				9,854
Loss before minority interests				(479,457)

Notes to the Financial Statements



For the year ended 31 March 2002

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Balance sheet as at 31 March 2002

	Trading of building materials <i>HK\$'000</i>	Trading of marketable securities and derivatives <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets				
Segment assets	321,489	7	240	321,736
Interests in associates				3,920
Unallocated corporate assets				15,566
Consolidated total assets				<u>341,222</u>
Liabilities				
Segment liabilities	368,854	3,933	56	372,843
Unallocated corporate liabilities				88,133
Consolidated total liabilities				<u>460,976</u>

Other information for the year ended 31 March 2002

	Trading of building materials <i>HK\$'000</i>	Trading of marketable securities and derivatives <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Additions of property, plant and equipment	5,338	–	–	–	5,338
Depreciation of property, plant and equipment	31,340	–	4	48	31,392
Impairment losses recognised	59,558	–	–	24,433	83,991
Allowance for bad and doubtful debts	90,340	–	3,359	–	93,699
Allowance for amounts due from associates	–	–	–	60,499	60,499
Allowance for inventories	18,554	–	–	–	18,554
Provision for an onerous contract	–	–	–	23,400	23,400
Write-down of properties under development held for sale	–	–	–	43,326	43,326

Notes to the Financial Statements

For the year ended 31 March 2002



6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Income statement for the year ended 31 March 2001

	Trading of building materials	Trading of marketable securities and derivatives	Other operations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE				
External sales	281,440	231,750	11,144	524,334
RESULT				
Segment loss	(168,295)	(174,619)	(42,806)	(385,720)
Other operating income				29,020
Write-down of properties under development held for sale				(47,366)
Unallocated corporate expenses				(2,139)
Loss from operations				(406,205)
Finance costs				(28,997)
Share of loss of associates				(295,793)
Gain on deemed disposal of an associate				7,811
Gain on disposal of an associate				52
Impairment loss recognised on goodwill				(34,694)
Loss before taxation				(757,826)
Taxation charge				(5,036)
Loss before minority interests				(762,862)

Notes to the Financial Statements



For the year ended 31 March 2002

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Balance sheet as at 31 March 2001

	Trading of building materials <i>HK\$'000</i>	Trading of marketable securities and derivatives <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets				
Segment assets	597,260	5,702	13,757	616,719
Interests in associates				133,183
Unallocated corporate assets				61,797
Consolidated total assets				<u>811,699</u>
Liabilities				
Segment liabilities	330,783	22,252	80	353,115
Unallocated corporate liabilities				92,016
Consolidated total liabilities				<u>445,131</u>

Other information for the year ended 31 March 2001

	Trading of building materials <i>HK\$'000</i>	Trading of marketable securities and derivatives <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Additions of property, plant and equipment	3,233	–	66	–	3,299
Depreciation of property, plant and equipment	29,619	–	67	853	30,539
Impairment losses recognised on goodwill	–	–	–	34,694	34,694
Write-down of properties under development held for sale	–	–	–	47,366	47,366
Allowance for bad and doubtful debts	116,798	–	50,692	–	167,490
Allowance for inventories	4,103	–	–	–	4,103

Notes to the Financial Statements



For the year ended 31 March 2002

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

The Group's operations are located in Hong Kong and the PRC.

The following table provides an analysis of the Group's sales by location of markets, irrespective of the origin of the goods/services:

	Turnover		Contribution to loss from operations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	150,288	409,787	(134,335)	(448,226)
Other regions of PRC	79,165	109,213	(117,641)	15,542
USA	28,812	5,334	(2,349)	(402)
	<u>258,265</u>	<u>524,334</u>	<u>(254,325)</u>	<u>(433,086)</u>
Other operating income			6,274	29,020
Provision for an onerous contract			(23,400)	–
Unallocated corporate expenses			(2,592)	(2,139)
Loss from operations			<u>(274,043)</u>	<u>(406,205)</u>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	112,051	449,836	838	2,179
The PRC	229,171	361,863	4,500	1,120
	<u>341,222</u>	<u>811,699</u>	<u>5,338</u>	<u>3,299</u>

7. COST OF SALES

Included in cost of goods sold is an amount of HK\$18,554,000 (2001: HK\$4,103,000) in respect of write-down of obsolete finished goods and work in progress.

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8. OTHER OPERATING INCOME

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest earned on bank deposits	322	1,098
Gain on disposal of a subsidiary (note 36)	189	–
Gain on disposal of other securities	145	–
Gain on disposal of property, plant and equipment	–	12,487
Management fee income	–	537
Commission income	1,007	10,737
Transportation income	1,248	1,010
Sundry income	3,363	3,151
	<u>6,274</u>	<u>29,020</u>

9. LOSS FROM OPERATIONS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Staff costs		
– Directors' fee (note 11)	20	20
– Directors' other emoluments (note 11)	8,688	4,805
– Contribution to retirement benefits schemes, net of forfeiture HK\$868,000 (2001: HK\$366,000)	424	1,370
– Others	26,199	24,192
	<u>35,331</u>	<u>30,387</u>
Auditors' remuneration	1,422	1,129
Bad debt written off	–	325
Depreciation		
– Owned assets	31,370	30,520
– Asset held under a finance lease	22	19
Loss on disposal of club debentures	125	–
Loss on disposal of property, plant and equipment	7,720	–
Net foreign exchange loss	512	8
Allowance for bad and doubtful debts	93,699	167,490
Rental payments on premises under operating leases	16,083	18,064
	<u>16,083</u>	<u>18,064</u>

