

1 PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

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

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

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

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

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

(d) Goodwill

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries and associated companies acquired and is taken to reserves in the year of acquisition.

(e) Fixed assets

(i) *Leasehold land and buildings*

Leasehold land and buildings are stated at cost less accumulated amortisation or depreciation. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

(ii) *Amortisation of leasehold land*

Amortisation of leasehold land is calculated to write off their cost on a straight-line basis over the unexpired periods of the leases. The principal annual rate used for this purpose is 2%.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Fixed assets (continued)

(iii) Depreciation of leasehold buildings

Depreciation of leasehold buildings is calculated to write off their cost on a straight-line basis over the unexpired periods of the leases or their estimated useful lives to the Group, whichever is shorter. The principal annual rate used for this purpose is 2.5%.

(iv) Property under development

Property under development are investments in land and building where their construction work have not been completed. The investments are carried at cost which includes development and construction expenditure incurred and interest and other direct costs attributable to the development. On completion, the property is transferred to leasehold land and building.

(v) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation. Depreciation of other fixed assets is calculated to write off their cost on a straight-line basis over their estimated useful lives to the Group. The principal annual rates used for this purpose are:

Leasehold improvements, furniture, fixtures and equipment	10% to 20%
Plant and machinery	6% to 20%
Motor vehicles	20%
Computer systems	30%

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Fixed assets (continued)

(vi) *Impairment of fixed assets*

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

(vii) *Gain or loss on disposal of fixed assets*

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

(viii) *Cost of restoring and improving fixed assets*

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

(f) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease periods.

(g) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is arrived at as follows:

- (i) Raw materials – invoiced price plus freight and insurance calculated on a weighted average basis.
- (ii) Work in progress and self-manufactured finished goods – cost of direct materials, direct labour and an appropriate proportion of production overheads calculated on a weighted average basis.
- (iii) Purchased finished goods – invoiced price plus freight and insurance calculated on a first-in first-out basis.

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

(i) Accounts receivable

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

(j) Deferred taxation

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

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Translation of foreign currencies

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

(l) Revenue recognition

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

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

Operating lease rental income is recognised on a straight-line basis.

Management fee income is recognised when services are rendered.

(m) Retirement benefit costs

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

The assets of the scheme are held separately from those of the Group in an independently administered fund.

(n) Borrowing costs

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

2 REVENUES AND TURNOVER

The Group is principally engaged in the trading of frozen meat, seafood and vegetables. On 25 May 2000, the Company disposed of its subsidiaries which were engaged in the manufacturing of ham and ham related products to Four Seas Mercantile Holdings Limited ("FSMHL"), the majority shareholder prior to the transaction and a company listed on The Stock Exchange of Hong Kong Limited, in consideration for shares in FSMHL (note 3). FSMHL and the subsidiaries disposed, as a result of this connected transaction, became associated companies of the Group. Details of the transaction are set out in the Company's circular dated 25 April 2000.

	Group	
	2001	2000
	HK\$	HK\$
Turnover		
Sale of goods	601,595,713	711,246,857
Other revenues		
Interest income	1,878,576	582,518
Gross rental income from leasehold land and buildings	1,066,733	—
Management income	271,952	—
	3,217,261	582,518
Total revenues	604,812,974	711,829,375

2 REVENUES AND TURNOVER (continued)

An analysis of the Group's turnover and contribution to profit before taxation for the year by principal activities and markets is as follows:

	Turnover		Profit before taxation	
	2001	2000	2001	2000
	HK\$	HK\$	HK\$	HK\$
Principal activities:				
Sale of frozen meat, seafood and vegetables	575,924,425	524,779,771	12,745,048	18,720,844
Manufacturing and sale of ham and ham related products	25,671,288	186,467,086	2,212,042	18,717,899
	<u>601,595,713</u>	<u>711,246,857</u>	<u>14,957,090</u>	<u>37,438,743</u>
Profit on disposal of subsidiaries	–	–	47,863,021	–
Provision for diminution in value of leasehold land and buildings	–	–	(11,482,795)	–
Finance costs	–	–	(8,715,510)	(1,233,353)
Share of profits less losses of associated companies	–	–	17,946,084	–
	<u>601,595,713</u>	<u>711,246,857</u>	<u>60,567,890</u>	<u>36,205,390</u>

