

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of its subsidiaries consisted of investment holding, properties investment, and the manufacture, trading and distribution of leather and non-leather garments.

Properties investment is a new business entered into by the Group during the year. Apart from the commencement of properties investment, the Group's principal activities have not changed during the year.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

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

Basis of preparation

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

Fixed assets and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life as follows:

Leasehold land and buildings	Over the remaining lease terms
Leasehold improvements	3 to 10 years
Plant and machinery	5 to 15 years
Furniture, fixtures, equipment and motor vehicles	5 to 6 years

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

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

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been impairments in values other than those considered to be temporary in nature, when they are written down to values determined by the directors.

Associate

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

The Group's share of the post-acquisition results and reserves of the associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investment in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any additional provisions for impairments in values, other than those considered to be temporary in nature, deemed necessary by the directors.

Where audited financial statements of the associates are not co-terminous with those of the Group, the share of the results is arrived at from the latest audited financial statements available or unaudited management financial statements up to 31 March.

Goodwill

Goodwill arising on consolidation of subsidiaries represents the excess purchase consideration paid for such companies over the fair values ascribed to the net underlying assets acquired and is capitalised and amortised to the profit and loss account over ten years.

Negative goodwill arising on consolidation of subsidiaries represents the excess fair values ascribed to the net underlying assets acquired over the purchase consideration paid for such companies and is credited to the capital reserve in the year of acquisition.

Upon disposal of subsidiaries, the relevant portion of attributable goodwill or capital reserve is realised and taken into account in determining the gain or loss on disposal of the subsidiaries.

Short term investments

Short term investments are investments in listed equity securities held for trading purposes and are stated at their fair values at the balance sheet date on an individual investment basis. Fair values are determined by reference to quoted market prices. The gains or losses arising from changes in the fair value of a security are credited to or charged to the profit and loss account for the period in which they arise.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Operating leases

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

Deferred tax

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

Convertible redeemable debentures

Convertible redeemable debentures are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance cost in respect of the convertible redeemable debentures is calculated and recognised in the profit and loss account so as to produce a constant periodic rate of charge on the remaining balances of the convertible redeemable debentures for each accounting period.

The costs incurred in connection with the issue of convertible redeemable debentures are charged to the profit and loss account when the costs are incurred. If any of the debentures are redeemed prior to the redemption date, any difference between the consideration paid and the nominal value of the issue of convertible redeemable debentures is recognised in the profit and loss account.

Staff retirement scheme

On 1 December 2000, the Group joined a Mandatory Provident Fund ("MPF"). Contributions to the MPF are made based on rates applicable to the respective employees' relevant income from the Group and are charged to the profit and loss account as they become payable in accordance with government regulations. The Group's mandatory contributions are fully and immediately vested in favour of the employees. The assets of the MPF are held separately from those of the Group in an independently administered fund.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

Revenue recognition

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

- (a) sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Related parties

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

Cash equivalents

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

3. TURNOVER

Turnover represents the aggregate net invoiced value of goods sold, after allowances for goods returned and trade discounts, but excludes intra-group transactions.

An analysis of the Group's turnover and the contribution to loss after finance costs by principal activity and by geographical area of operations, disclosed pursuant to the requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), is as follows:

	Turnover		Contribution to loss after finance costs	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Leather garments	40,616	48,437	(6,593)	(12,829)
Non-leather garments	102,959	70,266	(15,408)	(27,537)
Others	—	—	(19,633)	(26,072)
	<u>143,575</u>	<u>118,703</u>	<u>(41,634)</u>	<u>(66,438)</u>
By geographical area:				
People's Republic of China ("PRC"):				
Hong Kong	40,324	44,539	(18,041)	(16,227)
Elsewhere	103,251	74,164	(23,593)	(50,211)
	<u>143,575</u>	<u>118,703</u>	<u>(41,634)</u>	<u>(66,438)</u>