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10. FINANCE COSTS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on:		
Bank and other borrowings wholly repayable within five years	18,975	19,111
Bank and other borrowings not wholly repayable within five years	86	215
Convertible loan	14,647	9,660
Obligations under a finance lease	4	11
	<u>33,712</u>	<u>28,997</u>

11. DIRECTORS' EMOLUMENTS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Directors' fees:		
Executive	–	–
Independent non-executive	20	20
	<u>20</u>	<u>20</u>
Other emoluments – Executive:		
Salaries and other benefits	4,724	4,716
Contributions to retirement benefits scheme	104	89
	<u>4,828</u>	<u>4,805</u>
Total emoluments	<u>4,848</u>	<u>4,825</u>
Pensions paid to former directors:		
Compensation for loss of office paid to former directors by a Company's subsidiary	<u>3,860</u>	<u>–</u>

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11. DIRECTORS' EMOLUMENTS (continued)

The emoluments of the directors were within the following bands:

	2002 Number of directors	2001 Number of directors
HK\$Nil to HK\$1,000,000	12	11
HK\$2,000,001 to HK\$2,500,000	2	–
HK\$3,000,001 to HK\$3,500,000	1	–
	<u>15</u>	<u>11</u>

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group. None of the directors has waived any emoluments during the year.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2001: four) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining one (2001: one) individual were as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Salaries and other benefits	1,355	726
Contributions to retirement benefits scheme	36	31
	<u>1,391</u>	<u>757</u>

Their emoluments were within the following bands:

	2002	2001
HK\$Nil to HK\$1,000,000	–	1
HK\$1,000,001 to HK\$1,500,000	1	–
	<u>1</u>	<u>1</u>

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13. RETIREMENT BENEFITS SCHEMES

	2002 HK\$'000	2001 HK\$'000
The Company and subsidiaries in Hong Kong (<i>note (a)</i>)		
Contributions	948	1,133
Less: Forfeited amount	(868)	(366)
	<u>80</u>	<u>767</u>
Subsidiaries in PRC (<i>note (b)</i>)	<u>448</u>	<u>692</u>
	<u><u>528</u></u>	<u><u>1,459</u></u>

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

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

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

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

At both balance sheet dates, there were no forfeited contributions available to offset future employers' contributions to the schemes.

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13. RETIREMENT BENEFITS SCHEMES (continued)

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

14. TAXATION (CREDIT) CHARGE

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
The (credit) charge comprises:		
Profit for the year		
PRC	968	3,271
Overseas	–	86
Prior years		
(Over)underprovision in PRC	(7,919)	605
	(6,951)	3,962
Deferred taxation		
Current year (note 34)	(2,584)	1,062
	(9,535)	5,024
Share of taxation attributable to associates	(319)	12
	(9,854)	5,036

PRC income tax and taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Details of the deferred taxation provided for in the year are set out in note 34.

15. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$458,994,000 (2001: HK\$766,004,000) and 1,450,612,577 (2001: the weighted average number of 1,242,922,627) ordinary shares in issue during the year.

No diluted loss per share for both years have been presented as the exercise of the potential ordinary shares would result in a reduction in loss per share.

Notes to the Financial Statements



For the year ended 31 March 2002

15. LOSS PER SHARE (continued)

The adjustment to comparative basic loss per share, arising from the changes in accounting policies shown in note 3 above, is as follows:

	<i>HK cents</i>
Reconciliation of 2001 basic loss per share:	
Reported figure before adjustments	58.84
Adjustments arising from the adoption of SSAPs 30 and 31	2.79
	61.63
Restated	61.63

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Leasehold improve- ments	Furniture, fixtures and equipment	Motor vehicles	Computer software	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP							
COST							
At 1 April 2001	146,216	277,557	11,580	20,540	11,803	1,293	468,989
Additions	100	4,149	590	263	–	236	5,338
Transferred from factory under construction (<i>note 17</i>)	–	2,501	–	–	–	–	2,501
Disposals	(5,676)	(7,905)	(5,467)	(7,834)	(3,974)	(1,221)	(32,077)
Exchange adjustment	277	989	–	54	34	–	1,354
	140,917	277,291	6,703	13,023	7,863	308	446,105
At 31 March 2002	140,917	277,291	6,703	13,023	7,863	308	446,105
DEPRECIATION AND IMPAIRMENT							
At 1 April 2001	34,056	135,812	7,682	17,149	9,990	447	205,136
Provided for the year	4,173	24,013	995	1,230	754	227	31,392
Eliminated on disposals	(351)	(3,030)	(4,178)	(6,698)	(3,634)	(615)	(18,506)
Impairment loss recognised	39,098	7,024	666	863	–	42	47,693
Exchange adjustment	61	344	–	(4)	14	–	415
	77,037	164,163	5,165	12,540	7,124	101	266,130
At 31 March 2002	77,037	164,163	5,165	12,540	7,124	101	266,130
NET BOOK VALUES							
At 31 March 2002	63,880	113,128	1,538	483	739	207	179,975
At 31 March 2001	112,160	141,745	3,898	3,391	1,813	846	263,853

Notes to the Financial Statements

For the year ended 31 March 2002



16. PROPERTY, PLANT AND EQUIPMENT (continued)

The net book value of properties shown above comprises:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Land in Hong Kong:		
Long lease	1,542	2,932
Medium-term lease	21,380	63,724
Land in PRC:		
Long lease	2,658	2,658
Medium-term lease	38,300	42,846
	<u>63,880</u>	<u>112,160</u>

The directors have assessed the recoverable amount of certain property, plant and equipment at the balance sheet date with reference to the net selling prices. The impairment loss recognised of HK\$47,693,000 (2001: Nil) mainly represented the recognition of a decrease in the recoverable amount of certain property, plant and equipment as a result of the cessation of the operations of certain subsidiaries.

