

# Notes to the Financial Statements

---

## 1. CORPORATE INFORMATION AND UPDATE

The Company is incorporated in Bermuda as an exempted company with limited liabilities and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

During the year the Group was involved in the following principal activities:

- wholesaling and trading of gold bullion;
- provision of loans and gold bullion financing;
- wholesaling and retailing of gold ornaments, diamonds and other jewellery products; and
- provision of internet-based electronic trading system to facilitate trading of precious metals, internet content provider and related operations.

As at 1 May 2000, the Company’s ultimate holding company was Tem Fat Hing Fung (Holdings) Limited (“TFHF”), a company incorporated in Bermuda and also listed on the Stock Exchange. During the year, TFHF through the partial divestment of its equity interests in the Company reduced its shareholding in the Company to a level which does not attribute a controlling stakeholding in the Company’s operations. As at 30 April 2001, TFHF was the single largest shareholder of the Company holding approximately 34.49% of the Company’s issued share capital. Subsequent to the balance sheet date, the Company completed a number of placements and a subscription of new shares in the Company, as a result of which the shareholding held by TFHF in the Company was diluted to approximately 9.59% as at the date of approval of these financial statements. Included in these placements and the subscription of new shares were a series of share subscription arrangements involving the Company, TFHF, a company related to both of these companies, Cheung Kong (Holdings) Limited (“Cheung Kong”), a company listed on the Stock Exchange, and certain of its group companies and related companies (collectively referred to as the “Cheung Kong Companies”) whereby the Cheung Kong Companies completed the subscription of a total of 391,900,000 new ordinary shares and 78,619,583 convertible preference shares in the Company. The exercise in full of the conversion rights vested in these convertible preference shares would confer to the Cheung Kong Companies an aggregate shareholding of 18.49% in the Company under its existing share capital structure as enlarged by the conversion thereby enabling the Cheung Kong Companies collectively to become the single largest shareholder of the Company. Further details of these share subscription arrangements are set out in notes 3 and 39(h) and (k) to the financial statements.

# Notes to Financial Statements *(Continued)*

---

## 1. CORPORATE INFORMATION AND UPDATE *(Continued)*

Spin-off of Trasy Gold Ex Limited (“Trasy”) and its subsidiaries (the “Trasy Group”)

During the year, the Company completed the spin-off of the Group’s business in the provision of internet-based electronic trading system to facilitate trading of precious metals, internet content provider and related operations, undertaken by the Trasy Group of Companies.

Prior to a group reorganisation of the Trasy Group, which was undertaken as part of the rationalisation of the structure of the Trasy Group in the preparation for a listing of the Trasy’s shares on through the listing of shares in Trasy on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited, Trasy was a wholly-owned subsidiary of the Company. The Trasy Group reorganisation was completed on 31 March 2000 and thereafter, Trasy became the holding company of the current subsidiaries of the Trasy Group while the Group’s shareholdings therein were diluted from 100% to approximately 58.46%. Further details of the Trasy Group reorganisation are set out in the prospectus of Trasy dated 30 November 2000. The spin-off of Trasy Group’s operations was completed on 6 December 2000 whereby, 2,161,493,740 new ordinary shares in Trasy (the “Trasy Shares”) were issued and allotted as follows:

- (i) 242,800,000 Trasy Shares of HK\$0.01 each were issued to the public at a premium of HK\$0.20 per share for cash proceeds aggregating HK\$50,988,000;
- (ii) 1,767,212,259 Trasy Shares of HK\$0.01 each were issued and allotted to the Company, its shareholders, certain of its creditors and independent third parties at par by way of the capitalisation of HK\$17,672,123 out of the share premium account of Trasy; and
- (iii) 113,386,243 and 38,095,238 Trasy Shares of HK\$0.01 each were issued and allotted at HK\$0.189 each and HK\$0.21 each, respectively, to two independent third parties upon the conversion of two loans of HK\$21,430,000 and HK\$8,000,000 due to these independent third parties by the Company under the convertible loan agreements. Further details of the convertible loan agreements are disclosed in note 27 to the financial statements.

The Trasy Shares were listed on GEM on 7 December 2000. The dilution of the Group’s shareholding in Trasy resulted in a gain on the deemed disposal of equity interests in Trasy of approximately HK\$85,170,000 arising from the new issue of Trasy Shares and the conversion of the Company’s loan into Trasy Shares.

### **Investment in PRC retail business**

Through the Group’s business involvement in the provision of gold bullion financing to jewellery manufacturers, wholesalers and retailers in various regions in the PRC, including Beijing, Changzhou, Shanghai, Shenzhen and Shekou, the Group has established a firm presence in the jewellery industry in the Mainland China, which will pave the way for the Group’s future expansion of its business operations in the PRC.

During the year, the Group decided that the time was ripe to capitalise on its established relational network through investing in the PRC gold and jewellery ornaments business. Such proceeding reached its milestone in April 2001 when the Group’s gold bullion advances and long term receivables in aggregate of approximately HK\$1,498 million were assigned as consideration for the acquisition of equity holdings in certain overseas investment vehicles, which held profit-sharing interests in a network of gold and jewellery ornament retail shops in the PRC. These profit-sharing interests were vested with certain contractual arrangements under which the Group will grant to the PRC retail shops rights to use the Group’s registered trade-name in their retail sale of gold ornament and jewellery products. Further details of the Group’s profit-sharing interests in these PRC retail business are set out in note 16 to the financial statements.

## Notes to Financial Statements *(Continued)*

---

### 2. BASIS OF PRESENTATION – GOING CONCERN

The Group recorded a net profit attributable to shareholders of HK\$13 million for the year ended 30 April 2001. In arriving at this operating profit, a non-recurrent gain of HK\$85 million arising from the spin-off and corresponding deemed partial disposal of the Group's interest in Trasy (note 1) has been taken into account. As at 30 April 2001, the Group and the Company had net current liabilities of HK\$587 million and HK\$307 million, respectively. Out of the Group's total outstanding bank and other borrowings (excluding trade related liabilities) as at 30 April 2001, in aggregate HK\$571 million, amounts totalling HK\$134 million (comprising a bank borrowing of HK\$48 million, convertible notes of HK\$53 million and other borrowings of HK\$33 million) were overdue and in default of repayment.

In addition, as at 30 April 2001, the Group's consolidated net liabilities amounted to HK\$388 million, and the financial covenant underlying a gold loan facility which requires the maintenance of the Group's consolidated net tangible assets at no less than HK\$600 million (revised to HK\$800 million subsequent to the balance sheet date), as well as the cross-default covenants underlying certain other borrowings as triggered thereby, have not been complied with. The total outstanding loans and other indebtedness affected in this connection amounted to approximately HK\$272 million as at 30 April 2001. In addition, as further detailed in note 39 (m) to the financial statements, subsequent to the balance sheet date on 7 January 2002, the Company issued convertible bonds in the denomination of HK\$117 million which were also endowed with cross-default covenants, the compliance with which accordingly has also been rendered negative by virtue of the foregoing circumstances. As a result of this issue of convertible bonds and also other subsequent movements in the Group's indebtedness, as at the latest practicable date for the preparation of these financial statements, the total amount of the Group's outstanding loans and other indebtedness so affected has increased to approximately HK\$359 million, comprising a gold loan payable of HK\$23 million; a bank loan of HK\$45 million; convertible notes and bonds of HK\$213 million; a promissory note payable of HK\$39 million; and accounts payable for gold purchase of HK\$39 million. The terms of the affected facility agreements stipulate that with any non-compliance of credit covenants, the lenders of these borrowings may serve a notice to the Group to declare these borrowings immediately due and repayable. Unless and until such notice is served, the loans remain repayable in accordance with their original stated maturity dates.