2 REVENUES AND TURNOVER (continued)

	Turnover		Profit before taxation	
	2001	2000	2001	2000
	HK\$	HK\$	HK\$	HK\$
Principal markets:				
Hong Kong	417,964,896	502,733,040	10,734,516	33,427,979
Mainland China ("PRC")	162,219,413	190,161,617	3,810,190	3,073,416
Macau	21,411,404	18,352,200	412,384	937,348
	<u>601,595,713</u>	<u>711,246,857</u>	<u>14,957,090</u>	<u>37,438,743</u>
Profit on disposal of subsidiaries	–	–	47,863,021	–
Provision for diminution in value of leasehold land and buildings	–	–	(11,482,795)	–
Finance costs	–	–	(8,715,510)	(1,233,353)
Share of profits less losses of associated companies	–	–	17,946,084	–
	<u>601,595,713</u>	<u>711,246,857</u>	<u>60,567,890</u>	<u>36,205,390</u>

3 PROFIT ON DISPOSAL OF SUBSIDIARIES

This represents profit on disposal of the subsidiaries mentioned in note 2 above.

4 OPERATING PROFIT BEFORE FINANCE COSTS

	Group	
	2001	2000
	HK\$	HK\$
Operating profit before finance costs is stated after crediting and charging the following:		
Crediting:		
Gain on disposal of fixed assets	20,800	1,552
Reversal of write-down of inventories	1,485,557	—
	<u>1,506,357</u>	<u>1,552</u>
Charging:		
Auditors' remuneration	360,000	506,364
Retirement benefit costs	893,048	2,053,637
Depreciation of fixed assets	3,754,135	4,007,724
Operating leases of land and buildings	11,874,725	16,147,342
Net exchange losses	19,359	289,291
Staff costs	18,613,950	52,784,854
Provision for slow-moving inventories	—	1,450,000
	<u>24,627,167</u>	<u>63,178,212</u>

5 FINANCE COSTS

	Group	
	2001	2000
	HK\$	HK\$
Interest on bank and trust receipt loans	8,715,510	5,325,969
Less: amount capitalised in property under development	—	(4,092,616)
	<u>8,715,510</u>	<u>1,233,353</u>

The capitalisation rate applied to funds borrowed generally and used for the development of the property under development was between 8% and 9.625% per annum for the year ended 31 March 2000.

6 TAXATION

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the year. PRC income tax has been calculated on the estimated assessable profit of a subsidiary at the rate of taxation prevailing in the area in which the subsidiary operates.

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

	Group	
	2001	2000
	HK\$	HK\$
Hong Kong profits tax		
– Current year	326,249	2,587,488
PRC taxation	10,607	173,871
Deferred taxation (<i>note 24</i>)	178,795	–
	515,651	2,761,359
Share of taxation attributable to associated companies	2,913,101	–
	3,428,752	2,761,359

Deferred taxation for the year has not been provided in respect of the following:

	Group	
	2001	2000
	HK\$	HK\$
Tax losses	5,728	2,371,594

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the operating profit after taxation of HK\$57,086,809 (2000: HK\$32,695,113) attributable to the members of Four Seas eFood Holdings Limited is HK\$89,445,596 (2000: HK\$3,713,317).