At the balance sheet date, the carrying amount of property, plant and equipment retired from active use and held for disposal amounted to approximately HK\$25,060,000 (2001: Nil).

17. FACTORY UNDER CONSTRUCTION

	2002
	HK\$'000
THE GROUP	
Beginning balance	14,291
Exchange adjustment	75
Transferred to property, plant and equipment (<i>note 16</i>)	(2,501)
Impairment loss recognised	(11,865)
	<u> </u>
Ending balance	<u> </u>

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

The carrying value of the factory under construction amounting to HK\$11,865,000 was written off since the related development project in the PRC was abandoned during the year.

Notes to the Financial Statements



For the year ended 31 March 2002

18. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	286,876	286,876
Impairment loss recognised	(223,235)	–
	<u>63,641</u>	<u>286,876</u>

An impairment loss of HK\$223,235,000 (2001: Nil) has been recognised for investments in subsidiaries with reference to the recoverable amount estimated by the directors using the discounted cash flow method.

Details of the Company's principal subsidiaries are set out in note 46.

19. INTERESTS IN ASSOCIATES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Share of net assets		
– listed	–	78,304
– unlisted (<i>note</i>)	28,353	54,380
Amount due from an associate	–	499
	<u>28,353</u>	<u>133,183</u>
Impairment loss recognised	(24,433)	–
	<u>3,920</u>	<u>133,183</u>
Market value of listed shares	–	39,338

Details of the principal associates are set out in note 47.

Note: The amount represented the interest in an unlisted associate of which the principal asset is a highway in the PRC. The directors estimated that the amount of impairment required in respect of the Group's interest in this associate was HK\$24,433,000 by reference to a valuation as at 31 March 2002 performed by Sallmanns (Far East) Ltd., an independent firm of professional valuers based on the present value of the expected future revenue arising from the highway, which was derived from discounting the projected cash flow at a discount rate of 20%.

Notes to the Financial Statements



For the year ended 31 March 2002

20. INVESTMENTS IN SECURITIES

	Trading securities		THE GROUP Other securities		Total	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities:						
Listed	7	5,702	-	-	7	5,702
Unlisted	-	-	-	936	-	936
	<u>7</u>	<u>5,702</u>	<u>-</u>	<u>936</u>	<u>7</u>	<u>6,638</u>
Other investments:						
Club debentures	-	-	467	622	467	622
Total:						
Listed						
Hong Kong	7	5,702	-	-	7	5,702
Unlisted	-	-	467	1,558	467	1,558
	<u>7</u>	<u>5,702</u>	<u>467</u>	<u>1,558</u>	<u>474</u>	<u>7,260</u>
Market value of listed securities	<u>7</u>	<u>5,702</u>	<u>-</u>	<u>-</u>	<u>7</u>	<u>5,702</u>
Carrying amount analysed for reporting purpose as:						
Current	7	5,702	-	-	7	5,702
Non-current	-	-	467	1,558	467	1,558
	<u>7</u>	<u>5,702</u>	<u>467</u>	<u>1,558</u>	<u>474</u>	<u>7,260</u>

Notes to the Financial Statements

For the year ended 31 March 2002



21. LOANS RECEIVABLE

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Secured	–	59,327
Unsecured	<u>2,250</u>	<u>3,554</u>
	2,250	62,881
Less: Provision for doubtful debts	<u>(2,028)</u>	<u>(50,794)</u>
	222	12,087
Less: Portion repayable within one year shown under current assets	<u>(222)</u>	<u>(9,729)</u>
	<u>–</u>	<u>2,358</u>

Loans receivable bears interest ranging from 6% to 7.125%.

22. INVENTORIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Raw materials	13,581	17,867
Work in progress	511	634
Finished goods and general merchandise	<u>27,627</u>	<u>66,659</u>
	<u>41,719</u>	<u>85,160</u>

Included above are finished goods and general merchandise of HK\$16,343,000 (2001: HK\$16,105,000) carried at net realisable value.

Notes to the Financial Statements

For the year ended 31 March 2002



23. PROPERTIES UNDER DEVELOPMENT HELD FOR SALE

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
At the beginning of the year	55,000	95,746
Additions	1,706	6,620
Write-down	<u>(43,326)</u>	<u>(47,366)</u>
At the end of the year	<u><u>13,380</u></u>	<u><u>55,000</u></u>

The lands were situated in Hong Kong and held under medium-term leases.

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

The amounts are interest free and unsecured.

Except for the amounts due from subsidiaries and the amount due to an investee company which are not required to be settled in the coming twelve months, all amounts have no fixed repayment term.

An impairment loss of HK\$60,499,000 (2001: Nil) has been recognised for the amounts due from associates with reference to the recoverable amount estimated by the directors using the discounted cashflow method.

