

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

I. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is China Resources National Corp., a company established in the People's Republic of China (the "PRC").

The Company is an investment holding company. Its subsidiaries are principally engaged in the business of manufacturing, importing, marketing and distributing of a comprehensive range of office and household furniture for sale to customers mainly in Hong Kong and the Mainland China.

The financial statements for the current period cover the nine-month period ended December 31, 2000. The corresponding amounts shown for the consolidated income statement, consolidated statement of recognised gains and losses, consolidated cash flow statement and related notes cover the twelve-month period from April 1, 1999 to March 31, 2000 and therefore may not be comparable with amounts shown for the current period. The period covered by the current financial statements was less than twelve months because the directors determined to bring the balance sheet date into line with that of its holding company. No further changes to reporting dates are anticipated.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties.

The financial statements have been prepared in accordance with 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 the balance sheet date.

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

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill or capital reserve

Goodwill or capital reserve arising on the acquisition of a subsidiary or an associate, which represents respectively the excess or shortfall of the purchase consideration over the Group's share of the fair value ascribed to the separable net assets or liabilities of the subsidiary or the associate at the date of acquisition, is dealt with through reserves in the year of acquisition.

On disposal of a subsidiary or an associate, the attributable amount of goodwill or capital reserve previously written off or credited to reserves at the time of acquisition is included in the determination of the profit or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the terms of the relevant leases.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of the reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the consolidated income statement. Where a deficit has previously been charged to the consolidated income statement and a revaluation surplus subsequently arises, this surplus is credited to the consolidated income statement to the extent of the deficit previously charged.

On subsequent disposal of an investment property, any revaluation surplus attributable to that property is included in the determination of the profit or loss on disposal.

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than twenty years.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Certain of the Group's leasehold land and buildings were revalued at March 31, 1994. The surplus arising on revaluation of properties was credited to other properties revaluation reserve. The Group has adopted the transitional relief provided by paragraph 72 of Statement of Standard Accounting Practice 17 "Property, plant and equipment" issued by the Hong Kong Society of Accountants from the requirement to make revaluations on a regular basis of the Group's leasehold properties and, accordingly, no further revaluation of these properties will be carried out. Any future impairment losses recognised in respect of these properties will be charged to the consolidated income statement to the extent that it exceeds the surplus, if any, held in other properties revaluation reserve relating to previous revaluations of the particular property.

Depreciation or amortisation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the remaining terms of the leases
Buildings	4% or over the relevant lease terms, if shorter
Furniture and fixtures	10% — 20%
Machinery and equipment	10% — 20%
Motor vehicles	10% — 33 $\frac{1}{3}$ %

Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in value of the subsidiary that is other than temporary.

Associate

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

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of net assets of the associates.

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

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities

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

Investments other than held-to-maturity debt securities are classified as investment securities and other investments, as appropriate.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in the profit or loss for the period/year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted-average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Taxation

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

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the consolidated income statement.

On consolidation, the financial statements which are denominated in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advances.

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

3. TURNOVER AND CONTRIBUTIONS TO LOSS FROM OPERATIONS

Turnover represents the net amounts received and receivable for goods sold to outside customers during the period/year.

Over 90% of the Group's turnover and loss from operations are derived from the People's Republic of China, including Hong Kong.

4. OTHER OPERATING EXPENSES

	April 1, 2000 to December 31, 2000	April 1, 1999 to March 31, 2000
	HK\$	HK\$
Provision for bad and doubtful debts	—	16,597,921

5. IMPAIRMENT LOSS ON PROPERTIES AND INVESTMENTS

	April 1, 2000 to December 31, 2000	April 1, 1999 to March 31, 2000
	HK\$	HK\$
Deficit arising on revaluation of investment properties	405,329	1,654,926
Provision for permanent diminution in value of leasehold properties	—	54,974,921
Provision for amounts due from investee companies	—	4,217,295
Provision for the decline in value other than temporary in other long-term investments	—	32,000
	405,329	60,879,142