As at 30 April 2001 and the date of these financial statements, the Group was also technically in breach of certain other covenants (including financial covenants) governing the issue of convertible notes payable with an aggregate principal denomination of US\$21,150,000 (approximately HK\$163 million). Amongst the covenants being violated is a requirement for TFHF to maintain an equity interest of not less than 35% in the outstanding issued share capital of the Company. As set out in note 1 to the financial statements, the shareholding held by TFHF in the Company was diluted to approximately 9.59% as at the date of approval of these financial statements. On 1 September 2001, 17 October 2001 and 12 December 2001, the Company received written notices of consent from certain convertible note holders holding in aggregate convertible notes of US\$14,300,000 (approximately HK\$110 million) granting waivers of compliance with the affected covenants. As to the remaining convertible notes with an aggregate principal denomination of US\$6,850,000 (approximately HK\$53 million), principal amounts aggregating US\$4,589,500 (approximately HK\$36 million, representing 67% of the balance involved) were repaid subsequent to the balance sheet date. The remaining amount of US\$2,260,500 (approximately HK\$17 million) remains unsettled to date. The foregoing waivers for compliance granted by the noteholders described above, however, do not extend to the non-compliance with cross-default clause underlying the issue of these convertible notes which, as noted previously, was triggered by the breach of the financial covenant underlying the gold loan facility which requires the maintenance of consolidated net tangible assets of no less than HK\$800 million. Accordingly, all the convertible note borrowings whether overdue for repayment or in breach of any covenants, including any cross-default clause, have been reclassified as current liabilities in preparing these financial statements.

## Notes to Financial Statements *(Continued)*

---

### 2. BASIS OF PRESENTATION – GOING CONCERN *(Continued)*

The financial statements have been prepared on the assumption that the Group will continue to operate as a going concern notwithstanding the conditions prevailing at 30 April 2001 and subsequently up to the date of approval of these financial statements. In the opinion of the directors, the liquidity of the Group can be maintained in the foreseeable future, after taking into consideration several financing measures completed subsequent to the balance sheet date together with other measures in progress at the date of this report which include, but are not limited to, the following:

- (i) Subsequent to the balance sheet date, the Company completed a number of new funding pursuits including, amongst other things, a number of private placements and subscriptions for new shares, the issuance of convertible bonds and the solicitation of new credit advances, as a result of which an aggregate of 2,158,527,558 new ordinary shares in the Company were issued for net proceeds of approximately HK\$224 million; and additional convertible bonds and other borrowings in an aggregate amount of approximately HK\$171 million were raised. Out of the proceeds realised from the placements and subscriptions of shares and raising of new debt, approximately HK\$74 million was raised by the way offset against the indebtedness of the Company outstanding at the balance sheet date; approximately HK\$82 million was used to repay bank and other borrowings of the Group outstanding at the balance sheet date; approximately HK\$204 million was used to provide additional working capital to fund the Group's operations and debt interest servicing requirements; and approximately HK\$35 million was used for other business pursuits. Further details of these placements and subscriptions for shares are set out in notes 39 to the financial statements. In addition to the foregoing, at the date of this report, arrangements for additional new fund raising through a rights issue of new shares in the Company are also under contemplation. In the event that circumstances may require such, the Group will initiate the disposal of certain of its investment properties situated outside Hong Kong, appraised by professional valuations performed as of 30 April 2001 at approximately HK\$94 million, to avail additional cash resources to the Group.
- (ii) The Group is currently working with its financial creditors to refinance certain of its indebtedness. In this regard, the Group successfully procured an agreement from one of its bankers on 9 July 2001 for the restructuring of overdue bank borrowings of approximately HK\$48 million in default of repayment, into an instalment loan repayable over a period of ten years. In addition, pursuant to the revised credit terms, the Group was granted the privilege to service interest only on this indebtedness during the twelve months ending 9 July 2002 and will only be required to commence the repayment of the principal portion of the loan balance thereafter.
- (iii) As described in note 1 to the financial statements, the Group completed the acquisition of certain interests in various gold ornaments and jewellery retail business in the PRC, and began to derive profit contributions from these interests subsequent to the balance sheet date.
- (iv) As more fully explained in notes 3 and 39 to the financial statements, the Cheung Kong Companies together became the single largest shareholder of the Company subsequent to the balance sheet date. The directors anticipate that the Group will be able to capitalise on the new relationship through sharing in the global business connections and client relations of Cheung Kong Companies in the development of its own business.

## Notes to Financial Statements (Continued)

### 2. BASIS OF PRESENTATION – GOING CONCERN (Continued)

In preparing the financial statements, the directors have considered the future liquidity of the Group particularly in light of the above circumstances. The directors believe that the Group will be able to meet its financial obligations in full as they fall due in the foreseeable future provided that ongoing support is extended by its bankers and creditors until such time as new financing has been obtained and the other aforementioned measures have been successfully implemented. Accordingly, the financial statements have been prepared on a going concern basis notwithstanding the conditions prevailing at 30 April 2001 and up to the date of approval of these financial statements.

The financial statements do not incorporate any adjustments for the possible failure of the above financing measures and the continuance of the Company and the Group as a going concern. Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effect of these potential adjustments has not been reflected in the financial statements.

### 3. RELATED PARTY TRANSACTIONS

In addition to the connected transactions and balances detailed on pages 77 to 80 of this annual report, the Group also had the following material transactions with related parties during the year.

	Notes	Group 2001 HK\$'000	2000 HK\$'000
Rental income received from a substantial shareholder of the Company	(i)	5,824	6,538
Sales of gold bullion to a related company	(ii)	7,417	–
Purchases of gold bullion from a related company	(ii)	<u>7,363</u>	<u>–</u>

#### Notes:

- (i) In the opinion of the directors, the terms of the respective lease agreements underlying rental income were determined with reference to the open market rental value prevailing at the time of inception of the agreements.
- (ii) An executive director of the Company is also a director of the related company undertaking these transactions. Sales and purchases were made according to the gold prices substantially equivalent to those offered to/by the major customers and suppliers of the Company and prevailing at the time of the transaction.

In addition to the foregoing, on 17th April 2001, the Company, TFHF and Can Do Holdings Limited ("Can Do"), a related company in which TFHF was then the single largest shareholder, jointly entered into preference shares subscription agreements (the "Shares Subscription Agreements") with the Cheung Kong Companies, pursuant to which the Cheung Kong Companies agreed to subscribe for 284,000,000 convertible redeemable preference shares (the "'B' Preference Shares") of Can Do at HK\$0.25 per share for a total cash consideration of HK\$71 million.

Pursuant to the Shares Subscription Agreements, the Cheung Kong Companies were granted the right to transfer to the Company, the exercise of which would oblige the Company to acquire, all 'B' Preference Shares with the issue and allotment of new ordinary shares (the "Consideration Shares") in the Company to the Cheung Kong Companies as consideration for the acquisition. In addition, the Cheung Kong Companies are entitled to vary the terms of the shares subscription to the effect that the Cheung Kong Companies may elect to subscribe for the Consideration Shares in the form of both new ordinary shares and also convertible redeemable preference shares in the Company.