Notes to the Financial Statements

For the year ended 31 March 2002



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

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Contracts in progress at the balance sheet date:		
Contract costs incurred	23,092	19,787
Recognised profits less recognised losses	1,161	812
	<u>24,253</u>	<u>20,599</u>
Progress billings	(24,569)	(21,119)
	<u>(316)</u>	<u>(520)</u>
Analysed for reporting purposes as:		
Due from customers included in current assets	246	297
Due to customers included in current liabilities	(562)	(817)
	<u>(316)</u>	<u>(520)</u>

26. TRADE DEBTORS

The Group does not define a fixed credit policy.

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

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within 60 days	23,131	14,789
61 – 90 days	6,437	9,709
Over 90 days	24,727	71,173
	<u>54,295</u>	<u>95,671</u>

Notes to the Financial Statements

For the year ended 31 March 2002



27. TRADE CREDITORS

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

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within 60 days	9,096	39,351
61 – 90 days	1,904	4,503
Over 90 days	24,090	19,751
	<u>35,090</u>	<u>63,605</u>

28. BANK BORROWINGS

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Bank overdraft	4,334	3,144
Bank loans	72,809	87,651
	<u>77,143</u>	<u>90,795</u>
Secured	54,331	56,450
Unsecured	22,812	34,345
	<u>77,143</u>	<u>90,795</u>

Bank borrowings are repayable as follows:

Loans repayable within a period of:

One year	71,073	76,927
One to two years	2,996	5,452
Two to five years	2,964	6,287
Over five years	110	2,129
	<u>77,143</u>	<u>90,795</u>
Less: Amount due within one year shown under current liabilities	<u>(71,073)</u>	<u>(76,927)</u>
	<u>6,070</u>	<u>13,868</u>

Notes to the Financial Statements



For the year ended 31 March 2002

28. BANK BORROWINGS (continued)

In prior year, the Group was in breach of a covenant in respect of certain banking facilities. In July 2002, the Company has obtained the consensus from the relevant bank that the outstanding balance of approximately HK\$29,688,000 at 31 March 2002 will be repayable by instalments in the coming eighteen months.

29. OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Other borrowings comprise the followings which are repayable within one year or on demand:				
Convertible loan				
– unsecured (<i>note</i>)	92,302	92,302	–	–
Advance from a financial institution in the PRC	40,238	43,849	–	–
Other short-term loans	63,860	60,000	60,000	60,000
	<u>196,400</u>	<u>196,151</u>	<u>60,000</u>	<u>60,000</u>
Secured	60,000	–	60,000	–
Unsecured	136,400	196,151	–	60,000
	<u>196,400</u>	<u>196,151</u>	<u>60,000</u>	<u>60,000</u>

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

By an assignment executed on 18 February 2002, Simonson has assigned to Perfect Master Limited (“PML”), a wholly-owned subsidiary of ING, an independent third party, the Loan and all related rights and interest. On the same date, the entire issued share capital of PML and the Loan has been sold to Galaxy Time Limited, a company held by New World Enterprise Holdings Limited. Details of which are set out in the announcement of ING dated 18 February 2002.

The Loan bears interest at 9.8% per annum and is repayable on demand.

Notes to the Financial Statements

For the year ended 31 March 2002



30. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amount payable under a finance lease				
Within one year	-	66	-	62
Less: Future finance charges	-	(4)	N/A	N/A
Present value of lease obligations	<u>-</u>	<u>62</u>	-	62
Less: Amount due for settlement within 12 months shown under current liabilities			-	(62)
			<u>-</u>	<u>-</u>

31. SHARE CAPITAL

	Number of shares		Share capital	
	2002	2001	2002 HK\$'000	2001 HK\$'000
Authorised:				
At the beginning of the year				
Ordinary share of HK\$0.01 each	30,000,000,000	4,000,000,000	300,000	40,000
Increase in authorised share capital of HK\$0.01 each	-	26,000,000,000	-	260,000
Consolidation of shares from HK\$0.01 to HK\$0.1 each	-	(27,000,000,000)	-	-
Subdivided into ten shares of HK\$0.01 each	-	27,000,000,000	-	-
At the end of the year				
Ordinary shares of HK\$0.01 each	<u>30,000,000,000</u>	<u>30,000,000,000</u>	<u>300,000</u>	<u>300,000</u>

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For the year ended 31 March 2002

31. SHARE CAPITAL (continued)

	Number of shares		Share capital	
	2002	2001	2002 HK\$'000	2001 HK\$'000
Issued and fully paid:				
At the beginning of the year				
Ordinary shares of HK\$0.01 each	1,450,612,577	2,594,763,620	14,506	25,948
Rights issue of shares	–	1,556,858,172	–	15,569
Bonus issue of shares	–	8,303,243,584	–	83,032
Exercise of warrants	–	51,260,400	–	512
Issue of shares under placing	–	2,000,000,000	–	20,000
Consolidation of shares and capital reduction	–	(13,055,513,199)	–	(130,555)
At the end of the year				
Ordinary shares of HK\$0.01 each	<u>1,450,612,577</u>	<u>1,450,612,577</u>	<u>14,506</u>	<u>14,506</u>

32. WARRANTS

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

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

As a consequence of the share consolidation on 26 February 2001, the subscription price for new shares under the terms of the warrants was adjusted upwards to HK\$0.2 per new share.