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

6. LOSS FROM OPERATIONS

	April 1, 2000 to December 31, 2000 HK\$	April 1, 1999 to March 31, 2000 HK\$
Loss from operations has been arrived at after charging:		
Amortisation of pre-operating expenditure	—	3,197,116
Auditors' remuneration	600,000	700,000
Depreciation and amortisation	8,185,068	17,571,213
Staff costs		
— Directors' emoluments (Note 8)		
— Fees	61,667	60,000
— Other emoluments	1,781,254	2,012,455
	1,842,921	2,072,455
— Other staff (Note below)		
— Salaries and other allowances	22,915,103	40,409,244
— Retirement benefit scheme contribution net of forfeited contribution		
HK\$nil (April 1, 1999 to March 31, 2000: HK\$118,185)	349,117	138,999
	25,107,141	42,620,698
Loss on disposal of property, plant and equipment	1,094,176	4,962,417
Operating lease rentals paid in respect of rented premises	8,210,518	12,012,777
and after crediting:		
Interest income	6,334,454	118,373
Property rental income	442,808	265,000
Less: Outgoings	—	—
	442,808	265,000

Note: Including redundancy payments amounting to HK\$nil (April 1, 1999 to March 31, 2000: HK\$6,090,000).

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

7. FINANCE COSTS

	April 1, 2000 to December 31, 2000	April 1, 1999 to March 31, 2000
	HK\$	HK\$
Interest on bank borrowings wholly repayable within five years	1,544,444	18,379,018
Interest on convertible bonds	—	46,860
Interest on loans from substantial shareholder	—	4,007,748
	1,544,444	22,433,626
Finance charges on finance leases	—	10,683
	1,544,444	22,444,309

8. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

Directors

The Directors' emoluments for the period/year are analysed as follows:

	April 1, 2000 to December 31, 2000	April 1, 1999 to March 31, 2000
	HK\$	HK\$
Fees to:		
Executive Directors	—	—
Non-executive Directors	—	—
Independent Non-executive Directors	61,667	60,000
	61,667	60,000
Other emoluments to Executive Directors:		
Salaries and other benefits	1,676,254	1,968,895
Retirement benefit scheme contributions	105,000	62,229
Less: Forfeited contribution	—	(18,669)
	1,781,254	2,012,455
	1,842,921	2,072,455

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

8. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES (Continued)

Directors (Continued)

The emoluments of each of the Directors were within the following band:

	April 1, 2000 to December 31, 2000	April 1, 1999 to March 31, 2000
	Number of Directors	Number of Directors
Nil to HK\$1,000,000	10	9

Employees

The five highest paid individuals of the Group included one Executive Director (April 1, 1999 to March 31, 2000: two Executive Directors), details of whose emoluments are set out above. The emoluments of the remaining highest paid employees of the Group, other than Directors of the Company, are as follows:

	April 1, 2000 to December 31, 2000	April 1, 1999 to March 31, 2000
	HK\$	HK\$
Salaries and other benefits	1,722,679	1,443,963

The emoluments of each of the above employees were within the following band:

	April 1, 2000 to December 31, 2000	April 1, 1999 to March 31, 2000
	Number of employees	Number of employees
Nil to HK\$1,000,000	4	3

9. TAXATION

No provision for taxation has been made in the financial statements as the Group does not have any assessable profit for the period/year in respect of any of the jurisdictions in which the Group operates.

Details of the unprovided deferred tax asset are set out in Note 30.

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

10. LOSS FOR THE PERIOD/YEAR

	April 1, 2000 to December 31, 2000	April 1, 1999 to March 31, 2000
	HK\$	HK\$
Loss attributable to the Company	(17,231,218)	(162,205,365)
Loss attributable to subsidiaries	(15,953,586)	(154,441,914)
Loss attributable to an associate	(200,828)	(1,054,278)
Provision for diminution in value of subsidiaries eliminated on consolidation	16,811,732	158,497,047
	(16,573,900)	(159,204,510)

11. LOSS PER SHARE

The calculation of loss per share is based on the loss for the period of HK\$16,573,900 (April 1, 1999 to March 31, 2000: HK\$159,204,510) and the weighted average number of 1,475,942,443 shares (April 1, 1999 to March 31, 2000: 598,351,659 shares) in issue during the period/year.

Because exercise of the Company's outstanding share options during the year ended March 31, 2000 and the nine-month period ended December 31, 2000 would be anti-dilutive, no diluted earnings per share is presented for either period.

12. INVESTMENT PROPERTIES

	THE GROUP
	HK\$
VALUATION	
At April 1, 2000	2,128,500
Acquisition of a subsidiary	2,476,829
Deficit arising on revaluation	(405,329)
At December 31, 2000	4,200,000

The investment properties, which are rented out under operating leases, were revalued as at December 31, 2000 by DTZ Debenham Tie Leung Limited, Chartered Surveyors, on an open market value basis. The resulting deficit arising on revaluation of HK\$405,329 has been charged to the consolidated income statement.

The investment properties are situated in Hong Kong and are held under medium-term leases.