## Notes to Financial Statements *(Continued)*

---

### 3. RELATED PARTY TRANSACTIONS *(Continued)*

On 26 April 2001, the Cheung Kong Companies exercised the right granted under the Shares Subscription Agreements for the subscription of 69,900,000 new ordinary shares of HK\$0.10 each in the Company at a share price of HK\$0.2418 per share and 10,819,583 convertible redeemable preference shares of par value HK\$1.00 each with notional value of HK\$5.0 each in the Company (convertible at a conversion price of HK\$0.2418 into ordinary shares in the Company) at a share price equivalent to its nominal value of HK\$5.0 per share. The issue and allotment of these new shares in the Company was completed subsequent to the balance sheet date on 18 September 2001, when the Cheung Kong Companies together became a shareholder of the Company attributing an aggregate of 2.32% of the issued share capital of the Company as enlarged by the new issue.

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **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 periodic remeasurement of investment properties and gold bullion, as further explained below.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 April 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 within the Group are eliminated on consolidation.

#### **Goodwill and capital reserve**

Goodwill arising on consolidation of subsidiaries and associates represents the excess of purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is either eliminated against reserves in the year of acquisition, or amortised through the profit and loss account over their estimated useful lives to the Group as deemed appropriate by the directors. The unamortised portion of goodwill arising on acquisition of associates is included as part of the Group's interests in associates.

Capital reserve arising on consolidation represents the excess of the fair values ascribed to the net underlying assets of the acquired subsidiaries or associates at the date of acquisition over the purchase consideration.

Upon the disposal of an interest in a subsidiary, or associate, the attributable capital reserve, or amount of purchased goodwill, which had previously been eliminated against reserves and had not previously been charged to the profit and loss account, is credited or charged to the profit and loss account to determine the gain or loss on sale of investments.

#### **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 diminutions in values other than those considered to be temporary in nature, when they are written down to values determined by the directors.

## Notes to Financial Statements *(Continued)*

---

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Associates**

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally 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 associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in the associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting.

The results of the associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in the associates are stated at cost less any provisions for diminutions in values other than those considered to be temporary in nature deemed necessary by the directors.

#### **Jointly controlled entities**

A jointly controlled entity is a joint venture which involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The jointly controlled entity operates in the same way as other enterprises, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

The Group's share of the post-acquisition results and reserves of jointly controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting.

The results of jointly controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in jointly controlled entities are treated as long-term investments and are stated at cost less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

#### **Fixed assets and depreciation**

Fixed assets, other than investment properties, 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. The principal annual rates used for this purpose are as follows:

Land and buildings	2.5%
Freehold shoplots	2%
Leasehold improvements	15%
Furniture, fixtures and equipment	15%
Plant and machinery	10-15%
Motor vehicles	25%



## Notes to Financial Statements *(Continued)*

---

### 4. 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.

#### **Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

#### **Investment securities**

Investment securities are stated at cost less provision for any impairment in values other than those considered to be temporary in nature deemed necessary by the directors.

The carrying amounts of individual investments are reviewed by the directors at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities should be reduced to the fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

#### **Properties held for resale**

Properties held for resale are stated at the lower of cost and net realisable value on an individual property basis.

#### **Inventories**

Inventories comprise raw materials, work in progress and finished goods of gold ornaments, diamonds and jewellery products and are stated at the lower of cost and net realisable value. Cost comprises purchase price and processing cost and is determined on the weighted average basis. Net realisable value is determined by reference to the net sales proceeds of items sold in the ordinary course of business subsequent to the balance sheet date or management estimates based on the prevailing market conditions less estimated selling prices and costs to be incurred to completion.

#### **Gold bullion**

Gold bullion is stated at the gold price prevailing at the close of business on the balance sheet date. Differences arising from the changes in gold prices are dealt with in the profit and loss account.



## Notes to Financial Statements *(Continued)*

---

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Operating leases**

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

#### **Hedging**

The Group enters into spot contracts with independent third parties to manage exposure to fluctuations in gold prices. Gains and losses arising from the spot contracts, net of the increase or decrease in the amount required to settle the asset or liability, are dealt with in the profit and loss account.

#### **Borrowing costs**

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to prepare for its intended use.

#### **Retirement benefits scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement scheme (the “Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the Scheme except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

Prior to the Scheme being effective, the Group operated a defined contribution retirement scheme for all employees. This scheme operated in a similar way to the Scheme, except that when an employee left the scheme prior to his/her interest in the Group’s employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions.

#### **Deferred tax**

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

#### **Foreign currency transactions**

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 and associates are translated in Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange translation reserve.

## Notes to Financial Statements *(Continued)*

---

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **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) from the 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;
- (b) from the rendering of management and consultancy services, in the period in which the services are rendered;
- (c) rental income, on the straight-line basis over the lease terms;
- (d) interest income from money lending and bullion financing services, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (e) Commission income; on the accruals basis when the related services are rendered.

#### **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.

## Notes to Financial Statements (Continued)

### 5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of gold bullion sold, after allowance for returns and trade discounts; the value of service rendered; commission and interest income on commodity trading; the provision of loans and gold bullion financing and wholesaling and retailing of gold ornaments, diamond and jewellery products. Revenue recognised during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
TURNOVER	5,864,737	5,432,370
OTHER REVENUE		
Interest income on bank deposits	418	871
Gross rental income from investment properties	10,530	6,990
Consultancy fee income	7,800	–
	18,748	7,861
Total turnover and revenue	5,883,485	5,440,231

An analysis of the Group's turnover by principal activity and geographical area 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:

	2001 HK\$'000	2000 HK\$'000
(i) By principal activity:		
Sales of gold bullion	5,636,458	5,201,829
Sales of gold ornaments, diamond and jewellery products	105,415	117,229
Money lending and bullion financing	122,511	113,312
Provision of internet-based electronic trading system to facilitate trading of precious metals and related business	353	–
	5,864,737	5,432,370
(ii) By geographical area:		
Hong Kong	4,798,009	3,489,931
People's Republic of China, excluding Hong Kong	888,663	1,033,305
Malaysia	178,065	909,134
	5,864,737	5,432,370

## Notes to Financial Statements *(Continued)*

### 6. PROFIT FROM OPERATING ACTIVITIES

This is arrived at after charging/(crediting):

	2001 HK\$'000	2000 HK\$'000
Staff costs (excluding directors' remuneration ( <i>note 7</i> ))		
Wages and salaries	28,402	24,780
Pension contributions	1,462	1,098
Less: Forfeited contributions	(153)	(354)
	<u>1,309</u>	<u>744</u>
Net pension contributions*	<u>29,711</u>	<u>25,524</u>
Auditors' remuneration	3,280	2,685
Provision for diminution in value of other properties	–	11,000
Deficit/(surplus) on revaluation of investment properties, net	(3,500)	7,658
Depreciation	13,127	11,927
Loss on deemed disposal of an associate	–	2,552
Loss on disposal of fixed assets	274	64
Provision for properties held for resale	1,501	–
Provision for investment securities	7,686	–
Operating lease rentals on land and buildings	5,713	5,058
Exchange losses, net	1,145	917
Loss from gold price contracts	10,346	6,249
Gain on disposal of an associate	–	(10)
Net rental income	(10,121)	(5,649)
Interest income	<u>(155,776)</u>	<u>(153,840)</u>

\* There were no forfeited contributions available at the balance sheet date to reduce contributions in future years (2000: Nil).