During the year, no warrants were exercised. At 31 March 2002, the Company had outstanding 2,439,712,675 (2001: 2,439,712,675) units of warrants carrying rights to subscribe for 243,971,267 ordinary shares.

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For the year ended 31 March 2002

33. RESERVES

	Goodwill reserve HK\$'000	Capital reserve on consoli- dation HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Capital redemption reserve HK\$'000	Enterprises expansion reserve HK\$'000	Revenue reserve HK\$'000	Exchange reserve HK\$'000	Contributed surplus HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
THE GROUP											
At 1 April 2000											
- As originally stated	(118,945)	33,545	28,100	694,583	572	199	199	-	-	281,352	919,605
- Prior period adjustment (note 3)	118,945	-	-	-	-	-	-	-	-	(118,945)	-
- As restated	-	33,545	28,100	694,583	572	199	199	-	-	162,407	919,605
Consolidation of shares											
from HK\$0.01 to HK\$0.1 each	-	-	-	-	-	-	-	-	130,555	-	130,555
Issue of shares under placing	-	-	12,000	-	-	-	-	-	-	-	12,000
Placement expenses	-	-	(136)	-	-	-	-	-	-	-	(136)
Rights issue of shares	-	-	93,411	-	-	-	-	-	-	-	93,411
Rights issue expenses	-	-	(2,913)	-	-	-	-	-	-	-	(2,913)
Bonus issue of shares	-	-	(83,032)	-	-	-	-	-	-	-	(83,032)
Bonus issue expenses	-	-	(803)	-	-	-	-	-	-	-	(803)
Exercise of warrants	-	-	513	-	-	-	-	-	-	-	513
Goodwill reserve arising from increase in interest in an associate											
	(255)	-	-	-	-	-	-	-	-	-	(255)
Goodwill reserve arising from acquisition of an associate											
	(34,439)	-	-	-	-	-	-	-	-	-	(34,439)
Impairment loss recognised	34,694	-	-	-	-	-	-	-	-	-	34,694
Net loss for the year	-	-	-	-	-	-	-	-	-	(766,004)	(766,004)
At 31 March 2001											
Exchange adjustment	-	-	-	-	-	-	-	(682)	-	-	(682)
Release on disposal/written off of subsidiaries											
	-	(6)	-	-	-	-	-	-	-	-	(6)
Release on disposal of associates	-	(6,157)	-	-	-	-	-	-	-	-	(6,157)
Net loss for the year	-	-	-	-	-	-	-	-	-	(458,994)	(458,994)
At 31 March 2002											
	-	27,382	47,140	694,583	572	199	199	(682)	130,555	(1,062,591)	(162,643)

The accumulated losses of the Group include HK\$438,342,000 (2001: HK\$265,183,000) attributable to associates of the Group.

Notes to the Financial Statements



For the year ended 31 March 2002

33. RESERVES (continued)

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated profits (losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY					
At 1 April 2000	28,099	572	262,357	12,016	303,044
Issue of shares under placing	12,000	-	-	-	12,000
Placement expenses	(136)	-	-	-	(136)
Consolidation of shares from HK\$0.01 to HK\$0.1 each	-	-	130,555	-	130,555
Rights issue of shares	93,411	-	-	-	93,411
Rights issue expenses	(2,913)	-	-	-	(2,913)
Bonus issue of shares	(83,032)	-	-	-	(83,032)
Bonus issue expenses	(803)	-	-	-	(803)
Exercise of warrants	513	-	-	-	513
Net loss for the year	-	-	-	(3,764)	(3,764)
	<u>47,139</u>	<u>572</u>	<u>392,912</u>	<u>8,252</u>	<u>448,875</u>
At 1 April 2001	47,139	572	392,912	8,252	448,875
Net loss for the year	-	-	-	(465,543)	(465,543)
	<u>47,139</u>	<u>572</u>	<u>392,912</u>	<u>(457,291)</u>	<u>(16,668)</u>
At 31 March 2002	<u>47,139</u>	<u>572</u>	<u>392,912</u>	<u>(457,291)</u>	<u>(16,668)</u>

The special reserve of the Group represents the difference between share capital, share premium and capital redemption reserve of Companion Building Material (Holdings) Limited and the nominal amount of share capital issued by the Company pursuant to the scheme of arrangement on 24 December 1999.

The contributed surplus of the Company represents the difference between the fair value of the share capital of Companion Building Material (Holdings) Limited whose shares were exchanged for the Company's shares and the nominal amount of the share capital issued by the Company pursuant to the scheme of arrangement on 24 December 1999.

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

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

Notes to the Financial Statements

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33. RESERVES (continued)

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

	2001 HK\$'000
Contributed surplus	392,912
Accumulated profits	8,252
Capital redemption reserve	572
	<u>401,736</u>

There is no distributable reserve as at 31 March 2002.