NOTES TO THE FINANCIAL STATEMENTS

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13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties HK\$	Furniture and fixtures HK\$	Machinery and equipment HK\$	Motor vehicles HK\$	Total HK\$
THE GROUP					
COST OR VALUATION					
At April 1, 2000	191,066,961	25,571,147	32,335,860	4,731,804	253,705,772
Additions	241,455	620,477	834,889	972,420	2,669,241
Disposals	(179,065,228)	(794,606)	(539,947)	(927,974)	(181,327,755)
At December 31, 2000	12,243,188	25,397,018	32,630,802	4,776,250	75,047,258
Comprising:					
At cost	11,643,188	25,397,018	32,630,802	4,776,250	74,447,258
At valuation — 1994	600,000	—	—	—	600,000
	12,243,188	25,397,018	32,630,802	4,776,250	75,047,258
DEPRECIATION AND AMORTISATION					
At April 1, 2000	120,586,700	16,844,342	19,453,566	3,443,990	160,328,598
Provided for the period	684,254	4,135,907	2,837,406	527,501	8,185,068
Eliminated on disposals	(117,021,219)	(276,148)	(465,601)	(892,653)	(118,655,621)
At December 31, 2000	4,249,735	20,704,101	21,825,371	3,078,838	49,858,045
NET BOOK VALUES					
At December 31, 2000	7,993,453	4,692,917	10,805,431	1,697,412	25,189,213
At March 31, 2000	70,480,261	8,726,805	12,882,294	1,287,814	93,377,174

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's property interests comprise:

	Leasehold properties	
	December 31,	March 31,
	2000	2000
	HK\$	HK\$
Situated outside Hong Kong held under a long lease	1,610,837	1,630,323
Situated outside Hong Kong held under a medium-term lease	502,667	514,667
Situated outside Hong Kong held under short leases	5,879,949	6,291,262
Situated in Hong Kong held under long leases	—	62,044,009
	7,993,453	70,480,261

Had those properties carried at valuation been restated at cost less accumulated depreciation and amortisation, the carrying value of such properties as at December 31, 2000 would have been stated at HK\$664,223 (March 31, 2000: HK\$58,486,742).

14. INTEREST IN AN ASSOCIATE

	THE GROUP	
	December 31,	March 31,
	2000	2000
	HK\$	HK\$
Share of net liabilities	—	(1,069,832)
Amount due from an associate	—	5,414,543
	—	4,344,711

The Group's interest in associate at March 31, 2000 represented a 50% equity interest in the issued ordinary share capital of L & M International Limited, a company incorporated in Hong Kong and engaged in property holding. During the period, the Group acquired the remaining equity interest in L & M International Limited which became a wholly owned subsidiary of the Group since then.

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

15. INTEREST IN OTHER LONG TERM INVESTMENTS

	THE GROUP	
	December 31,	March 31,
	2000	2000
	HK\$	HK\$
Unlisted investments, at cost	32,000	32,000
Amounts due from investee companies	4,217,295	4,217,295
Less: Provision	(4,249,295)	(4,249,295)
	—	—

The amounts due from investee companies are unsecured, interest free and have no fixed repayment terms.

Particulars of other long term investments as at December 31, 2000, which are all indirectly held by the Company, are as follows:

Name of company	Place of incorporation	Attributable equity interest to the Group	Principal activity
Accessing Investments Limited	Hong Kong	20% (Note)	Property investment
Delyhtful Challenge Limited	Hong Kong	20% (Note)	Property investment
Logic Office Supplies (Macau) Company Limited	Macau	10%	Trading in office furniture

Note: In the opinion of the Directors, the Group is not in a position to participate in the financial and operating policy decisions of these companies. Accordingly, these companies are not regarded as associates of the Group.

16. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	December 31,	March 31,
	2000	2000
	HK\$	HK\$
Unlisted shares	144,929,402	144,929,394
Amounts due from subsidiaries	628,123,956	427,773,353
Less: Provision	(562,190,395)	(545,378,663)
	210,862,963	27,324,084

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

16. INTEREST IN SUBSIDIARIES (Continued)

The carrying value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group at the time when they became members of the Group pursuant to the group reorganisation in 1994.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, repayments of the amounts will not be demanded by the Company within the twelve months from the balance sheet date. Accordingly, the amounts are shown as a non-current asset in the balance sheet.

Particulars of the principal subsidiaries as at December 31, 2000 are set out in Note 37.