## Notes to Financial Statements (Continued)

### 6. PROFIT FROM OPERATING ACTIVITIES (Continued)

An analysis of the Group's profit from operating activities by principal activity and geographical area pursuant to the requirements of the Listing Rules is as follows:

	2001 HK\$'000	2000 HK\$'000
(i) By principal activity:		
Sales of gold bullion	24,488	50,012
Sales of gold ornaments, diamond and jewellery products	(2,187)	918
Money lending and bullion financing	50,400	42,396
Provision of internet-based electronic trading system to facilitate trading of precious metals and related business	(14,806)	–
Property and investment holding	37,555	(29,336)
	<u>95,450</u>	<u>63,990</u>
(ii) By geographical area:		
Hong Kong	82,227	30,620
People's Republic of China, excluding Hong Kong	11,016	17,752
Malaysia	2,207	15,618
	<u>95,450</u>	<u>63,990</u>

### 7. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

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

	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive	–	–
Non-executive	–	–
Independent non-executive	600	600
	<u>600</u>	<u>600</u>
Salaries, bonus and other emoluments – executive	4,901	4,055
Pension contributions	90	168
	<u>5,591</u>	<u>4,823</u>

## Notes to Financial Statements *(Continued)*

### 7. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

The remuneration of the directors fell within the following band:

	<b>Number of directors</b>	
	<b>2001</b>	<b>2000</b>
Nil to HK\$1,000,000	9	10
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$2,000,001 to HK\$2,500,000	–	1
	<u>10</u>	<u>12</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2000: Nil).

During the year, 64,540,000 share options in the Company and 62,276,000 Trasy pre-IPO share options were granted to the directors in respect of their services to the Group, further details of which are set out under the heading "Directors' rights to acquire shares or debentures" in the Report of the Directors on pages 14 to 15. No value is included in directors' remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.

#### Five highest paid employees

Included above are three (2000: three) executive directors whose emoluments were among the five highest paid individuals in the Group. Fees of HK\$600,000 (2000: HK\$600,000) were paid to two independent non-executive directors for each of the years ended 30 April 2000 and 2001.

Details of the emoluments paid to two individuals who are not directors (2000: there were two individuals who were not directors), but whose emoluments were among the five highest in the Group are:

	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	2,573	1,936
Pension scheme contributions	108	94
	<u>2,681</u>	<u>2,030</u>

The remuneration of the non-director, highest paid employees fell within the following band:

	<b>Number of employees</b>	
	<b>2001</b>	<b>2000</b>
Nil to HK\$1,000,000	–	1
HK\$1,000,001 to HK\$1,500,000	2	1
	<u>2</u>	<u>2</u>

## Notes to Financial Statements (Continued)

### 7. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS (Continued)

#### Five highest paid employees (Continued)

During the year, 5,000,000 share options in the Company were granted to one of these non-director, highest paid employees in respect of her services to the Group. No value is included in the above remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.

### 8. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Repayable within five years:		
Interest on bank borrowings and overdrafts	25,755	23,665
Interest on other borrowings	12,719	774
Interest on convertible notes	9,829	11,242
Provision for premium on convertible notes redemption	9,567	–
	<u>57,870</u>	<u>35,681</u>
Repayable beyond five years:		
Interest on bank borrowings	624	–
	<u>58,494</u>	<u>35,681</u>
Finance charge	<u>14,843</u>	<u>2,795</u>
	<u><u>73,337</u></u>	<u><u>38,476</u></u>



## Notes to Financial Statements (Continued)

### 9. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Tax on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current:		
Hong Kong	7,720	6,138
Elsewhere	994	–
	<u>8,714</u>	<u>6,138</u>
Prior year underprovisions:		
Hong Kong	2,766	–
Share of tax attributable to associates	<u>5</u>	<u>82</u>
Tax charge for the year	<u>11,485</u>	<u>6,220</u>

No provision for deferred tax has been made as the net effect of all timing differences is insignificant (2000: Nil).

The revaluation of the Group's investment properties in Hong Kong does not constitute any significant timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified. No deferred tax has been provided on the revaluation surplus of the Group's properties situated in the PRC as the Group presently does not have any intention to dispose of its properties.

### 10. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$238,115,000 (2000: net profit of HK\$2,393,000).

### 11. DIVIDENDS

	2001	2000
	HK\$'000	HK\$'000
Preference shares, paid, of HK\$0.05 (2000: HK\$0.3) per share	<u>1,270</u>	<u>7,620</u>

In addition to the foregoing, a special dividend comprising of 137,682,480 shares of HK\$0.01 each in Trasy was distributed during the year to the shareholders of the Company upon the listing of Trasy shares on GEM of the Stock Exchange, on the basis of one Trasy share for every ten ordinary shares of HK\$0.10 each then existing in the Company and held by the Company's shareholders. These Trasy shares distributed as dividends form part of the total 1,767,212,259 Trasy shares issued and allotted at par by way of the capitalisation of the share premium account of Trasy, as described in note 1 to the financial statements. The value of these Trasy shares distributed as dividends, based on the net asset value of Trasy Group at the date of distribution, amounted to approximately HK\$3,370,000.

## Notes to Financial Statements (Continued)

### 12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$12,818,000 (2000: HK\$20,677,000) less preference dividends of HK\$1,270,000 (2000: HK\$7,620,000), and on the weighted average number of 1,329,626,198 (2000: 1,036,100,281) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 30 April 2001 was based on the net profit attributable to shareholders of HK\$12,818,000 (2000: HK\$20,677,000) less preference share dividend of HK\$1,270,000 (2000: HK\$7,620,000) and the weighted average number of 1,329,626,198 (2000: 1,036,100,281) ordinary shares in issue during the year plus 86,507,275 (2000: 4,573,608) ordinary shares deemed to be issued if the share options had been exercised. The calculation of this weighted average number of shares for diluted earnings per share has taken into account the effect of 84,540,000 share options granted during the year with an exercise price of such option fixed only subsequent to the balance sheet date on 9 May 2001 (note 32). The calculation has not taken into account the ordinary shares deemed to be issued if convertible notes had been converted as the effect is anti-dilutive.