34. DEFERRED TAXATION

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
At beginning of the year	2,587	1,525
(Credit) charge for the year	<u>(2,584)</u>	<u>1,062</u>
At end of the year	<u><u>3</u></u>	<u><u>2,587</u></u>

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

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	14	5,952
Tax effect of taxation losses	<u>(11)</u>	<u>(3,365)</u>
	<u><u>3</u></u>	<u><u>2,587</u></u>

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

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35. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Loss before taxation	(489,311)	(757,826)
Gain on disposal of a subsidiary	(189)	–
Loss on disposal of club debentures	125	–
Gain on disposal of other securities	(145)	–
Share of loss of associates	88,227	295,793
Interest expense	33,712	28,135
Interest income	(322)	(12,242)
Depreciation	31,392	30,539
Bad debts written off	–	325
Loss (gain) on disposal of property, plant and equipment	7,720	(12,487)
Write-down of properties under development held for sale	43,326	47,366
Impairment loss recognised on property, plant and equipment	47,693	–
Impairment loss recognised on factory under construction	11,865	–
Provision for an onerous contract	23,400	–
Allowance for amounts due from associates	60,499	–
Impairment loss recognised on goodwill	–	34,694
Impairment loss recognised on interest in an associate	24,433	–
Allowance for inventories	18,554	4,103
Loss (gain) on disposal and deemed disposal of associates	8,397	(7,863)
Allowance for bad and doubtful debts	93,699	167,490
Unrealised loss on trading securities	2	19,928
Decrease in inventories	24,518	11,224
Decrease in trading securities	5,693	3,221
Increase in debtors, deposits and prepayments	(26,881)	(2,320)
Decrease (increase) in amounts due from associates	7,185	(17,980)
Decrease in amounts due from customers for contract work	51	549
Decrease in amount due to an associate	–	(43)
(Decrease) increase in amounts due to customers for contract work	(255)	715
Decrease in loans receivable	9,837	43,913
Decrease in staff housing loan	–	481
(Decrease) increase in rental and sales deposits received	(3,701)	13,444
Increase in bills payable and import loans	8,041	6,268
Increase (decrease) in creditors and accruals	12,181	(90,670)
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	<u>39,746</u>	<u>(193,243)</u>

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36. DISPOSAL OF A SUBSIDIARY

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net assets disposed of:		
Inventories	369	–
Trade debtors	1,676	–
Other debtors	44	–
Bank balances and cash	156	–
Creditors and accrued charges	(2,158)	–
Minority interest	(26)	–
	<hr/>	<hr/>
	61	–
Gain on disposal	189	–
	<hr/>	<hr/>
	250	–
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash	250	–
	<hr/> <hr/>	<hr/> <hr/>
Net cash inflow arising on disposal of a subsidiary:		
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration	250	–
Bank balances and cash disposal of	(156)	–
	<hr/>	<hr/>
	94	–
	<hr/> <hr/>	<hr/> <hr/>

The subsidiary disposed of did not make a significant contribution to the net cash flows or the results of the Group for the year ended 31 March 2002.

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For the year ended 31 March 2002

37. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$'000	Convertible loan HK\$'000	Bank loans HK\$'000	Other loans HK\$'000	Obligation under a finance lease HK\$'000	Minority interests HK\$'000	Amount due to minority shareholders of subsidiaries HK\$'000	Amount due to an investee company HK\$'000
Balance at 1 April 2000	54,047	92,880	94,577	45,227	-	45,724	2,483	1,081
Issue of shares under placing	32,000	-	-	-	-	-	-	-
Placement expenses	(136)	-	-	-	-	-	-	-
Exercise of rights issue	108,980	-	-	-	-	-	-	-
Rights issue expense	(2,913)	-	-	-	-	-	-	-
Exercise of warrant issue	1,025	-	-	-	-	-	-	-
Bonus issue expenses	(803)	-	-	-	-	-	-	-
Advance from minority shareholders of subsidiaries	-	-	-	-	-	-	4,875	-
New loans raised	-	-	65,112	61,750	-	-	-	-
Repayments	-	(578)	(72,430)	(3,310)	-	-	-	-
Inception of finance lease	-	-	-	-	130	-	-	-
Repayment of finance lease	-	-	-	-	(68)	-	-	-
Consolidation of shares from HK\$0.01 to HK\$0.1 each	(130,554)	-	-	-	-	-	-	-
Minority interests in loss for the year	-	-	-	-	-	3,142	-	-
Exchange difference	-	-	392	182	-	-	-	-
Balance at 31 March 2001	61,646	92,302	87,651	103,849	62	48,866	7,358	1,081
Repayment to amount due to an investee company	-	-	-	-	-	-	-	(1,081)
Repayment from minority shareholders of subsidiaries	-	-	-	-	-	-	(1,723)	-
New loans raised	-	-	23,173	5,000	-	-	-	-
Repayments	-	-	(38,509)	(4,978)	-	-	-	-
Repayment of finance lease	-	-	-	-	(62)	-	-	-
Release upon disposal of a subsidiary	-	-	-	-	-	(26)	-	-
Release upon deconsolidation of subsidiaries arising from deregistration	-	-	-	-	-	6	-	-
Minority interests in loss for the year	-	-	-	-	-	(20,463)	-	-
Exchange difference	-	-	494	227	-	-	-	-
Balance at 31 March 2002	61,646	92,302	72,809	104,098	-	28,383	5,635	-

Notes to the Financial Statements



For the year ended 31 March 2002

38. MAJOR NON CASH TRANSACTION

During the year, interests in associates have been reclassified to investments in securities. These investments in securities have been transferred to a trade creditor to set off an amount of HK\$17,327,000 due to such trade creditor based on the estimated fair value of these securities as at 31 March 2002.