8 DIVIDENDS

	Group	
	2001	2000
	HK\$	HK\$
Interim, paid, of HK1.0 cent (2000: HK1.0 cent) per ordinary share	2,478,200	2,478,200
Final, proposed, of HK1.0 cent (2000: HK1.5 cents) per ordinary share	2,478,200	3,717,300
	<u>4,956,400</u>	<u>6,195,500</u>

9 EARNINGS PER SHARE – GROUP

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$57,086,809 (2000: HK\$32,695,113) and the weighted average number of 247,820,000 (2000: 247,800,874) ordinary shares in issue during the year.

Fully diluted earnings per share is not presented as there is no dilution effect had all the outstanding share options been exercised in full.

10 RETIREMENT BENEFIT COSTS

Pursuant to the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (the “MPF Ordinance”), companies within the Group in Hong Kong have enrolled all employees in Hong Kong aged between 18 and 65 into a mandatory provident fund scheme (the “MPF Scheme”) from 1 December 2000. The Group operated a defined contribution retirement scheme prior to 1 December 2000. The scheme was terminated upon the launching of the MPF Scheme on 1 December 2000.

The MPF Scheme is a master trust scheme established under trust arrangement and governed by laws in Hong Kong. The assets of the MPF Scheme are held separately from the assets of the employer, the trustees and other service providers. Contribution are made to the MPF Scheme by the employers at 5% of the employees’ relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,000 per employee per month (the “MPF Contribution”). The employees also contribute a corresponding amount to the MPF Scheme from 31 December 2000 if their relevant income is more than HK\$4,000 per month. The MPF Contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. Investment income or profit derived from the investment of accrued benefits (after taking into account any loss arising from such investment) is also immediately vested in the employees.

The Group’s contributions to the MPF Scheme and the defined contribution retirement scheme charged to the profit and loss account during the year amounted to an aggregate of HK\$893,048 (2000: HK\$2,053,637).

The Group’s contributions to the defined contribution retirement scheme were reduced by contributions forfeited by those employees who left the scheme prior to vesting fully in the contributions. Forfeited contributions totalling HK\$197,867 (2000: HK\$122,343) were utilised during the year and there was no outstanding forfeited contributions to reduce future contributions (2000: HK\$184,488).

As at 31 March 2001, HK\$168,327 (2000: Nil) were payable to the MPF Scheme (2000: defined contribution retirement scheme) and is included in accrued charges.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

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

	Group	
	2001	2000
	HK\$	HK\$
Fees	120,000	120,000
Other emoluments:		
Basic salaries, allowances and		
other benefits in kind	2,602,581	7,892,826
Directors' pensions	148,427	124,428
	2,871,008	8,137,254

Directors' fees were paid to the two independent non-executive directors.

The emoluments of the directors fell within the following bands:

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	10	8
HK\$1,000,001 – HK\$1,500,000	1	2
HK\$2,500,001 – HK\$3,000,000	–	1
	11	11

No directors waived their emoluments in respect of the years ended 31 March 2001 and 2000.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(continued)

- (b) The five individuals whose emoluments were the highest in the Group for the year include three (2000: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2000: one) individuals during the year are as follows:

	2001	2000
	HK\$	HK\$
Basic salaries, allowances and		
other benefits in kind	<u>796,731</u>	<u>735,680</u>