4. LOSS FROM OPERATING ACTIVITIES

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

	2001 HK\$'000	2000 HK\$'000
Auditors' remuneration	800	880
Amortisation of goodwill	1,991	–
Depreciation	7,080	8,603
Loss on disposal of fixed assets	1,568	–
Provision against inventories	14,817	18,431
Provision for doubtful debts	1,403	8,310
Loss on disposal of an associate	–	1,538
Operating lease rentals on leasehold land and buildings	29,457	15,574
Exchange losses, net	2,348	–
Staff costs (including directors' remuneration – note 5):		
Salaries and wages	13,767	6,463
Other benefits	503	1,083
Pension contributions	47	–
	<u>14,317</u>	<u>7,546</u>
Discount on redemption of convertible redeemable debentures (note 20)	(2,000)	–
Gain on disposal of short term investments	(547)	–
Gain on disposal of subsidiaries (note 23(d))	(4,947)	(78)
Interest income	<u>(1,766)</u>	<u>(135)</u>

5. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	2001 HK\$'000	2000 HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	3,544	4,148
Pension contributions	12	–
	<u>3,556</u>	<u>4,148</u>

5. DIRECTORS' REMUNERATION (continued)

The remuneration of the directors fell within the following bands:

	2001 Number of directors	2000 Number of directors
Nil – HK\$1,000,000	4	10
HK\$1,000,001 – HK\$1,500,000	2	–
	6	10

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

During the year, no fees were paid to the executive directors (2000: Nil) and no fees or other remuneration were paid to the non-executive directors (2000: Nil).

During the year, no share options were granted to the directors.

6. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included three (2000: five) directors, details of whose remuneration are set out in note 5 above. The details of the remuneration of the remaining two (2000: Nil) non-director, highest paid individuals are as follows:

	2001 HK\$'000	2000 HK\$'000
Basic salaries, allowances and benefits in kind	1,261	–
Pension contributions	2	–
	1,263	–

The remuneration of the non-director, highest paid individuals fell within the following bands:

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

7. FINANCE COSTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable after five years	<u>352</u>	<u>343</u>

8. TAX

	Group	
	2001	2000
	HK\$'000	HK\$'000
Group		
Hong Kong:		
Tax refund in respect of prior year	<u>-</u>	<u>(2)</u>
Tax credit for the year	<u>-</u>	<u>(2)</u>

No Hong Kong profits tax has been provided for the Company or its subsidiaries as they had no assessable profits for the year. No Hong Kong profits tax has been provided for the associates as they had no assessable profits attributable to the Group for the year.

Lancar Fashion (Shenzhen) Co., Ltd. ("Lancar"), the subsidiary operating in the People's Republic of China (the "PRC"), is exempt from income tax for its first two profitable years of operations, and is entitled to a 50% relief from income tax for the succeeding three years under the Income Tax Law of the PRC. At the balance sheet date, Lancar had not yet started its income tax exemption period.

There were no significant deferred tax liabilities at the balance sheet date (2000: Nil). The unprovided deferred tax asset at the balance sheet date amounted to approximately HK\$5,876,000 (2000: HK\$7,500,000) which related primarily to tax losses.

9. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK\$41,831,000 (2000: HK\$73,167,000).

10. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$41,831,000 (2000: HK\$66,436,000) and the weighted average of 11,393,318,724 (2000: 10,533,364,410) ordinary shares in issue during the year.

The comparative basic loss per share has been adjusted to reflect the open offer of new shares to existing shareholders during the year, as further detailed in note 21 to the financial statements.

There is no diluted loss per share shown for either year as the effects arising from the exercise of the potential ordinary shares would have been anti-dilutive.