### 13. FIXED ASSETS

#### Group

	Investment properties <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Freehold shoplots <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:								
At beginning of year	189,384	57,838	8,809	54,184	14,334	13,999	2,158	340,706
Additions	-	-	-	868	1,176	80	-	2,124
Disposals	-	(22,500)	-	(1,398)	(152)	(2)	-	(24,052)
Revaluation on investment properties	3,500	-	-	-	-	-	-	3,500
At 30 April 2001	192,884	35,338	8,809	53,654	15,358	14,077	2,158	322,278
Accumulated depreciation:								
At beginning of year	-	15,520	939	22,164	6,505	5,824	1,565	52,517
Provided during the year	-	1,034	186	7,384	2,402	1,733	388	13,127
Disposals	-	(12,572)	-	(1,091)	(103)	-	-	(13,766)
At 30 April 2001	-	3,982	1,125	28,457	8,804	7,557	1,953	51,878
Net book value:								
At 30 April 2001	192,884	31,356	7,684	25,197	6,554	6,520	205	270,400
At 30 April 2000	189,384	42,318	7,870	32,020	7,829	8,175	593	288,189

## Notes to Financial Statements (Continued)

### 13. FIXED ASSETS (Continued)

The analysis of the cost or valuation at 30 April 2001 of the Group's properties is as follows:

	Investment properties HK\$'000	Land and buildings HK\$'000	Freehold shoplots HK\$'000	Total HK\$'000
At cost	–	35,338	8,809	44,147
At 2001 valuation	192,884	–	–	192,884
	<u>192,884</u>	<u>35,338</u>	<u>8,809</u>	<u>237,031</u>

The net book value of the Group's interests in investment properties, land and buildings and shoplots are held under the following lease terms:

	Group	
	2001 HK\$'000	2000 HK\$'000
Long term leases:		
Hong Kong	110,240	119,202
Medium term leases:		
Hong Kong	20,000	23,000
Outside Hong Kong	94,000	89,500
Freehold	7,684	7,870
	<u>231,924</u>	<u>239,572</u>

The investment properties were revalued by Chesterton Petty Limited, independent professional valuers, at HK\$192,884,000, on an open market, existing use basis at 30 April 2001. Further particulars of the Group's principal properties are included on page 74.

As at 30 April 2001, all of the above investment properties, land and buildings and shoplots with an aggregate net carrying value of HK\$231,924,000 (2000: HK\$239,572,000) were pledged to banks to secure banking facilities granted to the Group (note 27).

## Notes to Financial Statements (Continued)

### 13. FIXED ASSETS (Continued)

#### Company

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At beginning of year	130	1,774	1,904
Additions	–	210	210
Disposals	–	(17)	(17)
	<u>130</u>	<u>1,967</u>	<u>2,097</u>
At 30 April 2001			
Accumulated depreciation:			
At beginning of year	60	710	770
Provided during the year	20	284	304
Disposals	–	(10)	(10)
	<u>80</u>	<u>984</u>	<u>1,064</u>
At 30 April 2001			
Net book value:			
At 30 April 2001	<u>50</u>	<u>983</u>	<u>1,033</u>
At 30 April 2000	<u>70</u>	<u>1,064</u>	<u>1,134</u>

### 14. INTERESTS IN SUBSIDIARIES

	Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Unlisted shares, at cost	171,631	169,292
Due from subsidiaries	2,224,139	1,031,415
Due to subsidiaries	(1,084,487)	(110,639)
	<u>1,311,283</u>	<u>1,090,068</u>
Less: Provision for diminution in value	(60,326)	–
	<u>1,250,957</u>	<u>1,090,068</u>

As at the balance sheet date, the Company's entire interests in RNA Gold Bullion Fund, a subsidiary incorporated in the Cayman Islands, have been pledged as security for banking facilities granted to and drawn down by the Group (note 27).

## Notes to Financial Statements (Continued)

### 14. INTERESTS IN SUBSIDIARIES (Continued)

The above interests in subsidiaries also include those attributable to the Trasy group of companies, the particulars of which are set out in note 1 to the financial statements. As at the date of these financial statements, the Company's entire interests in Trasy shares were pledged as securities against promissory note borrowings in the amount of HK\$16 million raised by the Group subsequent to the balance sheet date, as described in note 39(1) to the financial statements.

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's principal subsidiaries at 30 April 2001 are set out in note 40 to the financial statements.

### 15. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–	2,164	2,164
Share of net assets	–	–	–	–
Amount due from a jointly controlled entity	100,883	76,562	119,943	95,622
	100,883	76,562	122,107	97,786
Provision against interest in a jointly controlled entity	(100,883)	(58,955)	(122,107)	–
	–	17,607	–	97,786

The amount due from a jointly controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Pursuant to the shareholder's agreement entered into between the Company and an independent third party dated 11 July 1997, neither parties to the joint venture can exercise significant influence over the other parties. The entity is operated under joint control by both parties. To comply with Statement of Standard Accounting Practice No. 2.121 "Accounting for Interests in Joint Ventures" ("SSAP 21"), the entity which was previously accounted for as a subsidiary is now reclassified and accounted for as a jointly controlled entity for the Group and the Company. This reclassification had no effect on the Group's consolidated results attributable to the shareholders for the years ended 30 April 2001 and 2000 and the Group's consolidated net assets / the Company's net assets as at 30 April 2001 and 30 April 2000.

## Notes to Financial Statements *(Continued)*

### 15. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

Particulars of the jointly controlled entity at 30 April 2001 are as follows:

Company name	Business structure	Place of incorporation/ registration/ operations	Percentage of indirect equity interest attributable to the Company		Principal activities
			2001	2000	
Peakhurst Limited	Corporate	British Virgin Islands	51.47	51.47	Investment holding

### 16. INTERESTS IN ASSOCIATES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	–	–	–	–
Share of net assets, other than goodwill	6,781	7,703	–	–
Unamortised goodwill	1,498,176	–	–	–
	<u>1,504,957</u>	<u>7,703</u>	<u>–</u>	<u>–</u>
Amounts due from associates	14,635	21,472	23,494	23,494
Amounts due to associates	–	(7,097)	–	–
	<u>1,519,592</u>	<u>22,078</u>	<u>23,494</u>	<u>23,494</u>
Provision against amounts due from associates	–	–	(8,859)	–
	<u>1,519,592</u>	<u>22,078</u>	<u>14,635</u>	<u>23,494</u>

The amounts due from/(to) associates are unsecured, interest-free and have no fixed terms of repayment.

## Notes to Financial Statements *(Continued)*

---

### 16. INTERESTS IN ASSOCIATES *(Continued)*

The Group's interests in associates include indirect equity holdings in a number of investment vehicles (the "Investment Vehicles"), which through contractual arrangements hold profit-sharing interests in a network of over 150 gold ornaments and jewellery retail outlets located throughout various cities in the PRC. Under these contractual arrangements in return for management services and technical support to be rendered, the Investment Vehicles will be entitled to share in revenue generated from these PRC retail outlets from sale of merchandise supplied under these contractual arrangements for an initial operational period of twenty years. In addition, under certain of these contractual arrangements involving a franchise undertaking, the Group will grant to the PRC retail shops rights to use the Group's registered trade-name in their retail sale of gold ornaments and jewellery merchandise. As of the date of these financial statements, approximately HK\$90 million revenue distribution has been received by the Group in the first 11 months of investment. In assessing the Group's investment in these Investment Vehicles, the directors have obtained a legal opinion from a PRC legal counsel which confirmed that the operational undertakings of the Investment Vehicles underlying these revenue-sharing arrangements are legally enforceable and legitimate; and do not violate any existing laws and regulations in the PRC. The Group's acquisition of the Investment Vehicles was completed in April 2001 for an aggregate purchase consideration of HK\$1,498 million, which was equivalent to a professional valuation of the underlying business of the Investment Vehicles in April 2001 and performed by Castores Magi Surveyors Limited, independent professional valuers, on the fair market value basis. The consummation of the purchase consideration was satisfied by the assignment to the vendors of the Investment Vehicles certain receivables, mainly gold bullion advances made by the Group, in the aggregate amount of HK\$1,498 million.