17. INVENTORIES

	THE GROUP	
	December 31, 2000 HK\$	March 31, 2000 HK\$
Raw materials	10,168,880	11,801,600
Work in progress	3,132,733	6,700,971
Finished goods	26,668,577	45,970,449
	39,970,190	64,473,020

There are finished goods of HK\$26,668,577 (March 31, 2000: HK\$45,970,449) carried at net realisable value.

18. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period of 30 days to its trade debtors. The aged analysis of trade debtors of HK\$22,252,864 (March 31, 2000: HK\$16,879,986) which are included in the Group's debtors, deposits and prepayments are as follows:

	December 31, 2000 HK\$	March 31, 2000 HK\$
0 – 60 days	15,956,524	12,724,400
61 – 90 days	4,292,407	1,938,900
91 – 365 days	2,003,933	2,216,686
	22,252,864	16,879,986

The Company did not have any trade debtors at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

19. CREDITORS AND ACCRUED CHARGES

The aged analysis of trade creditors of HK\$11,534,801 (March 31, 2000: HK\$24,187,224) which are included in the Group's creditors and accrued charges are as follows:

	December 31, 2000 HK\$	March 31, 2000 HK\$
0 – 60 days	8,758,845	13,054,024
61 – 90 days	1,286,405	4,777,390
91 – 365 days	1,489,551	6,355,810
	11,534,801	24,187,224

The Company did not have any trade creditors at the balance sheet date.

20. AMOUNTS DUE TO SUBSIDIARIES

The amounts are unsecured, interest free and repayable on demand.

21. BORROWINGS

	THE GROUP		THE COMPANY	
	December 31, 2000 HK\$	March 31, 2000 HK\$	December 31, 2000 HK\$	March 31, 2000 HK\$
Bank loans	—	75,407,350	—	20,875,842
Bank overdrafts	—	84,200,902	—	—
Loans from substantial shareholder (Note)	—	74,323,340	—	74,323,339
	—	233,931,592	—	95,199,181
Less: Amount due within one year or on demand shown under current liabilities	—	(233,931,592)	—	(95,199,181)
Amount due after one year	—	—	—	—
Secured	—	75,407,350	—	20,875,842
Unsecured	—	158,524,242	—	74,323,339
	—	233,931,592	—	95,199,181

Note: The amount represented loans from substantial shareholder and its subsidiary, which were unsecured, interest bearing at prevailing prime rates and fully repaid during the period.

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22. SHARE CAPITAL

	Number of shares		Amount	
	December 31, 2000	March 31, 2000	December 31, 2000 HK\$	March 31, 2000 HK\$
Shares of HK\$0.10 each				
Authorised:				
At beginning of period/year	1,200,000,000	1,200,000,000	120,000,000	120,000,000
Increase during the period/year (Note a)	1,300,000,000	—	130,000,000	—
At end of period/year	2,500,000,000	1,200,000,000	250,000,000	120,000,000
Issued and fully paid:				
At beginning of period/year	616,632,261	587,182,261	61,663,226	58,718,226
Shares issued upon Subscription (Note b)	884,000,000	—	88,400,000	—
Shares issued upon exercise of share options (Note 23)	8,200,000	4,450,000	820,000	445,000
Shares issued for the acquisition of additional interest in a subsidiary	—	25,000,000	—	2,500,000
At end of period/year	1,508,832,261	616,632,261	150,883,226	61,663,226

Notes:

- Pursuant to an ordinary resolution passed at a special general meeting of the Company held on April 10, 2000, the authorised share capital of the Company was increased from HK\$120,000,000 to HK\$250,000,000 by the creation of an additional 1,300,000,000 new shares of HK\$0.10 each. Such new shares rank pari passu in all respects with the then existing shares in the Company.
- Pursuant to a subscription agreement dated February 23, 2000 (the "Subscription") entered into among the Company, Waterside Holdings Limited ("Waterside"), China Resources Enterprise, Limited ("CRE") and China Resources (Holdings) Company Limited ("CRH"), a total of 884 million new shares of HK\$0.10 each in the Company were issued on April 11, 2000 to Waterside and CRH at a subscription price of HK\$0.40 per share in cash.
Details of the transaction were set out in a circular of the Company dated March 24, 2000 issued to the shareholders.

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23. SHARE OPTIONS

Pursuant to the Company's share option scheme for employees which was adopted at a special general meeting of the Company held on October 15, 1994, the Board of Directors of the Company may, at their discretion, grant options at a consideration of HK\$1 each to eligible employees, including Executive Directors, of the Company and its subsidiaries to subscribe for shares in the Company at a price not less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares quoted on the Stock Exchange on the five trading days immediately preceding the date of grant of the options. The maximum number of shares in respect of which options may be granted under the share option scheme shall not exceed 10% of the issued share capital of the Company from time to time.