11. FIXED ASSETS

Group	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
Cost:					
At beginning of year	14,590	16,434	3,981	14,194	49,199
Additions	–	853	77	1,584	2,514
Disposals	(8,645)	(16,222)	(3,722)	(5,140)	(33,729)
At 31 March 2001	5,945	1,065	336	10,638	17,984
Accumulated depreciation:					
At beginning of year	906	12,069	2,766	9,955	25,696
Provided during the year	432	3,825	395	2,428	7,080
Disposals	(746)	(15,288)	(2,871)	(4,379)	(23,284)
At 31 March 2001	592	606	290	8,004	9,492
Net book value:					
At 31 March 2001	5,353	459	46	2,634	8,492
At 31 March 2000	13,684	4,365	1,215	4,239	23,503

11. FIXED ASSETS (continued)

Company	Equipment HK\$'000
Cost:	
At beginning of year	88
Additions	52
	<hr/>
At 31 March 2001	140
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Accumulated depreciation:	
At beginning of year	18
Provided during the year	28
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At 31 March 2001	46
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Net book value:	
At 31 March 2001	94
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At 31 March 2000	70
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An analysis of the Group's leasehold land and buildings by cost is as follows:

	2001 HK\$'000	2000 HK\$'000
Short term leasehold land and buildings situated in Mainland China	–	8,645
Medium term leasehold land and buildings situated in Hong Kong	5,945	5,945
	<hr/>	<hr/>
	5,945	14,590
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The medium term leasehold land and buildings situated in Hong Kong have been pledged to a bank for a mortgage loan, as set out in note 18 to the financial statements.

12. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	66,743	66,743
Due from subsidiaries	530,956	413,675
Due to subsidiaries	(1,297)	(721)
	596,402	479,697
Less: Provisions	(475,828)	(434,516)
	120,574	45,181

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			2001	2000	
Directly held					
China Elegance Holdings Limited	British Virgin Islands	US\$1,000	100%	100%	Investment holding
Indirectly held					
Billion Chain Ltd.	British Virgin Islands/ PRC	US\$1	100%	100%	Provision of management services
Chorex Group Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
Crest Pearl Company Limited #	Hong Kong	HK\$10,000	–	100%	Provision of management services and investment holding

12. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			2001	2000	
Indirectly held (continued)					
Crest Pearl Inc.	Niue	US\$1	100%	100%	Dormant
Crest Pearl Group Co. Ltd.	British Virgin Islands/ PRC	US\$1	100%	100%	Trading of leatherwear
Felina International Investment Ltd.	British Virgin Islands	US\$1	100%	100%	Investment holding
Grand Perdot Holdings Limited #	British Virgin Islands	US\$1	–	100%	Dormant
Hero Gain Limited	Hong Kong	HK\$100	100%	–	Provision of management services
Jade City Properties Limited	Hong Kong	HK\$2	100%	100%	Property holding
Lancar Fashion (Shenzhen) Co., Ltd.	PRC	HK\$5,000,000	100%	100%	Manufacture and trading of garments
Legend World Group Limited *	British Virgin Islands	US\$100	100%	–	Investment holding
Magnificent Song Enterprise Co., Ltd.	British Virgin Islands	US\$1	100%	100%	Investment holding
Quantex Group (B.V.I.) Limited #	British Virgin Islands	US\$50,000	–	100%	Investment holding
Quantex Group Limited #	Hong Kong	HK\$2	–	100%	Dormant

12. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			2001	2000	
Indirectly held (continued)					
Regent Wise International Limited	Hong Kong	HK\$10,000	100%	100%	Garment trading
Rothwell Services Limited	British Virgin Islands	US\$10,000	100%	100%	Dormant
Shun Tai Development Ltd. *#	Niue/ PRC	US\$1	–	–	Investment holding and properties investment
Shuttery Limited	British Virgin Islands	US\$1	100%	100%	Dormant
Tianjin China United Development Co., Ltd. *#	PRC	HK\$10,000,000	–	–	Investment holding and properties agent
Timesway Limited *	British Virgin Islands/ PRC	US\$1	100%	–	Investment holding
Win Power International Limited *	British Virgin Islands	US\$1	100%	–	Investment holding

Note: On 29 August 2000, the Group acquired the entire issued share capital of Shun Tai Development Ltd. ("Shun Tai"), which held a 70% interest in Tianjin China United Development Co., Ltd. ("Tianjin Co."). Both Shun Tai and Tianjin Co. were disposed of to an independent third party on 29 March 2001.