12 FIXED ASSETS – GROUP

	Leasehold land and buildings			Leasehold		Motor vehicles	Computer systems	Plant and machinery	Equipment	Total
	Held under leases of between 10 to 50 years in Hong Kong	Held under leases of over 50 years in Hong Kong	Held under leases of between 10 to 50 years in the PRC	Property development	improvements, furniture and fixtures					
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Cost										
At 1 April 2000	15,576,025	19,951,791	14,741,795	82,110,022	14,394,745	3,361,583	4,409,926	43,536,515	1,894,741	199,977,143
Additions	-	-	-	1,551,434	3,141,240	-	128,473	224,054	483,796	5,528,997
Disposals	(15,576,025)	-	(14,741,795)	-	(11,097,835)	(1,992,384)	(2,816,180)	(43,760,569)	(1,006,545)	(90,991,333)
Transfer	83,661,456	-	-	(83,661,456)	-	-	-	-	-	-
At 31 March 2001	83,661,456	19,951,791	-	-	6,438,150	1,369,199	1,722,219	-	1,371,992	114,514,807
Accumulated depreciation										
At 1 April 2000	2,354,459	2,596,182	2,782,566	-	12,322,460	2,525,814	3,226,558	25,760,739	1,706,551	53,275,329
Charge for the year	2,009,245	440,990	70,640	-	413,248	11,378	388,924	314,212	105,498	3,754,135
Provision for diminution in value	-	11,482,795	-	-	-	-	-	-	-	11,482,795
Disposals	(2,412,869)	-	(2,853,206)	-	(9,272,006)	(1,167,993)	(2,442,473)	(26,074,951)	(912,403)	(45,135,901)
At 31 March 2001	1,950,835	14,519,967	-	-	3,463,702	1,369,199	1,173,009	-	899,646	23,376,358
Net book value										
At 31 March 2001	81,710,621	5,431,824	-	-	2,974,448	-	549,210	-	472,346	91,138,449
At 31 March 2000	13,221,566	17,355,609	11,959,229	82,110,022	2,072,285	835,769	1,183,368	17,775,776	188,190	146,701,814

As at 31 March 2001, the leasehold land and buildings held under leases of between 10 to 50 years in Hong Kong were pledged as securities for the bank loan granted to the Group.

13 INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$	HK\$
Unlisted shares, at cost (note 13(a))	58,890,771	78,900,765
Advances to subsidiaries (note 13(b))	207,218,749	42,012,760
	<u>266,109,520</u>	<u>120,913,525</u>

(a) The following is a list of the principal subsidiaries at 31 March 2001:

Name	Country/ place of incorporation	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held
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Interests held directly:

William Food Company Limited	Hong Kong	Trading of frozen meat, seafood and vegetables in Hong Kong	100,000 Ordinary shares of HK\$100 each	100%
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Capital Season Investments Limited	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
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Interests held indirectly:

Hung King Development Limited	Hong Kong	Property development and ownership in Hong Kong	400,000 Ordinary shares of HK\$1 each	100%
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The above list contains particulars of the principal subsidiaries of the Group which in the opinion of the directors, materially affect the results and assets of the Group. To give details of other subsidiaries would, in the opinion of directors, result in particulars of excessive length.

13 INTERESTS IN SUBSIDIARIES (continued)**(b) Advances to subsidiaries**

The advances to subsidiaries are unsecured, interest free and will not be demanded for repayment within twelve months from the balance sheet date.

14 INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2001	2000
	HK\$	HK\$
Share of net assets other than goodwill	109,302,181	—
Investments at cost:		
Shares listed in Hong Kong	152,548,771	—
Market value of listed shares	170,686,800	—

The following is a list of the principal associated companies at 31 March 2001:

Name	Place of incorporation and business	Principal activities	Issued/registered and fully paid- up capital	Interest held
Interests held indirectly:				
Four Seas Mercantile Holdings Limited	Cayman Islands	Investment holding	HK\$39,956,564	25.13%
Cowboy Food Company Limited	Hong Kong	Manufacturing of peanut products	HK\$6,000,000	21.36%

14 INTERESTS IN ASSOCIATED COMPANIES (continued)

Name	Place of incorporation and business	Principal activities	Issued/registered and fully paid- up capital	Interest held
Interests held indirectly (continued):				
Fancy Talent Limited	Hong Kong	Marketing of snack foods	HK\$100,000,000	25.13%
Four Seas China Holdings Limited	British Virgin Islands	Investment holding	US\$1	25.13%
Four Seas Mercantile Limited	Hong Kong	Trading of snack foods, confectionery and beverages	Ordinary shares of HK\$200 each Non-voting deferred HK\$20,000,000	25.13%
Four Seas Yamauchi Confectionery (Shantou) Company Limited	People's Republic of China	Manufacturing of cakes	HK\$10,000,000	19.63%
Four Seas Foods (Shantou) Company Limited	People's Republic of China	Trading of confectionery and food products	HK\$1,800,000	25.13%
Four Seas Trading (Shanghai) Company Limited	People's Republic of China	Trading of confectionery and food products	US\$200,000	25.13%