Apart from the issue and allotment of share capital and the inception of the above referred contractual undertakings, the Investment Vehicles have undertaken no other material transactions since their incorporation up to 30 April 2001. Accordingly, the Group's interests in the Investment Vehicles were principally reflected as goodwill arising on acquisition of HK\$1,498 million, which will be recovered through future sharing in profits of the PRC gold ornaments and the jewellery retail business. In accordance with the Group's accounting policies, the aforementioned goodwill arising on acquisition will be amortised on the straight-line basis over the contracted operational period of twenty years commencing the fiscal year ending 30 April 2002 and will give rise to an annual amortisation charge of approximately HK\$75 million.

Details of the principal associates as at 30 April 2001, which materially affect the Group's results or assets, are set out in note 41 to the financial statements.

### 17. LONG TERM RECEIVABLE

Long term receivable represents loan advances made by the Company which bears interest at a rate of 6% per annum and is repayable on 1 September 2003. An option exists for the Company to require the debtor company to repay the loan prior to its maturity date by transferring its entire beneficial equity interest in a sino-foreign equity joint venture (the "Joint Venture") proposed to be established pursuant to a joint venture agreement (the "Joint Venture Agreement") signed between the debtor company and a unrelated PRC enterprise on 1 September 2000. During the year, the debtor company repaid a total of HK\$31,000,000 to the Company. The remaining outstanding receivable balance in the amount of HK\$117,000,000 was wholly assigned as part of the consideration for the procurement of the Group's profit-sharing interests in certain gold ornaments and jewellery retail business in the PRC, as described in notes 1 and 16 to the financial statements.



## Notes to Financial Statements (Continued)

### 18. OTHER ASSETS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Membership licences, at cost	1,491	1,491

The membership licences represent the costs of acquiring two Bullion Group Memberships and three Ordinary Memberships in The Chinese Gold and Silver Exchange Society.

### 19. BULLION FINANCE DEBTORS

Bullion finance debtors represented those receivables arising from gold bullion financing business of the Group. They were unsecured term loans in the form of physical gold granted to customers engaged primarily in gold and jewellery business which bore interest at rates ranging from 8% to 12% per annum. The grant of these loans was approved and monitored by the Company's executive directors in charge of the Group's bullion finance operations.

An aged analysis of the bullion finance debtors is set out as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Repayable on demand	–	50,852	–	50,852
Within three months	–	951,850	–	–
	–	1,002,702	–	50,852
Provision for doubtful debts	–	(27,000)	–	–
	–	975,702	–	50,852

During the year, receivables arisen from the Group's gold bullion financing business were assigned as purchase consideration for the acquisition of equity holdings in certain associates which held profit-sharing interests in certain gold and jewellery ornaments business in the PRC, the details of which are set out in note 16 to the financial statements.

### 20. MONEY LOAN AND ACCOUNTS RECEIVABLE

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Money loan receivables	72,503	111,920	–	14,447
Accounts receivable	50,309	61,070	–	–
	122,812	172,990	–	14,447
Provision for doubtful debts	(32,416)	(25,034)	–	–
	90,396	147,956	–	14,447

## Notes to Financial Statements (Continued)

### 20. MONEY LOAN AND ACCOUNTS RECEIVABLE (Continued)

Money loan receivable represents those receivables arising from the money loan financing business of the Group. They are unsecured term loans which bear interest at rates ranging from 8% to 24% per annum. The grant of these loans is approved and monitored by the Company's executive directors in charge of the Group's money loan financing operations.

The aging analysis of the money loan receivables is set out as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Repayable on demand	27,173	11,973	–	14,447
Within one year	45,330	99,947	–	–
	<u>72,503</u>	<u>111,920</u>	<u>–</u>	<u>14,447</u>
Provision for bad and doubtful debts	(12,796)	(16,384)	–	–
	<u>59,707</u>	<u>95,536</u>	<u>–</u>	<u>14,447</u>

The Group has a defined credit policy for accounts receivable and generally grants credit allowance of one to three months. The aging analysis of these receivables as at 30 April 2001 is as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within three months	34,238	17,140	–	–
Over three months	16,071	43,930	–	–
	<u>50,309</u>	<u>61,070</u>	<u>–</u>	<u>–</u>
Provision for bad and doubtful debts	(19,620)	(8,650)	–	–
	<u>30,689</u>	<u>52,420</u>	<u>–</u>	<u>–</u>

### 21. DUE FROM BULLION BROKERAGE CUSTOMERS

Amounts due from bullion brokerage customers are either secured by the underlying margin deposit or unsecured, repayable on demand and bear interest at commercial terms.

## Notes to Financial Statements (Continued)

### 22. INVENTORIES – OTHER THAN GOLD BULLION

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Jewellery and gold ornaments	110,886	73,675
Sundry gold	6,858	295
Other precious metals	1,122	541
	<u>118,866</u>	<u>74,511</u>

At 30 April 2001, inventories in the carrying amount of HK\$76,313,000 (2000: Nil) and HK\$6,242,000 (2000: Nil) were pledged as security for the Group's Promissory Notes (note 30) and the Group's bank borrowings, respectively.

At 30 April 2001, inventory items carried at their net realisable value and included in the aggregate balance of inventories amounted to HK\$1,838,000 (2000: HK\$9,490,000).

### 23. GOLD BULLION

At 30 April 2001, there was no gold bullion pledged as security for the Group's bank borrowings. In 2000, the carrying amount of gold bullion pledged as security for the Group's bank borrowings amounted to HK\$8,626,000.

### 24. TIME DEPOSITS, PLEDGED

As at 30 April 2001, certain bank facilities granted by banks to the Group were secured by fixed deposits held by the Group.

### 25. ACCOUNTS PAYABLE

An aged analysis of accounts payable is as follows:

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within three months	339,961	185,437
Over three months	8,513	12,419
	<u>348,474</u>	<u>197,856</u>

### 26. DUE TO BULLION BROKERAGE CUSTOMERS

The amount due to bullion brokerage customers arises from the ordinary course of business in the brokerage financing of gold bullions trading, and is repayable on demand. No aged analysis is disclosed as in the opinion of the directors, the aged analysis does not give additional value in view of the business of bullion brokerage financing.

## Notes to Financial Statements (Continued)

### 27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts, secured	22,711	44,466	4,108	–
Bank loans:				
Secured	191,288	134,775	80,966	–
Unsecured	51,487	12,747	–	–
	242,775	147,522	80,966	–
Other borrowings:				
Secured	13,199	50,000	10,441	50,000
Unsecured	22,250	21,430	22,250	21,430
	35,449	71,430	32,691	71,430
Total bank and other borrowings	300,935	263,418	117,765	71,430
Portion classified as current liabilities	(228,924)	(223,589)	(73,485)	(71,430)
Long term portion	72,011	39,829	44,280	–

#### Bank borrowings

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The bank borrowings are repayable:				
Within one year	193,475	152,159	40,794	–
In the second year	45,068	12,146	32,931	–
In the third to fifth years, inclusive	21,961	27,437	6,474	–
Beyond five years	4,982	246	4,875	–
	265,486	191,988	85,074	–

The bank overdrafts and loans are secured by investment properties, land and buildings and freehold shoplots of the Group, and the Company's entire interests in RNA Gold Bullion Fund (note 14).