* Acquired during the year

Disposed of during the year

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

The turnover and profit and loss contributed by the subsidiaries acquired or disposed of during the year were immaterial.

13. GOODWILL

	Group	
	2001	2000
	HK\$'000	HK\$'000
Cost:		
Additions and at 31 March 2001	19,909	—
Amortisation:		
Provided for the year and at 31 March 2001	(1,991)	—
Net book value:		
At 31 March 2001	17,918	—

14. INTERESTS IN ASSOCIATES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Share of net liabilities	(202)	—
Due to an associate	(2)	—
	(204)	—

The balance with an associate is unsecured, interest-free and has no fixed term of repayment.

Particulars of the Group's associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group	Principal activities
Cyberchain Limited	Corporate	British Virgin Islands	30%	Investment holding
World Pride (H.K.) Limited	Corporate	Hong Kong	30%	Trading of leather goods and sub-licensing
Smart Shoppers Co-op Limited	Corporate	Hong Kong	30%	Direct sales and marketing of consumer, household and fashion products
Smart Shoppers (Macau), Limited	Corporate	Macau	26.4%	Direct sales and marketing of consumer, household and fashion products

The financial year ends of the associates are 30 June which is non-coterminous with that of the Group.

15. PREPAYMENT FOR PROPERTIES UNDER DEVELOPMENT

	Group	
	2001	2000
	HK\$'000	HK\$'000
At balance sheet date	39,091	–

During the year, a subsidiary of the Company entered into an agreement with an independent third party in respect of the acquisition of properties under development (the "Properties"), which are situated in the PRC, for a total consideration of approximately HK\$43.8 million. Pursuant to the agreement, approximately HK\$39.1 million was paid as a prepayment during the year with the remaining unpaid balance of approximately HK\$4.7 million representing a capital commitment as at the balance sheet date.

Details of the Properties are:

Location	Attributable interest to the Group
Block No. 14, Mei Li Xin Dian, No. 2, Long Chuan Road, Nankai District, Tianjin, PRC.	100%

16. INVENTORIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	5,349	8,054
Work in progress	479	352
Finished goods	17,331	22,815
	23,159	31,221

None of the inventories included above was carried at net realisable value (2000: HK\$Nil). However, the above balance is stated after charging a provision of HK\$18,100,000 (2000: HK\$5,400,000).

17. ACCOUNTS RECEIVABLE

The aged analysis of the Group's accounts receivable is as follows:

	2001		2000	
	HK\$'000	Percentage	HK\$'000	Percentage
Current to three months	16,590	74	13,313	73
Four to six months	5,962	26	4,936	27
Total after provision	<u>22,552</u>	<u>100</u>	<u>18,249</u>	<u>100</u>

The normal credit period granted by the Group to customers ranges from 90 days to 180 days.

18. SECURED BANK LOAN

The maturity of the bank loan is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Within one year	191	167
In the second year	211	186
In the third to fifth years, inclusive	775	667
Beyond five years	<u>2,019</u>	<u>2,340</u>
	3,196	3,360
Portion classified as current liabilities	<u>(191)</u>	<u>(167)</u>
Long term portion	<u>3,005</u>	<u>3,193</u>

The Group's medium term leasehold land and buildings situated in Hong Kong are pledged to secure the above bank loan (note 11).