14 INTERESTS IN ASSOCIATED COMPANIES (continued)

Name	Place of incorporation and business	Principal activities	Issued/registered and fully paid- up capital	Interest held
Interests held indirectly (continued):				
Guangdong Four Seas – Yantang Frozen Food Products Company Limited	People's Republic of China	Operator of ice-cream and frozen food products	RMB6,300,000	12.82%
Hong Kong Ham Holdings Limited	Hong Kong	Manufacturing and packaging of ham and ham related products	HK\$20	25.13%
J.P. Inglis Company Limited	Hong Kong	Trading of food materials	HK\$1,000,000	25.13%
Shenzhen Yaohan Zhonghao Food Co., Limited	People's Republic of China	Manufacturing and packaging of ham and ham related products	RMB32,100,000	15.08%
Tohato Four Seas Confectionery (Shenzhen) Company Limited	People's Republic of China	Manufacturing of snack foods	HK\$7,000,000	10.83%

All of the associated companies were not audited by PricewaterhouseCoopers.

14 INTERESTS IN ASSOCIATED COMPANIES (continued)

Details of information, as extracted from the annual report of Four Seas Mercantile Holdings Limited, a material associated company, for the year ended 31 March 2001 are as follows:

	2001
	<i>HK\$'000</i>
Profit and loss account	
Turnover	1,124,833
Net profit attributable to shareholders	67,490
Balance sheet	
Fixed assets	158,819
Interests in associates	121,318
Long term investments	22,302
Rental deposits	7,584
Current assets	526,257
Current liabilities	(383,366)
Net current assets	142,891
	452,914
Financed by:	
Share capital	39,956
Reserves	383,004
Shareholders' funds	422,960
Long-term liabilities	8,860
Minority interests	21,094
	452,914

15 OTHER INVESTMENTS

	Group	
	2001	2000
	HK\$	HK\$
Equity securities:		
Listed outside Hong Kong, at market value	-	1
	<u> </u>	<u> </u>

16 INVENTORIES

	Group	
	2001	2000
	HK\$	HK\$
Raw materials	-	19,700,094
Work in progress	-	612,099
Finished goods	16,235,144	33,292,794
Goods in transit	24,311,375	14,583,340
	<u> </u>	<u> </u>
	40,546,519	68,188,327
	<u> </u>	<u> </u>

At 31 March 2001, the carrying amount of inventories that are carried at net realisable value amounted to HK\$16,235,144 (2000: HK\$33,292,794).

17 DUE FROM/(TO) SUBSIDIARIES – COMPANY

The amounts due from/(to) subsidiaries are unsecured, interest free and repayable on demand.

18 DUE FROM/(TO) ASSOCIATED COMPANIES – GROUP

The amounts due from/(to) associated companies are unsecured, interest free and repayable on demand.

19 TRADE RECEIVABLES

At 31 March 2001, the ageing analysis of the trade receivables was as follows:

	Group	
	2001	2000
	HK\$	HK\$
Current	55,763,065	52,774,656
1 to 2 months	32,972,252	24,666,631
Over 3 months	3,755,598	7,731,295
	92,490,915	85,172,582

The Groups has a defined credit policy with general credit terms ranging from 30 days to 90 days.