39. RELATED PARTY TRANSACTIONS

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

Company	Nature	2002 HK\$'000	2001 HK\$'000
Received from:			
Companion Marble Limited	Management fee	–	537
Yixing United Ceramics Co., Ltd.	Sale of ceramic tiles	127	1,069
Yixing United Ceramics Co., Ltd.	Technical support	–	346
Paid to:			
Yixing United Ceramics Co., Ltd.	Purchase of ceramic tiles	<u>24,583</u>	<u>5,774</u>

Companion Marble Limited is a subsidiary of Skynet (International Group) Holdings Limited, an associate of the Company during the year up to 25 March 2002. The Group performed certain administrative services for Companion Marble Limited for which a management fee was received, being an appropriate allocation of cost incurred.

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

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

Balances with related parties are as follows:

	Amount due therefrom	
	2002	2001
	HK\$'000	HK\$'000
Associates	<u>12,776</u>	<u>80,461</u>

Notes to the Financial Statements



For the year ended 31 March 2002

40. CONTINGENT LIABILITIES

At 31 March 2002, the contingent liabilities of the Group and the Company so far not provided for in the financial statements are set out as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Outstanding performance bonds in respect of rental of retail shop	-	527	-	-
Corporate guarantee given to bankers in respect of banking facilities utilised by				
– an associate	10,268	26,783	-	18,963
– subsidiaries	-	-	126,026	133,146
Other corporate guarantee (in lieu of utility deposit)	540	-	-	-
Interests on overdue loan unprovided	4,237	-	-	-
Put option granted to a third party to require the Company to purchase certain shares in Skynet Limited (<i>note 41</i>)	-	23,366	-	23,366

41. PROVISION FOR AN ONEROUS CONTRACT

The amount represented a provision for a put option granted to a third party in prior year to require the Company to purchase certain shares in Skynet Limited, a former associate of the Company. During the year, the put option was assigned by the third party to a company beneficially owned by the substantial shareholder of the Company.

42. LEASE COMMITMENTS

The Group as lessee

At 31 March 2002, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	13,281	14,254
In the second to fifth year	10,048	18,830
	<u>23,329</u>	<u>33,084</u>

Operating lease payments represent rentals payable by the Group for its office premises. Leases are mainly negotiated for an average term of three years and rentals are fixed for an average of three years.

Notes to the Financial Statements



For the year ended 31 March 2002

42. LEASE COMMITMENTS (continued)

The Group as lessor

Property rental income earned during the year was HK\$300,000 (2001: HK\$300,000). All of the properties held have committed tenants for the next three years.

At 31 March 2002, the Group had contracted with tenants for the following future minimum lease payments:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within one year	300	300
In the second to fifth year	875	1,175
	<u>1,175</u>	<u>1,475</u>

43. OTHER COMMITMENTS

At 31 March 2002, the Group had the following commitments, which had not been provided for in the financial statements:

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Acquisition of property, plant and machinery	<u>–</u>	<u>203</u>

44. PLEDGE OF ASSETS

The Group has pledged certain land and buildings, motor vehicles, plant and machinery with an aggregate carrying value of approximately HK\$110,779,000 (2001: HK\$163,520,000) to secure the banking facilities granted to the Group.

The Group has pledged certain land and buildings in Hong Kong with an aggregate carrying value of approximately HK\$6,840,000 (2001: Nil) and certain investments in securities with market value of approximately HK\$17,327,000 (2001: Nil) and all issued shares of two wholly-owned subsidiaries (2001: Nil) to secure other loan of HK\$60,000,000 and interest thereon and an amount due to a trade creditor.

Notes to the Financial Statements



For the year ended 31 March 2002

45. POST BALANCE SHEET EVENTS

- (a) On 24 May 2002, Companion Building Material (Holdings) Limited ("CBM"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement and a deed of assignment relating to the sale of 100% of the issued share capital of three wholly-owned subsidiaries to a third party and the assignment to a third party of the shareholder's loans due from such subsidiaries which amounted to HK\$54,778,000 as at 31 March 2002 at a total consideration of HK\$15,000,003.
- (b) On 4 June 2002, the Company entered into a subscription agreement with a third party, China Strategic Holdings Limited in relation to the subscription of 20,000,000,000 shares at an issue price of HK\$0.01 per subscription share at a total subscription price of HK\$200,000,000 ("Conditional Subscription Agreement").

On 4 June 2002, a placing agreement was also entered into between the Company and the placing agent, Tai Fook Securities Company Limited in relation to the proposed placing pursuant to which the Company agreed to appoint the placing agent for the proposed placing of 25,000,000,000 new shares of HK\$0.01 per placing share to independent investors on a best efforts basis ("Conditional Placing Agreement").

The total consideration for the subscription shares and the placing shares amounts to HK\$450,000,000.

In order to enable the issue of the subscription shares and the placing shares and to facilitate future expansion, the Company proposed to increase its authorised share capital from HK\$300,000,000 to HK\$600,000,000 by the creation of 30,000,000,000 new shares.

The proposed increase in the authorised share capital of the Company will be subject to the passing of the necessary resolution by the shareholders at a special general meeting to approve the increase in the authorised share capital of the Company.

Completion of the Conditional Subscription Agreement is conditional upon, among other things, the waiver from the Securities and Futures of Hong Kong to make a mandatory general offer for all the securities of the Company other than the 20,000,000,000 new shares subscribed under the Conditional Subscription Agreement.

Completion of the Conditional Placing Agreement is conditional upon, among other things, the completion of the Conditional Subscription Agreement.

Details of the above proposed arrangements were set out in the announcement dated 7 June 2002.