19. ACCOUNTS PAYABLE

The aged analysis of the Group's accounts payable is as follows:

	2001		2000	
	HK\$'000	Percentage	HK\$'000	Percentage
Current to three months	8,513	73	2,191	37
Four to six months	2,099	18	26	1
Seven months to one year	1,033	9	3,443	58
Over one year	–	–	225	4
	<u>11,645</u>	<u>100</u>	<u>5,885</u>	<u>100</u>

20. CONVERTIBLE REDEEMABLE DEBENTURES

During the year, China Elegance Holdings Limited ("CEHL"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party (the "Seller"), to acquire the entire issued share capital of, and the shareholder's loan to, Shun Tai, a company incorporated in Niue, for an aggregate consideration of HK\$52 million. Pursuant to the agreement, the total consideration of HK\$52 million was satisfied by HK\$25 million in cash with the remaining HK\$27 million being satisfied by the issue of convertible redeemable debentures ("Debentures"). The Debentures were convertible into 900 million new shares of the Company, based on the initial conversion price of HK\$0.03 per share (subject to adjustment). If the Seller did not convert the Debentures into new shares of the Company, the Company would repay the principal amount outstanding under the Debentures on the expiry date of 28 August 2001, together with all interest (at 3% per annum) outstanding up to and including the date of repayment.

Prior to the maturity date, on 25 October 2000, the Group received a request from the Seller for an early redemption of the Debentures. In consideration of the Group agreeing to redeem the Debentures early, the Seller agreed to waive all the interest accrued on the Debentures since the date of their issue and offer a further discount of HK\$2 million for such early redemption. The Group accepted this offer and redeemed the Debentures early. The discount of HK\$2 million was credited to the profit or loss account for the year.

21. SHARE CAPITAL

	Company	
	2001	2000
	HK\$'000	HK\$'000
Authorised:		
50,000,000,000 (2000: 20,000,000,000) ordinary shares of HK\$0.01 each	<u>500,000</u>	<u>200,000</u>
Issued and fully paid:		
17,665,936,000 (2000: 7,066,374,400) ordinary shares of HK\$0.01 each	<u>176,659</u>	<u>70,664</u>

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

- (a) Pursuant to an ordinary resolution passed at a special general meeting on 12 October 2000, the authorised share capital of the Company was increased from HK\$200,000,000 to HK\$500,000,000 by the creation of 30,000,000,000 additional shares of HK\$0.01 each, ranking pari passu in all respects with the existing share capital of the Company.

21. SHARE CAPITAL (continued)

- (b) Pursuant to an ordinary resolution passed at the same special general meeting on 12 October 2000, the Company made an open offer of 10,599,561,600 shares of HK\$0.01 each to shareholders at a subscription price of HK\$0.01 per share on the basis of three offer shares for every two shares held on 12 October 2000. The open offer was completed on 3 November 2000. The net proceeds of approximately HK\$102 million were used to redeem the Debentures and to finance investments and working capital of the Group. The subscription price of HK\$0.01 per share represented a discount of approximately 54.5% to the closing price of HK\$0.022 per share as quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 6 September 2000, being the date on which terms of the open offer were fixed.

Share options

Pursuant to a share option scheme approved and adopted by the shareholders of the Company on 23 April 1996, the board of directors is empowered, at its discretion, to invite any full-time employees of the Company or any of its subsidiaries, including any executive directors of the Company or of any such subsidiaries, to take up options to subscribe for shares in the Company at a price of HK\$1.00 per grant of options. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time excluding, for this purpose, shares issued upon the exercise of any options granted under the share option scheme. The subscription price shall not be less than the higher of 80% of the average of the closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of the option and the nominal value of the shares.

At the beginning of the year, there were a total of 55,013,857 share options outstanding which were granted on 27 June 1997 and are exercisable within 10 years from that date at a price of HK\$0.537 per share.

On 20 June 2000, 470,000,000 share options were granted to certain of the Group's employees entitling them to subscribe for a total of 470,000,000 ordinary shares at a price of HK\$0.02416 per share within ten years from the date of grant of the options. During the year, a total of 100,000,000 of these share options were cancelled upon the resignation of certain employees.

As a result of the above, 425,013,857 share options remained outstanding at the balance sheet date. At the balance sheet date, the exercise in full of these outstanding share options would, under the present capital structure of the Company, result in the issue of 425,013,857 additional ordinary shares and cash proceeds, before issue expenses, of approximately HK\$38,482,000.