20 TRADE AND BILLS PAYABLES

At 31 March 2001, the ageing analysis of trade and bills payables was as follows:

	Group	
	2001	2000
	HK\$	HK\$
Current	13,142,583	4,155,725
1 to 2 months	242,821	841,607
Over 3 months	150,000	607,932
	13,535,404	5,605,264

21 BANK LOAN – SECURED

	Group	
	2001	2000
	HK\$	HK\$
Bank loan		
Wholly repayable within five years	28,346,000	–
Not wholly repayable within five years	–	34,534,000
	<u>28,346,000</u>	<u>34,534,000</u>
Current portion of bank loan	(5,712,000)	(5,712,000)
	<u>22,634,000</u>	<u>28,822,000</u>

As at 31 March 2001, the Group's bank loan was repayable as follows:

	2001	2000
	HK\$	HK\$
Within one year	5,712,000	5,712,000
In the second year	5,712,000	5,712,000
In the third to fifth year	16,922,000	17,136,000
After the fifth year	–	5,974,000
	<u>28,346,000</u>	<u>34,534,000</u>

The loan is secured by the leasehold land and building held under a lease of between 10 to 50 years in Hong Kong, the assets and issued shares of a subsidiary and cross guarantees of the Company and a subsidiary. The loan is repayable by instalments up to 2006.

22 SHARE CAPITAL

	Authorised Ordinary shares of HK\$0.10 each	
	<i>No. of shares</i>	<i>HK\$</i>
At 31 March 1999, 2000 and 2001	<u>400,000,000</u>	<u>40,000,000</u>

	Issued and fully paid			
	2001		2000	
	Ordinary shares of HK\$0.10 each		Ordinary shares of HK\$0.10 each	
	<i>No. of shares</i>	<i>HK\$</i>	<i>No. of shares</i>	<i>HK\$</i>
At beginning of year	247,820,000	24,782,000	247,720,000	24,772,000
Exercise of share options	<u>—</u>	<u>—</u>	<u>100,000</u>	<u>10,000</u>
At end of year	<u>247,820,000</u>	<u>24,782,000</u>	<u>247,820,000</u>	<u>24,782,000</u>

Under a share option scheme approved by the shareholders of the Company previously, the directors may at their discretion, invite executive directors and key employees of the Group, to take up option to subscribe for shares in the Company subject to terms and conditions stipulated therein.

During the year, 1,710,000 options were cancelled and no options were granted.

As at 31 March 2001, there was a total of 5,550,000 (2000: 7,260,000) share options, exercisable between 8 October 1998 and 26 November 2002 at HK\$0.62 per share, remaining outstanding.

23 RESERVES

Group

	Share premium HK\$	Capital Redemption reserve HK\$	Exchange fluctuation reserve HK\$	Retained earnings HK\$	Total HK\$
At 1 April 1999	77,822,756	228,000	(7,353,898)	91,386,132	162,082,990
Arising from exercise of share options	52,000	–	–	–	52,000
Exchange difference arising from translation of the accounts of a PRC subsidiary	–	–	24,535	–	24,535
Profit for the year	–	–	–	32,695,113	32,695,113
Dividends	–	–	–	(6,195,500)	(6,195,500)
	<u>77,874,756</u>	<u>228,000</u>	<u>(7,329,363)</u>	<u>117,885,745</u>	<u>188,659,138</u>
At 31 March 2000	<u>77,874,756</u>	<u>228,000</u>	<u>(7,329,363)</u>	<u>117,885,745</u>	<u>188,659,138</u>
Company and subsidiaries	77,874,756	228,000	(7,329,363)	117,885,745	188,659,138
Associated companies	–	–	–	–	–
	<u>77,874,756</u>	<u>228,000</u>	<u>(7,329,363)</u>	<u>117,885,745</u>	<u>188,659,138</u>
At 31 March 2000	<u>77,874,756</u>	<u>228,000</u>	<u>(7,329,363)</u>	<u>117,885,745</u>	<u>188,659,138</u>

