

# Management Discussion and Analysis

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## FINANCIAL RESULTS

The Group's audited consolidated operating loss before finance costs for the year ended 30th April 2001 recorded approximately HK\$281,789,000 (profit for 2000: HK\$152,847,000). The audited consolidated loss attributable to shareholders for the year was approximately HK\$774,688,000 (loss attributable to shareholders in 2000: HK\$43,888,000) and the loss per share was 32.02 HK cents (loss per share for 2000: 1.97 HK cents).

The Group recorded a turnover of HK\$1,730,737,000 for the financial year ended 30th April 2001, a decrease of HK\$3,819,900,000 as compared to the turnover of HK\$5,550,637,000 of last year. Such decrease was mainly attributable to the discontinued operations in its bullion and jewellery business as RNA and its subsidiaries ("RNA Group") was no longer subsidiaries of the Group since 19th August 2000, as well as its diamond and jewellery retailing business carried out in the PRC through a subsidiary since 1st January 2001. In such case, turnover generated from the sales of bullion and bullion financing and jewellery products during the year under review before discontinuation was HK\$1,706,175,000, a decrease of 68.74% as compared to HK\$5,458,342,000 last year.

The operating loss before finance costs of HK\$281,789,000 for the year has increased substantially as compared to the operating profit of HK\$152,847,000 in last year. Such decrease in operating profit was mainly attributed to the following:

1. Discontinued operations of most of the Group's principal activities since 19th August 2000 and thus reduced the turnover for the year;
2. A loss of HK\$24,628,000 on disposal of investment in preference shares of RNA before the reclassification;
3. A provision of HK\$255,508,000 for the diminution in value of short term listed investments; and
4. A gain of total HK\$176,774,000 on reclassification of RNA Group from subsidiaries to short term listed investment, reclassification of Can Do Holdings Limited ("Can Do") from interest in an associate to short term listed investment and disposal of subsidiaries were made during the year.

The Company's shares have been suspended for trading on The Stock Exchange of Hong Kong Limited since 24th December 2001.

## SUBSIDIARIES AND ASSOCIATES

As at 1st May 2000, Chimstar Limited ("Chimstar"), a company as to 72.52% and 27.48% held by the Group and other third-party shareholders (the "Third-party Shareholders") respectively, had a 42.65% beneficial interest in RNA. Sky Lead International Limited ("Sky Lead"), a wholly owned subsidiary of the Group had a 11.45% beneficial interest in RNA. Chimstar and Sky Lead altogether had a 54.1% interest in RNA which was classified as a subsidiary of the Group in prior years. The results, assets and liabilities of RNA Group were consolidated in these accounts up to 18th August 2000.

As disclosed in the Company's circular dated 19th July 2000, a conditional sale and purchase agreement was entered into between Chimstar and its shareholders on 24th June 2000 to reorganise their indirect shareholdings in RNA held through Chimstar. Pursuant to the agreement, which was completed on 18th August 2000, Chimstar sold its 11.72% beneficial interest in RNA to the Third-party Shareholders for a consideration of HK\$33 million approximately. The consideration was settled by way of set off against the existing shareholders' loans due to the Third-party Shareholders by Chimstar. Accordingly, the results of RNA Group were consolidated into the Group's results up to 18th August 2000, the date on which the controlling interest in RNA was divested. The Group has classified RNA Group as an associate in its interim report for the six months ended 31st October 2000.

# Management Discussion and Analysis *(Continued)*

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## SUBSIDIARIES AND ASSOCIATES *(Continued)*

In the opinion of the directors, the operations of the RNA Group are clearly distinguishable from other business operations of the Group, and accordingly, they have been classified as discontinued operations for the period from 1st May 2000 to 18th August 2000.

During the year, 380 million and 140 million shares of RNA held by Chimstar and Sky Lead respectively were secured to banks and financial creditors (collectively, the "Financial Creditors") for loan facilities granted to the Group. Due to the Group's failure to repay the loans, the Financial Creditors had foreclosed on approximately 74 million shares of RNA to be disposed of and the proceeds had been used to reduce the debts due to them during the year. Subsequently, 172 million shares of RNA were also foreclosed after the balance sheet date and up to the date of approval of these accounts. In the second half of the financial year, 134 million new ordinary shares of RNA were issued and allotted pursuant to a placement of shares. Subsequently, 11,168 million new ordinary shares of RNA were also issued and allotted to other third parties after the year end date and up to the date of approval of these accounts. The Group's equity interests in RNA Group were reduced and diluted to approximately 29.6% as at 30th April 2001 and approximately 2.17% as at the date of approval of these accounts.

To fairly present the state of affairs of the Group as at 30th April 2001, the Group's attributable interests in RNA Group as at 18th August 2000, the date of completion of the reorganisation, had been reclassified as "short term listed investment" instead of "interest in an associate" and included as part of current assets of the Group. The short term listed investment was stated at fair value of approximately HK\$70 million at the balance sheet date in the accounts, after a provision of HK\$242 million was made in relation to the diminution in value.

## LIQUIDITY AND CAPITAL RESOURCES

The Group's liabilities included indebtedness of HK\$613 million as at 30th April 2001 (2000: HK\$1,015 million) which comprised bank loans of HK\$116 million (2000: HK\$297 million), unsecured promissory notes of HK\$357 million (2000: HK\$357 million) and other secured and unsecured borrowings of HK\$140 million (2000: HK\$361 million).

During the year, the Company has been in default in repayment of bank loans according to the repayment schedules of the respective loan agreements. Subsequent to the balance sheet date, on 25th May 2001, the Petitioner filed writs of summons to demand for the repayment of the amounts due and petition for the winding-up of the Company.

Accordingly, all long term loans are now reclassified as short term loans shown under current liabilities as all the outstanding bank loans have been called for immediate payment according to the relevant clauses of the loan agreements. As at 30th April 2000, other than the loan which has been in default by the Company, the remaining loan balances due from the Group were due from RNA Group, which has now been reclassified from subsidiaries to short term listed investment as at 30th April 2001.

On 19th September 2001, the Company entered into the Standstill Agreement with certain creditors and bankers including the Petitioner (collectively, the "Creditors"), pursuant to which the Creditors agreed to take no action to recover their claims in consideration that the Company will procure to carry out debt restructuring exercises. Since the Standstill Agreement was expired on 31st December 2001, no Creditors took any actions against the Company and on 9th May 2002, the Company entered into a proposed debt restructuring agreement with the Creditors and a potential investor ("Investor"). The principal terms of the Restructuring Proposal are set out in note 2(I) to the accounts.

As at 30th April 2001, the Group had consolidated net current liabilities of HK\$684 million (2000: net current assets of HK\$135 million). Such change was primarily attributable to the reclassification of all long term loans as short term loans.

## REMUNERATION POLICY AND SHARE OPTION SCHEME

During the year under review, the Company has not granted any share options to its employees or directors under the share option scheme of the Company adopted on 27th October 1998. The Group has 70 employees as at 30th April 2001.