Notes to the Financial Statements



For the year ended 31 March 2002

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Company at 31 March 2002 which, in the opinion of the directors, principally 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 exercise length.

Name of subsidiary	Place/ country of incorporation/ registration	Class of share held	Paid up issued/ registered ordinary share capital	Proportion of nominal value of issued capital/ registered capital by the Company		Principal activities
				Directly %	Indirectly %	
Operate in Hong Kong:						
* Batch Profit Company Limited 羣溢有限公司	Hong Kong	Ordinary	HK\$2	–	100	Property investment
* C.B.M. Properties Limited 友暉地產有限公司	Hong Kong	Ordinary	HK\$10,000	–	100	Property investment
Companion Building Material (Holdings) Limited 友聯建築材料(集團)有限公司	Hong Kong	Ordinary	HK\$490,385,924	–	100	Investment holding and trading of ceramic tiles and sundry building materials
Companion Building Material Supplies (H.K.) Limited 友聯建築材料供應(香港)有限公司	Hong Kong	Ordinary	HK\$100	–	100	Wholesaling of ceramic tiles
Companion-China Limited 友聯中國有限公司	Hong Kong	Ordinary	HK\$137,839,000	–	100	Investment holding and trading of ceramic tiles
Companion-China (Supplies) Limited 友聯中國(建材供應)有限公司	Hong Kong	Ordinary	HK\$2	–	100	Investment holding
Companion Finance Limited	The British Virgin Islands	Ordinary	US\$100	–	100	Money lending

Notes to the Financial Statements



For the year ended 31 March 2002

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place/ country of incorporation/ registration	Class of share held	Paid up issued/ registered ordinary share capital	Proportion of nominal value of issued capital/ registered capital by the Company		Principal activities
				Directly %	Indirectly %	
Operate in Hong Kong: (Continued)						
Companion Glory Limited 友暉有限公司	Hong Kong	Ordinary	HK\$10,000	–	100	Retailing of ceramic tiles
* Companion Sanitaries Limited 友暉潔具有限公司	Hong Kong	Ordinary	HK\$2	–	100	Wholesaling of sanitaries
* Crown Rise Investments Limited 高陞投資有限公司	Hong Kong	Ordinary	HK\$2	–	100	Property investment
Ellca Company Limited 雅爾嘉有限公司	Hong Kong	Ordinary	HK\$10,000	–	100	Property investment
* Fullyear Path Developments Limited	The British Virgin Islands	Ordinary	US\$100	–	100	Property investment
King Unity Investments Limited 興盟投資有限公司	Hong Kong	Ordinary	HK\$20,000	–	80	Investment holding
Placemakers Limited	The British Virgin Islands	Ordinary	US\$100	–	100	Investment holding
* Saint Galerie Trading Company Limited	Hong Kong	Ordinary	HK\$4,000	–	100	Provision of agency services
Saint Galerie Tiles Limited 新嘉利瓷磚有限公司	Hong Kong	Ordinary	HK\$13,750,000	–	100	Manufacturing and trading of ceramic tiles

Notes to the Financial Statements



For the year ended 31 March 2002

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place/ country of incorporation/ registration	Class of share held	Paid up issued/ registered ordinary share capital	Proportion of nominal value of issued capital/ registered capital by the Company		Principal activities
				Directly %	Indirectly %	
Operate in Hong Kong: (Continued)						
Sino Hearts Corporation	The British Virgin Islands	Ordinary	US\$100	–	100	Investment holding
Sino Pearl Limited 崇寶有限公司	Hong Kong	Ordinary	HK\$2	–	100	Property investment
Super Trend Limited	Republic of Liberia	Ordinary	US\$4	–	100	Investment holding
Operate in the PRC:						
*# Chongqing Golden Unity Ceramics Co., Ltd. ("Golden Unity") 重慶金聯陶瓷有限公司	PRC	Registered capital	RMB46,750,000	–	#56	Manufacturing of ceramic tiles
* Wenzhou Xishan United Ceramics Company Limited 溫州西山聯合陶瓷 有限公司	PRC	Registered capital	RMB46,360,148	–	73.5	Manufacturing of ceramic tiles
* 新會市友聯專業陶瓷 有限公司	PRC	Registered capital	RMB14,280,640	–	100	Polishing of ceramic tiles

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

* Companies not audited by Deloitte Touche Tohmatsu.

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

Notes to the Financial Statements



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47. PARTICULARS OF PRINCIPAL ASSOCIATES

The following table lists the associate of the Group at 31 March 2002 which, in the opinion of the directors, principally affected the results and assets of the Group. To give details of other associates would in the opinion of directors, result in particulars of exercise length.

Name of associate	Form of business structure	Place/ country of registration	Principal place of operation	Class of share held	Proportion of nominal value of issued capital/ registered capital by the Company		Nature of business
					Directly %	Indirectly %	
Asean Fortune Corporation	Incorporated	The British Virgin Islands	Hong Kong	Ordinary	-	50	Investment holding
* Kipton Limited 勁通有限公司	Incorporated	Hong Kong	Hong Kong	Ordinary	-	20	Investment holding
* Yixing United Ceramics Co., Ltd. 宜興聯合陶瓷有限公司	Incorporated	PRC	PRC	Capital contribution	-	47.56	Manufacturing of ceramic tiles

* Companies not audited by Deloitte Touche Tohmatsu.