23 RESERVES (continued)**Group**

	Share premium HK\$	Capital redemption reserve HK\$	Exchange fluctuation reserve HK\$	Share of reserves of associated companies HK\$	Retained earnings HK\$	Total HK\$
At 1 April 2000	77,874,756	228,000	(7,329,363)	-	117,885,745	188,659,138
Share of deficit on revaluation of investment securities of associated companies	-	-	-	(2,035,807)	-	(2,035,807)
Reserve charged to the profit and loss account upon disposal of subsidiaries	-	-	7,329,363	-	-	7,329,363
Goodwill written off	-	-	-	-	(38,890,843)	(38,890,843)
Share of exchange reserve of associated companies	-	-	-	234,765	-	234,765
Share of negative goodwill of associated companies	-	-	-	111,000	-	111,000
Profit for the year	-	-	-	-	57,086,809	57,086,809
Dividends	-	-	-	-	(4,956,400)	(4,956,400)
At 31 March 2001	<u>77,874,756</u>	<u>228,000</u>	<u>-</u>	<u>(1,690,042)</u>	<u>131,125,311</u>	<u>207,538,025</u>
Company and subsidiaries	77,874,756	228,000	-	-	116,092,328	194,195,084
Associated companies	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,690,042)</u>	<u>15,032,983</u>	<u>13,342,941</u>
At 31 March 2001	<u>77,874,756</u>	<u>228,000</u>	<u>-</u>	<u>(1,690,042)</u>	<u>131,125,311</u>	<u>207,538,025</u>

23 RESERVES (continued)**Company**

	Share premium HK\$	Capital redemption reserve HK\$	Retained Earnings HK\$	Total HK\$
At 1 April 1999	77,822,756	228,000	69,467,384	147,518,140
Arising from exercise of share options	52,000	–	–	52,000
Profit for the year	–	–	3,713,317	3,713,317
Dividends	–	–	(6,195,500)	(6,195,500)
	<u>77,874,756</u>	<u>228,000</u>	<u>66,985,201</u>	<u>145,087,957</u>
At 31 March 2000	<u>77,874,756</u>	<u>228,000</u>	<u>66,985,201</u>	<u>145,087,957</u>
At 1 April 2000	77,874,756	228,000	66,985,201	145,087,957
Profit for the year	–	–	89,445,596	89,445,596
Dividends	–	–	(4,956,400)	(4,956,400)
	<u>77,874,756</u>	<u>228,000</u>	<u>151,474,397</u>	<u>229,577,153</u>
At 31 March 2001	<u>77,874,756</u>	<u>228,000</u>	<u>151,474,397</u>	<u>229,577,153</u>

At 31 March 2001, the reserves of the Company that are available for distribution as dividends amounted to HK\$151,474,397 (2000: HK\$66,985,201).

24 DEFERRED TAXATION

	Group	
	2001	2000
	HK\$	HK\$
At beginning of year	428,967	428,967
Disposal of subsidiaries	(21,744)	–
Transfer from profit and loss account (<i>note 6</i>)	178,795	–
	<hr/>	<hr/>
At end of year	586,018	428,967
	<hr/> <hr/>	<hr/> <hr/>
Provided for in respect of:		
Accelerated depreciation allowances	586,018	428,967
	<hr/> <hr/>	<hr/> <hr/>

Deferred tax asset of HK\$2,001,089 (2000: HK\$2,006,817) has not been recognised in the accounts in respect of tax losses as it is uncertain as to the extent to which the asset will be crystallised in the foreseeable future.

There was no other unprovided deferred taxation for the year.