A summary of the movements of share options granted under the scheme during the period is as follows:

Date of grant	Exercise price HK\$	Exercisable period	Number of option shares			
			Outstanding at April 1, 2000	Granted during the period	Exercised during the period	Outstanding at December 31, 2000
July 14, 1998	0.174 each	Note (a)	5,350,000	—	(5,350,000)	—
November 18, 1998	0.185 each	Note (b)	2,850,000	—	(2,850,000)	—
September 21, 2000	0.590 each	Note (c)	—	38,000,000	—	38,000,000
			8,200,000	38,000,000	(8,200,000)	38,000,000

Notes:

- (a) The exercisable period during which the options may be exercised is from January 15, 2000 to January 14, 2004.
- (b) The exercisable period during which the options may be exercised is from May 19, 2000 to October 14, 2004.
- (c) The exercisable period during which the options may be exercised is either from September 21, 2000 to September 20, 2010 or divided into 3 tranches exercisable during the periods from September 21, 2001, 2002 and 2003 to September 20, 2010.

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24. RESERVES

	Share premium HK\$	Contributed surplus HK\$ (Notes)	Other properties revaluation reserve HK\$	Capital reserve HK\$	Translation reserve HK\$	Deficit HK\$	Total HK\$
THE GROUP							
At April 1, 1999	265,734,198	—	3,782,423	57,785,802	(264,856)	(301,027,545)	26,010,022
Premium on shares issued upon exercise of share options	329,300	—	—	—	—	—	329,300
Premium on shares issued for the acquisition of additional interests in subsidiaries	4,425,000	—	—	—	—	—	4,425,000
Capital reserve arising on acquisition of additional interests in subsidiaries	—	—	—	781,568	—	—	781,568
Provision for permanent diminution in value	—	—	(3,782,423)	—	—	—	(3,782,423)
Loss for the year	—	—	—	—	—	(159,204,510)	(159,204,510)
At March 31, 2000	270,488,498	—	—	58,567,370	(264,856)	(460,232,055)	(131,441,043)
Premium on shares issued pursuant to the Subscription (Note 22)	265,200,000	—	—	—	—	—	265,200,000
Expenses incurred in connection with the issue of shares pursuant to the Subscription	(1,957,590)	—	—	—	—	—	(1,957,590)
Premium on shares issued upon exercise of share options	638,150	—	—	—	—	—	638,150
Goodwill arising on acquisition of a subsidiary	—	—	—	(1,250,664)	—	—	(1,250,664)
Capital reserve arising on acquisition of additional interests in subsidiaries	—	—	—	593,346	—	—	593,346
Loss for the period	—	—	—	—	—	(16,573,900)	(16,573,900)
At December 31, 2000	534,369,058	—	—	57,910,052	(264,856)	(476,805,955)	115,208,299
THE COMPANY							
At April 1, 1999	265,734,198	144,729,394	—	—	—	(384,453,570)	26,010,022
Premium on shares issued upon exercise of share options	329,300	—	—	—	—	—	329,300
Premium on shares issued for the acquisition of additional interests in subsidiaries	4,425,000	—	—	—	—	—	4,425,000
Loss for the year	—	—	—	—	—	(162,205,365)	(162,205,365)
At March 31, 2000	270,488,498	144,729,394	—	—	—	(546,658,935)	(131,441,043)
Premium on shares issued pursuant to the Subscription (Note 22)	265,200,000	—	—	—	—	—	265,200,000
Expenses incurred in connection with the issue of shares pursuant to the Subscription	(1,957,590)	—	—	—	—	—	(1,957,590)
Premium on shares issued upon exercise of share options	638,150	—	—	—	—	—	638,150
Loss for the period	—	—	—	—	—	(17,231,218)	(17,231,218)
At December 31, 2000	534,369,058	144,729,394	—	—	—	(563,890,153)	115,208,299

Notes:

- (a) The contributed surplus of the Company represents the difference between the aggregate value of the underlying net assets of the subsidiaries acquired at the date on which the group reorganisation became effective and the nominal amount of the Company's shares which were issued under the group reorganisation.

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

24. RESERVES (Continued)

- (b) Under the company law in Bermuda, in addition to retained profits of the Company, contributed surplus is also available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:
- (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
 - (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company had no reserve available for distribution to shareholders as at December 31, 2000.