## Notes to Financial Statements (Continued)

### 27. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

#### Other borrowings

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other borrowings are repayable:				
Within one year ( <i>Note</i> )	35,449	71,430	32,691	71,430

#### Note:

Other borrowings in the current year are due to non-financial institutions bearing interest at rates ranging from 1% to 3% per month. Amongst these borrowings, amounts totalling HK\$13,199,000 is secured by certain cash deposits held by the Group and the remaining is unsecured.

Other borrowings in the prior year were due to non-financial institutions, bearing interest at 6% per annum. Options were granted in the prior year to the lenders of these other borrowings for their repayment by means of the issue and allotment of Trasy shares. During the year, these options were exercised for the full repayment of these other borrowings as follows:

- (i) As mentioned in note 1 to the financial statements, 1,767,212,259 Trasy shares of HK\$0.01 each were issued and allotted fully paid by way of the capitalisation of a sum of HK\$17,672,123 outstanding in the share premium account of Trasy. Out of these 1,767,212,259 Trasy shares, 238,095,238 Trasy shares were allotted to the Company's creditor attributing other borrowings of HK\$50,000,000 as full settlement of the amount due by the Company.
- (ii) As detailed in note 1 to the financial statements, 113,386,243 Trasy shares were issued and allotted at a subscription price of HK\$0.189 per share to the Company's creditor attributing other borrowings of HK\$21,430,000 as full settlement of the amount due by the Company.

In addition to the foregoing, as set out in note 1 to the financial statements, other borrowings of HK\$8,000,000 drawn down by the Group during the year were also settled within the year through the issue and allotment of 38,095,238 Trasy shares at a subscription price of HK\$0.21 each, credited as fully paid, to the creditors attributing these liabilities.

### 28. DUE TO SHAREHOLDERS

The balance due are interest-free, unsecured and are repayable on demand. Subsequent to the balance sheet on 18 September 2001, an amount of HK\$30,000,000 out of the total balance was assigned by the shareholders to two independent third parties not connected with the Group. On 20 November 2001, all of these balances (including an unassigned portion of HK\$15,000,000) were settled by the capitalisation of the amounts involved into 450,000,000 ordinary shares in the Company at a subscription price of HK\$0.10 each.

## Notes to Financial Statements (Continued)

### 29. CONVERTIBLE NOTES

	Group and Company	
	2001	2000
	HK\$'000	HK\$'000
Convertible notes	163,401	202,401

On 28 April 1998, the Company issued US\$30,000,000 (approximately HK\$232 million) convertible notes (the "Notes") in nominal denominations of US\$50,000 each. The maturity date of the Notes is 28 April 2003 and the Notes bear interest at a rate of 5% per annum.

The holders of the Notes (the "Noteholders") have the right to convert each Note into ordinary shares of the Company at any time between 29 April 1998 and 28 April 2003 at the adjusted conversion price of HK\$1.27 per ordinary share (subject to adjustment). Out of the Notes issued, an amount of US\$3,850,000 (equivalent to approximately HK\$29 million) was converted in the prior years into ordinary shares of the Company. On 9 March 2001, the Group acquired the Notes in the aggregate denomination of US\$5,000,000 (equivalent to HK\$39 million), through the issuance to the Noteholder two promissory notes of the approximate equivalent denomination, further details of which are set out in note 30 to the financial statements. Accordingly and excluding the said US\$5 million Notes as at 30 April 2001, the Notes in the amount of US\$21,150,000 (approximately HK\$163 million) remain outstanding.

These outstanding US\$21,150,000 Notes include portions under which certain Noteholders have exercised their rights on 28 April 2001 to require the Company to redeem 137 Notes of US\$50,000 (equivalent to US\$6,850,000 or HK\$53,019,000) at a premium of 18% on the principal amount of the Notes, which the Company had not repaid to the Noteholders for these Notes being redeemed as at balance sheet date. Such amount is disclosed in the consolidated balance sheet as a current liability. A total of HK\$9,567,000 the Notes redemption premium attributable to the Notes being redeemed was charged to the consolidated profit and loss account (note 8). Up to the date of these financial statements, approximately US\$4,590,000 or HK\$35,523,000 in aggregate of the principal amount of the Notes being redeemed had been repaid by the Company to the Noteholders while the remaining balance totalling approximately US\$2,260,000 or HK\$17,496,000 are unsettled. Except as mentioned above, there was no conversion of the Notes into ordinary shares of the Company made by the Noteholders during the year or subsequent thereto.

Subsequent to the balance sheet date, pursuant to the completion of the subscription of 69,900,000 new ordinary shares and 10,819,583 convertible redeemable preference shares in the Company, as further detailed in note 39(h) to the financial statements, the conversion price of the Notes was adjusted from HK\$1.27 per share to HK\$0.243 per share on 18 September 2001. In addition, the Noteholders have an option (the "Put Option") to require the Company to redeem all or some of the Notes on 28 April 2001 at a premium of 18% on the principal amount of the Notes. A provision for the total premium payable under the Put Option of US\$2,574,000 (approximately HK\$20 million) however has not been made in these financial statements in view of the lapse of the Put Option upon its expiry on 28 April 2001.

Subject to giving 60 days' advance notice in writing, the Company has the right to redeem all outstanding Notes at par at any time on or after 28 April 1998 and prior to maturity, provided that the daily closing price of ordinary shares of the Company on the Stock Exchange for a period of 20 consecutive trading days is at least 150% of the conversion price and such closing price when translated into US dollars for each such trading day multiplied by the number of shares per Note, is not less than 110% of the principal amount of the Notes.

## Notes to Financial Statements *(Continued)*

---

### 29. CONVERTIBLE NOTES *(Continued)*

If, as the result of any change in Hong Kong or Bermuda taxation legislation, it is determined by the Company that it would be required at any time to pay additional costs, the Company has the right to call all, but not part only, of the Notes for redemption on or after 28 April 1998 on giving not less than 30 days' prior notice at 101.25%, declining thereafter annually by 0.25%.

As explained in note 2 to the financial statements, pursuant to the Notes agreement, the Company is required to observe certain Notes covenants which have not been complied with as at 30 April 2001. Subsequent to the balance sheet date, the Company obtained waivers from the compliance with Notes covenants underlying Notes denomination in the aggregate principal amount of US\$14,300,000 (approximately HK\$110 million) and repaid principal of US\$4,590,000 (approximately HK\$36 million) outstanding in these Notes. These waivers for compliance, however, do not extend to the non-compliance with a cross-default clauses underlying the issue of these convertible notes and as triggered by the breach of financial covenant underlying the Group's other borrowings. Accordingly, all of the convertible notes liabilities have been classified as current liabilities in preparing these financial statements.

### 30. PROMISSORY NOTES

On 9 March 2001, Commodity Online Limited ("COL"), a wholly-owned subsidiary of the Group, issued two promissory notes (the "Promissory Notes") at an aggregate principal amount of US\$3,054,583 (equivalent to HK\$23,826,000) and US\$2,036,389 (equivalent to HK\$15,884,000) to a Noteholder. The Promissory Notes bear interest at a rate of 5% per annum and are repayable on 28 April 2003. The Promissory Notes are secured by inventories of jewellery and gold ornaments held by the Group with an aggregate carrying amount of HK\$76,313,000 (note 22) and the Notes held by COL with a total principal amount of US\$5,000,000 (equivalent to HK\$39,000,000). The Promissory Notes are issued for the re-purchase from a Noteholder of US\$5,000,000 (note 29) together with the accrued interest on the same date.