Subsequent to the balance sheet date, a total of 130,300,293 share options held as at 31 March 2001 were cancelled upon the resignation of certain employees. On 12 June 2001, a further 530,000,000 share options were granted to certain of the Group's employees entitling them to subscribe for a total of 530,000,000 ordinary shares at a price of HK\$0.01 per share within ten years from the date of grant of the options. None of these options has been exercised up to the date of approval of these financial statements.

22. RESERVES**Group**

	Share premium	Contributed surplus	Exchange fluctuation reserve	Capital reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 1999	271,553	106,033	1	–	(309,864)	67,723
Issue of shares	22,477	–	–	–	–	22,477
Share issue expenses	(4,475)	–	–	–	–	(4,475)
Net loss for the year	–	–	–	–	(66,436)	(66,436)
At 31 March 2000 and at beginning of year	289,555	106,033	1	–	(376,300)	19,289
Share issue expenses	(3,937)	–	–	–	–	(3,937)
Arising from acquisition of subsidiaries	–	–	–	3,504	–	3,504
Release upon disposal of subsidiaries	–	–	–	(3,504)	–	(3,504)
Net loss for the year	–	–	–	–	(41,831)	(41,831)
At 31 March 2001	285,618	106,033	1	–	(418,131)	(26,479)
	Share premium	Contributed surplus	Exchange fluctuation reserve	Capital reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reserves retained by:						
Company and subsidiaries	285,618	106,033	1	–	(417,927)	(26,275)
Associates	–	–	–	–	(204)	(204)
	285,618	106,033	1	–	(418,131)	(26,479)

22. RESERVES (continued)

Company	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 1999	271,553	172,576	(369,675)	74,454
Issue of shares	22,477	–	–	22,477
Share issue expenses	(4,475)	–	–	(4,475)
Net loss for the year	–	–	(73,167)	(73,167)
At 31 March 2000 and at beginning of year	289,555	172,576	(442,842)	19,289
Share issue expenses	(3,937)	–	–	(3,937)
Net loss for the year	–	–	(41,831)	(41,831)
At 31 March 2001	<u>285,618</u>	<u>172,576</u>	<u>(484,673)</u>	<u>(26,479)</u>

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiary acquired over the nominal value of the Company's shares issued in exchange therefor, at the time of the Group reorganisation in preparation for the listing of the Company's shares.

Under the Companies Act 1981 of Bermuda (as amended), a company may make distributions to its members out of the contributed surplus under certain circumstances prescribed by Section 54 thereof, which the Company is currently unable to satisfy.

23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of loss from operating activities to net cash outflow from operating activities

	2001	2000
	HK\$'000	HK\$'000
Loss from operating activities	(41,282)	(66,095)
Interest income	(1,766)	(135)
Discount on redemption of convertible redeemable debentures	(2,000)	–
Gain on disposal of short term investments	(547)	–
Depreciation	7,080	8,603
Amortisation of goodwill	1,991	–
Provision against inventories	14,817	18,431
Provision for doubtful debts	1,403	8,310
Loss on disposal of fixed assets	1,568	–
Gain on disposal of subsidiaries	(4,947)	(78)
Loss on disposal of an associate	–	1,538
Decrease/(increase) in inventories	(6,755)	4,183
Increase in accounts receivable	(5,706)	(5,448)
Decrease in prepayments, deposits and other receivables	606	19,464
Increase/(decrease) in accounts payable	5,760	(6,972)
Increase/(decrease) in accrued liabilities and other payables	11,007	(6,981)
Net cash outflow from operating activities	(18,771)	(25,180)

23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital and share premium HK\$'000	Bank loans HK\$'000	Minority interests HK\$'000
At 1 April 1999	290,361	3,517	–
Net cash inflow/(outflow) from financing	69,858	(157)	–
At 31 March 2000 and at beginning of year	360,219	3,360	–
Net cash inflow/(outflow) from financing	102,058	(164)	–
Acquisition of subsidiaries	–	–	2,969
Share of losses for the year	–	–	(7)
Disposal of subsidiaries	–	–	(2,962)
At 31 March 2001	462,277	3,196	–