25. RECONCILIATION OF LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	April 1, 2000 to December 31, 2000 HK\$	April 1, 1999 to March 31, 2000 HK\$
Loss from ordinary activities before taxation	(17,098,682)	(159,406,113)
Share of loss of an associate	200,828	1,054,278
Deficit arising on revaluation of investment properties	405,329	1,654,926
Depreciation and amortisation of property, plant and equipment	8,185,068	17,571,213
Loss on disposal of property, plant and equipment	1,094,176	4,962,417
Interest expenses	1,544,444	22,433,626
Interest income	(6,334,454)	(118,373)
Amortisation of pre-operating expenditure	—	3,197,116
Provision for bad and doubtful debts	—	16,597,921
Provision for permanent diminution in value of leasehold properties	—	54,974,921
Provision for decline in value other than temporary in unlisted long-term investments	—	4,249,295
Finance charges on finance leases	—	10,683
Decrease in inventories	24,502,830	19,077,740
(Increase) decrease in debtors, deposits and prepayments	(12,425,700)	15,922,293
Decrease in creditors and accrued charges	(900,705)	(24,368,768)
Net cash outflow from operating activities	(826,866)	(22,186,825)

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

26. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR/PERIOD

	Share capital and premium HK\$	Bank loans HK\$	Import bank loans HK\$	Obligations under finance leases HK\$	Loans from substantial shareholder HK\$	Minority interests HK\$	Convertible bonds HK\$
Balance at April 1, 1999	324,452,424	110,384,368	5,155,870	589,374	31,000,000	9,036,298	3,600,000
Repayments during the year	—	(34,977,018)	(5,155,870)	(589,374)	—	(603,345)	—
Loans raised during the year	—	—	—	—	35,000,000	—	—
Proceeds from shares issued upon exercise of share options	774,300	—	—	—	—	—	—
Shares issued for the acquisition of additional interests in subsidiaries*	6,925,000	—	—	—	—	—	—
Acquisition of minority interests in subsidiaries	—	—	—	—	—	(7,706,568)	—
Minority interests in the results of subsidiaries	—	—	—	—	—	(201,603)	—
Convertible bonds re-designated as loans from substantial shareholder*	—	—	—	—	3,600,000	—	(3,600,000)
Interest payable capitalised*	—	—	—	—	4,723,340	—	—
Balance at March 31, 2000	332,151,724	75,407,350	—	—	74,323,340	524,782	—
Proceeds from shares issued pursuant to the Subscription	353,600,000	—	—	—	—	—	—
Expenses incurred in connection with the issue of shares pursuant to the Subscription	(1,957,590)	—	—	—	—	—	—
Proceeds from shares issued upon exercise of share options	1,458,150	—	—	—	—	—	—
Acquisition of a subsidiary*	—	925,719	—	—	—	—	—
Minority interests in the results of subsidiaries	—	—	—	—	—	(524,782)	—
Repayments during the period	—	(76,333,069)	—	—	(74,323,340)	—	—
Balance at December 31, 2000	685,252,284	—	—	—	—	—	—

* Major non-cash transactions

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

27. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	December 31, 2000 HK\$	March 31, 2000 HK\$
Bank balances and cash	192,038,587	14,767,870
Bank overdrafts	—	(84,200,902)
	192,038,587	(69,433,032)

28. ACQUISITION OF A SUBSIDIARY

	April 1, 2000 to December 31, 2000 HK\$	April 1, 1999 to March 31, 2000 HK\$
Net liabilities acquired:		
Investment properties	2,476,829	—
Debtors and prepayments	1,512,173	—
Bank loan	(925,719)	—
Amount due to a related company	(5,584,606)	—
	(2,521,323)	—
Previously accounted for as interest in an associate	1,270,660	—
Net liabilities acquired	(1,250,663)	—
Goodwill on acquisition	1,250,664	—
Consideration	1	—

The subsidiary acquired during the period had no significant impact on the turnover, results and cash flows of the Group for the period.

29. RETIREMENT BENEFIT SCHEME

Prior to December 1, 2000, the Group operated a defined contribution retirement benefit scheme ("Defined Contribution Scheme") for its qualifying employees in Hong Kong. The assets of the scheme were held separately from those of the Group in funds under the control of an independent trustee. Where there are employees who leave the Defined Contribution Scheme prior to vesting fully in the contributions, the amount of the forfeited contributions would be used to reduce future contributions payable by the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

29. RETIREMENT BENEFIT SCHEME (Continued)

With effective from December 1, 2000, the Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee.

Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit scheme contributions arising from the Defined Contribution Scheme and the MPF Scheme charged to the consolidated income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

During the period/year, the Group made retirement benefits scheme contributions of HK\$349,117 (April 1, 1999 to March 31, 2000: HK\$138,999) after forfeited contributions utilised in the Defined Contribution Scheme of HK\$nil (April 1, 1999 to March 31, 2000: HK\$118,185).

At the balance sheet date, there was no significant amount of forfeited contributions available to reduce future contributions.

30. DEFERRED TAXATION

During the period, the Group incurred an unrecognised potential deferred tax credit in relation to estimated tax losses for the period of HK\$nil (April 1, 1999 to March 31, 2000: HK\$9,100,000), resulting in an unrecognised potential deferred tax asset in relation to estimated tax losses carried forward of HK\$49,500,000 (March 31, 2000: HK\$49,500,000). The potential deferred tax asset has not been recognised in the financial statements as it is uncertain whether the benefit will crystallise in the foreseeable future.

Other than the above, there was no other significant amount of unprovided deferred taxation in respect of the Group and the Company for the period/year and at the balance sheet dates.

31. PLEDGE OF ASSETS

At December 31, 2000, certain properties with an aggregate carrying value of approximately HK\$2,213,000 (March 31, 2000: HK\$64,687,000) were pledged to secure the credit facilities granted to the Group.

The Company did not have any assets pledged at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

32. OPERATING LEASE COMMITMENTS

At December 31, 2000, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises. The portion of these commitments which is payable in the following year is as follows:

	THE GROUP		THE COMPANY	
	December 31, 2000	March 31, 2000	December 31, 2000	March 31, 2000
	HK\$	HK\$	HK\$	HK\$
Operating leases which expire:				
Within one year	2,238,828	7,168,413	—	—
In the second to fifth year inclusive	7,112,303	3,067,029	3,098,441	—
After five years	325,091	594,976	—	—
	9,676,222	10,830,418	3,098,441	—

33. CONTINGENT LIABILITIES

At December 31, 2000, the Company had outstanding guarantees to the extent of HK\$nil (March 31, 2000: HK\$92,882,000) in favour of banks to secure general credit facilities granted by the banks to subsidiaries.

The Group did not have any significant contingent liabilities at the balance sheet dates.

34. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	December 31, 2000	March 31, 2000	December 31, 2000	March 31, 2000
	HK\$	HK\$	HK\$	HK\$
Capital expenditure authorised but not contracted for in respect of:				
— property, machinery and equipment	909,000	—	—	—
— investment in a subsidiary	591,000	—	—	—
	1,500,000	—	—	—
Capital expenditure contracted for but not provided in the financial statements in respect of property, plant and equipment	506,606	—	363,106	—

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

35. RELATED PARTY TRANSACTIONS

- (a) On November 8, 2000, the Company entered into certain conditional subscription agreements (the "Subscription Agreements") with CRH, an intermediate holding company of the Company, and CRT (BVI) Limited, a then wholly owned subsidiary of CRH. Pursuant to the Subscription Agreements, the Company has conditionally agreed to subscribe for one share of US\$1 each in the capital of CRT (BVI) Limited at the consideration of HK\$851,715,000, which will be satisfied in full by way of the issue of the convertible bonds with an aggregate principal amount of HK\$851,715,000 to CRH by the Company upon completion of the Subscription Agreements.

Included in the aggregate consideration of HK\$851,715,000 is an amount of HK\$486,937,000 attributable to the interest of China Resources Cooling Technology Co., Ltd. ("CR Cooling Technology") to be acquired by the Group. CR Cooling Technology would hold a majority interest in two equity joint ventures (collectively "CR Cooling Technology Group"). The consideration is determined based on a price-earning multiple of about 5.24 times of the forecast proforma combined profit after taxation and minority interests excluding extraordinary items for the year ended December 31, 2000 ("Combined Profit") of CR Cooling Technology Group. The audited Combined Profit reported subsequently amounted to HK\$92,927,000.

Upon completion of the Subscription Agreements, the Company will effectively acquire the underlying assets constituting CRT (BVI) Limited and its subsidiaries to expand the business scope of the Group to (i) manufacture air-conditioner compressors in the PRC; (ii) produce semiconductors in the PRC and Hong Kong; and (iii) provide information technology services in the PRC and Hong Kong.

Details of the transactions have been set out in a listing document of the Company dated December 30, 2000 issued to the shareholders.