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Operating profit	42,621,806	36,205,390
Interest expenses	8,715,510	1,233,353
Interest income	(1,878,576)	(582,518)
Depreciation charge	3,754,135	4,007,724
Provision on diminution of fixed assets	11,482,795	–
Profit on disposal of subsidiaries	(47,863,021)	–
Gain on disposal of fixed assets	(20,800)	(1,552)
Decrease in inventories	5,976,545	17,224,392
(Increase)/decrease in trade receivables, prepayments and deposits, other receivables and amount due from an associated company	(15,105,072)	5,055,149
Increase/(decrease) in trade and bills payables, other payables, accrued charges and amount due to an associated company	7,690,442	(1,620,408)
Net cash inflow from operating activities	15,373,764	61,521,530

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital including share premium		Bank loans		Minority interests		Loan from the minority shareholder	
	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At the beginning of								
the year	102,656,756	102,594,756	34,534,000	5,360,000	12,734,220	13,032,031	199,196	2,070,366
Net cash inflow / (outflow)								
from financing	-	62,000	(6,188,000)	29,174,000	-	-	-	(1,852,231)
Dividends paid to minority								
shareholder in a subsidiary	-	-	-	-	-	(1,046,729)	-	-
Minority interests' in share								
of profits	-	-	-	-	52,329	748,918	-	-
Exchange differences	-	-	-	-	-	-	-	(18,939)
Disposal of subsidiaries	-	-	-	-	(12,786,549)	-	(199,196)	-
At the end of the year	102,656,756	102,656,756	28,346,000	34,534,000	-	12,734,220	-	199,196

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of subsidiaries/Major non-cash transaction

Net assets disposed of:

	<i>HK\$</i>
Fixed assets	45,848,820
Other investments	1
Inventories	21,665,263
Trade receivables	2,312,591
Prepayments and deposits	1,502,515
Other receivables	4,999,361
Bank balances and cash	10,668,201
Trade and bills payables	(6,482,695)
Other payables	(3,698,916)
Trust receipt loans	(4,572,515)
Taxation	(1,783,513)
Minority interests	(12,786,549)
Loan from the minority shareholder	(199,196)
Deferred taxation	(21,744)
	<hr/>
	57,451,624
Exchange reserve charged to the profit and loss account upon disposal	7,329,363
Profit on disposal of subsidiaries	
– Realised portion credited to the profit and loss account	47,863,021
– Unrealised portion credited to goodwill arising on acquisition of FSMHL	13,264,720
	<hr/>
Satisfied by:	
Shares in FSMHL	<u><u>125,908,728</u></u>

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

- (d) Analysis of net cash outflow of cash and cash equivalents in respect of disposal of subsidiaries

	<i>HK\$</i>
Bank balances and cash of disposed subsidiaries	(10,668,201)
Trust receipt loans of disposed subsidiaries	<u>4,572,515</u>
Net cash outflow in respect of disposal of subsidiaries	<u><u>(6,095,686)</u></u>

26 BANKING FACILITIES

At 31 March 2001, trade financing and bank overdrafts facilities totalling HK\$304 million (2000: HK\$314 million) were granted to the Company and a subsidiary. These facilities were secured by corporate guarantees of HK\$193.7 million (2000: HK\$204 million) from the Company.

These facilities were utilised to the extent of approximately HK\$122 million (2000: HK\$67 million) as at 31 March 2001.

27 CONTINGENT LIABILITIES

At 31 March 2001, the Group had irrevocable letters of credit issued to suppliers amounting to HK\$2,764,620 (2000: HK\$1,721,312).

28 COMMITMENTS UNDER OPERATING LEASES

At 31 March 2001, the Group had commitments to make payments in the next twelve months under operating leases in respect of land and buildings which expire as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$	HK\$	HK\$	HK\$
Within one year	620,640	288,000	332,640	288,000
In the second to fifth year inclusive	—	384,000	—	—
	<u>620,640</u>	<u>672,000</u>	<u>332,640</u>	<u>288,000</u>

29 RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	Group	
	2001	2000
	HK\$	HK\$
Rental and building management fee received from:		
An associated company	925,552	—
A related company	160,000	—
	<u>1,085,552</u>	<u>—</u>

Tenancy agreements were entered into with the related parties to lease warehouse, office space and parking spaces for periods varying from 10 months to 2 years. Terms of the agreements were entered into in accordance with recommendations provided by a firm of professional valuers.

30 APPROVAL OF ACCOUNTS

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