(c) Acquisition of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Interests in associates	2	–
Prepayment for properties under development	39,091	–
Cash and bank balances	9,997	–
Other receivable	49,518	–
Accrued liabilities and other payables	(42)	–
Due to an associate	(2)	–
Minority interests	(2,969)	–
	95,595	–
Capital reserve (note 22)	(3,504)	–
Goodwill (note 13)	19,909	–
	112,000	–
Satisfied by:		
Cash	85,000	–
Issue of convertible redeemable debentures (notes 20 and 23(e)(i))	27,000	–
	112,000	–

23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisition of subsidiaries (continued)

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2001	2000
	HK\$'000	HK\$'000
Cash consideration	(85,000)	–
Cash and bank balances acquired	9,997	–
	<hr/>	<hr/>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(75,003)	–
	<hr/> <hr/>	<hr/> <hr/>

The subsidiaries acquired during the year did not contribute significant cash flows to the Group.

(d) Disposal of subsidiaries

	2001	2000
	HK\$'000	HK\$'000
Net assets disposed of:		
Cash and bank balances	9,933	–
Prepayments, deposits and other receivables	48,669	–
Accrued liabilities and other payables	(463)	(30)
Minority interests	(2,962)	–
	<hr/>	<hr/>
	55,177	(30)
Gain on disposal of subsidiaries	4,947	78
Release of capital reserve (note 22)	(3,504)	–
	<hr/>	<hr/>
	56,620	48
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash	8,120	48
Other receivable (note 23(e)(ii))	48,500	–
	<hr/>	<hr/>
	56,620	48
	<hr/> <hr/>	<hr/> <hr/>

23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Disposal of subsidiaries (continued)

Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Cash consideration	8,120	48
Cash and bank balances disposed of	(9,933)	—
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	(1,813)	48

The subsidiaries disposed of did not contribute significant cash flows to the Group for both years.

(e) Major non-cash transactions

- (i) As further detailed in note 20 to the financial statements, the Company has issued convertible redeemable debentures of HK\$27 million for the purpose of the acquisition of a subsidiary. These debentures were redeemed during the year.
- (ii) On 29 March 2001, CEHL entered into a sale and purchase agreement with an independent third party (the "Vendor"). Pursuant to this agreement, CEHL agreed to sell the entire issued share capital of, and the shareholder's loan to, Shun Tai, for an aggregate consideration of HK\$56.5 million to the Vendor. The total consideration of HK\$56.5 million would be settled in three tranches, of which the first tranche of HK\$8 million was settled on 29 March 2001 in accordance with the agreement. The remaining two tranches not yet due at the balance sheet date of HK\$48.5 million was classified as an other receivable.

24. COMMITMENTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Contracted for:		
Commitment to acquire properties under development	4,673	—
Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:		
Within one year	1,726	518
In the second to fifth years, inclusive	788	2,153
	2,514	2,671

The Company had no other significant commitments at the balance sheet date (2000: Nil).

25. RELATED PARTY TRANSACTIONS

On 13 November 2000, the Group acquired the entire issued share capital of Legend World Group Limited, which held a 30% interest in World Pride (H.K.) Limited ("World Pride"). As a result of the above acquisition, World Pride became an associate of the Company.

During the period from 13 November 2000 to 31 March 2001, World Pride charged a total royalty fee of HK\$3,069,000 to the Group relating to the sub-licensing of the right to use an international trademark for the Group's products. The royalty fee was charged by World Pride according to the terms of a sub-licensing agreement entered into between the Group and World Pride on 15 September 1998.

26. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, a total of 130,300,293 share options held as at 31 March 2001 were cancelled upon the resignation of certain employees. On 12 June 2001, 530,000,000 share options were granted to the Group's employees entitling them to subscribe for a total of 530,000,000 ordinary shares at a price of HK\$0.01 per share within ten years from the date of grant of the options, further details of which are set out in note 21 to the financial statements.

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25 July 2001.