- (b) During the period, the Company entered into tenancy agreements with China Resources Property Management Limited, a fellow subsidiary of the Company, for renting the office premises and storeroom at the monthly rental of HK\$250,547 and HK\$7,656 respectively. The rentals payable for the period ended December 31, 2000 amounted to approximately HK\$410,000 and HK\$11,500 respectively.

The transaction was carried out on terms similar to those applicable to transactions with unrelated parties.

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

36. POST BALANCE SHEET EVENTS

- (a) On January 22, 2001, the authorised share capital of the Company was increased from HK\$250,000,000 to HK\$600,000,000 by the creation of an additional 3,500,000,000 shares of HK\$0.10 each. Such new shares rank pari passu with the then existing shares in all respects.
- (b) Subsequent to the balance sheet date, the acquisitions pursuant to the Subscription Agreements as set out in Note 35 (a) were completed and convertible bonds with an aggregate principal amount of HK\$851,715,000 were issued as consideration for the acquisitions.

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at December 31, 2000 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of issued/ registered capital held by the Company/ subsidiaries	attributable to the Group	Principal activities
Alphine Sight Limited	British Virgin Islands	Ordinary US\$1	100%	100%	Investment holding
Ausford Worldwide Limited	British Virgin Islands	Ordinary US\$2	100%	100%	Investment holding
重慶勵致家私有限公司 Chongqing Logic Furniture Co., Ltd.	PRC	HK\$2,000,000*	100%	100%	Trading in office furniture
Dunkas Holdings Investment Ltd.	British Virgin Islands	Ordinary US\$1	100%	100%	Investment holding
Everford International Ltd.	British Virgin Islands	Ordinary US\$1	100%	100%	Holding of licensing rights
Global Cycle Worldwide Inc.	British Virgin Islands	Ordinary US\$1	100%	100%	Investment holding
廣州勵致東方家私有限公司 Guangzhou Logic Oriental Furniture Co., Ltd.	PRC	HK\$13,000,000*	70%	70%	Manufacture of and trading in office furniture
L & M International Limited	Hong Kong	Ordinary HK\$2	100%	100%	Property holding
Logic Development Corporation Limited	British Virgin Islands	Ordinary US\$1	100%	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of issued/ registered capital held by the Company/ subsidiaries	attributable to the Group	Principal activities
Logic Far East Company Limited	British Virgin Islands	Ordinary US\$1,800,000	100%	100%	Investment holding
Logic Industrial Enterprises Limited	British Virgin Islands	Ordinary US\$888,356	100%	100%	Investment holding
珠海勵致洋行家私有限公司 Logic Industrial Enterprises Zhuhai Limited	PRC	US\$4,478,800*	90%	90%	Manufacture of and trading in office furniture
Logic Management Services Limited	Hong Kong	Ordinary HK\$2	100%	100%	Property holding
Logic Manufacturing Corporation Limited	British Virgin Islands	Ordinary US\$40	100%	100%	Investment holding
Logic Office Supplies Limited	Hong Kong	Ordinary HK\$10,271,520	100%	100%	Investment holding
Logic Oriental Company Limited	British Virgin Islands	Ordinary US\$451,422	100%	100%	Investment holding
Logic Parkview Company Limited	British Virgin Islands	Ordinary US\$650,000	100%	100%	Investment holding
Palazzo Inc.	British Virgin Islands	Ordinary US\$4,974,700	100%	100%	Investment holding
Poly Top Development Inc.	British Virgin Islands	Ordinary US\$1	100%	100%	Investment holding
Taccio Company Limited	Hong Kong	Ordinary HK\$2	100%	100%	Property investment
珠海勵致遠東家私有限公司 Zhuhai Logic Far East Industrial Company Limited	PRC	US\$1,260,000*	100%	100%	Manufacture of office furniture

* The registered capitals of Chongqing Logic Furniture Co., Ltd., Guangzhou Logic Oriental Furniture Co., Ltd., Logic Industrial Enterprises Zhuhai Limited and Zhuhai Logic Far East Industrial Company Limited were paid up to HK\$2,000,000, HK\$10,000,000, US\$3,842,000 and US\$1,000,000 respectively as at December 31, 2000.

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2000 to December 31, 2000

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Except for Palazzo Inc. which is held directly by the Company, all other subsidiaries are indirectly held. All subsidiaries operate principally in their places of incorporation/establishment.

None of the subsidiaries had any loan capital outstanding at December 31, 2000 or at any time during the period.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the period or formed a substantial portion of the 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.