As at the date of these financial statements, as triggered by the breach of certain covenants ascribed to the Group's other outstanding borrowings, the Group failed to observe certain cross-default clauses underlying the issue of these Promissory Notes. As a result, the holder of the Promissory Notes may serve notice to the Group to declare the Promissory Notes immediately due and repayable if the cause of non-compliance is not rectified or a waiver is not granted by the Noteholders.

### 31. DUE TO A RELATED COMPANY

The amount due is interest-free, unsecured and has no fixed terms of repayment.



## Notes to Financial Statements (Continued)

### 32. SHARE CAPITAL

#### Share capital

	Ordinary shares of HK\$0.10 each		6% convertible redeemable preference shares of HK\$1 each		Total
	Number of shares	HK\$'000	Number of shares	HK\$'000	HK\$'000
Authorised:					
At beginning of year and at 30 April 2001	<u>2,000,000,000</u>	<u>200,000</u>	<u>30,000,000</u>	<u>30,000</u>	<u>230,000</u>
Issued and fully paid:					
At 30 April 2000	1,229,150,392	122,915	25,400,000	25,400	148,315
Conversion of redeemable preference shares	147,674,418	14,767	(25,400,000)	(25,400)	(10,633)
Issue of new shares	<u>133,780,000</u>	<u>13,378</u>	<u>–</u>	<u>–</u>	<u>13,378</u>
At 30 April 2001	<u>1,510,604,810</u>	<u>151,060</u>	<u>–</u>	<u>–</u>	<u>151,060</u>

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

- (a) On 30 August 2000 and 31 August 2000, the Company's convertible redeemable preference shareholders delivered notice to the Company requiring the conversion in full of the then existing 25,400,000 convertible preference shares in the Company of HK\$1.00 each, together with a premium of HK\$101,600,000 (note 33) arising on the initial issuance of these convertible redeemable preference shares at the notional value of HK\$5.00 each, into 147,674,418 ordinary shares of HK\$0.10 each in the Company at a conversion price of HK\$0.86 per share. The surplus of the notional value of the convertible redeemable preference shares (including related premium on issuance) as converted over that of the ordinary shares issued as a result thereof, in the amount of approximately HK\$112,233,000, was credited to the share premium account (note 33). The preferential dividend of the convertible redeemable preference shares for the year ended 30 April 2001 amounted to HK\$1,270,000 and was paid out upon conversion of the convertible redeemable preference shares.
- (b) On 11 April 2001, Chimstar Limited ("Chimstar"), a substantial shareholder of the Company, placed through a placing agent 133,780,000 existing ordinary shares in the Company of HK\$0.10 each then held by Chimstar to independent investors at a placing price of HK\$0.202 per share. Upon completion of the scheme placement, Chimstar in turn subscribed for an equivalent number of 133,780,000 new ordinary shares in the Company at a subscription price of the same HK\$0.202 per share. The corresponding new issue and allotment of shares was completed on 24 April 2001. The net proceeds (after share issue expenses) from the subscription of approximately HK\$26.2 million was used for the purpose of debt reduction of the Group. The excess of the share consideration over the nominal value of the issued shares of HK\$13,646,000 was credited to the share premium account (note 33).

## Notes to Financial Statements *(Continued)*

---

### 32. SHARE CAPITAL *(Continued)*

Subsequent to the balance sheet date, the following changes in the Company's authorised share capital took place:

- (i) On 26 June 2001, the authorised share capital of the Company was increased from HK\$230,000,000 to HK\$10,030,000,000 by the creation of 98,000,000,000 new ordinary shares of HK\$0.10 each ranking pari passu in all respects with the Company's ordinary shares.
- (ii) On 12 November 2001, 700,000,000 ordinary shares of HK\$0.10 each outstanding in the authorised share capital of HK\$0.10 each were converted into 70,000,000 convertible preference shares of HK\$1.00 each in the Company, ranking pari passu in all respects with the Company's then existing convertible preference shares.

Accordingly, as at the date of these financial statements, outstanding authorised share capital in the Company amount to HK\$10,030,000,000 comprising 99,300,000,000 ordinary shares of HK\$0.10 each and 100,000,000 convertible preference shares of HK\$1.0 each.

The subsequent movements in issued share capital of the Company are set out in note 39 to the financial statements.

#### **Share options**

Under a Share Option Scheme (the "Scheme") approved and adopted in a special general meeting of the Company held on 8 November 1996, the directors may, at their discretion, at any time within ten years from the date of Scheme approval, invite executive directors and employees of the Group, including executive directors of the Company's subsidiaries, to take up non-transferrable options to subscribe for ordinary shares in the Company. The subscription price for the shares under the Scheme will be determined by the Company's directors and may not be less than 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of the option, or the nominal value of the shares, whichever is higher. The maximum number of shares which may be granted under the Scheme should not exceed, in nominal amount, 10% of the issued share capital of the Company in issue from time to time (excluding any shares issued pursuant to the exercise of the options granted under the Scheme).

In response to the recently amended Chapter 17 of the Listing Rules, a resolution was passed during a special general meeting of the Company's shareholders held subsequent to the balance sheet date on 31 December 2001 to amend the terms of the Scheme in order to comply with the new requirements. These amendments principally include the inclusion of certain parties which extend beyond the executive directors and employees of the Group as being eligible to participate in the Scheme. These newly admitted parties include the suppliers of goods and services and persons or entities that provide technology support to the Group. The directors of the Company are of the view that these parties are of paramount importance to the success of the Group, and therefore, it is in the interests of the Group for these parties as well as the employees and executive directors of the Group to participate in the growth of the Group in the form of options to subscribe for shares. In addition, the maximum outstanding options granted under the Scheme was stipulated not to exceeding 30% of the aggregate number of shares that can be issued under the amended Scheme and the maximum entitlements for each participant may not exceed 1% of the issued share as at the date of grant. For further details, a summary of the principal terms of the Scheme as amended is set out in the Company's circular of 15 December 2001 to its shareholders.

## Notes to Financial Statements *(Continued)*

---

### 32. SHARE CAPITAL *(Continued)*

#### Share options *(Continued)*

A total of 33,322,000 share options were granted in the prior year under the Scheme and remained unexercised, which would entitle the option holders to subscribe for shares in the Company at any time during the period from 16 January 1997 to 15 January 2007 at a subscription price of HK\$0.88 per share (subject to adjustment). During the year, a further 84,540,000 share options were granted to certain directors and employees of the Group which entitle the option holders to subscribe for shares in the Company at any time during the period from 22 June 2000 to 21 June 2010. The exercise price payable upon the exercise of each option is fixed subsequent to the balance sheet date on 9 May 2001 at HK\$0.1218 per share (subject to adjustment). Accordingly, as at the balance sheet date, there was an aggregate of 117,862,000 share options outstanding in the Company, the exercise of which would result in the issue and allotment of 117,862,000 new ordinary shares in the Company.

The movements in share options of the Company subsequent to the balance sheet date are set out in note 39 (b) and (c) to the financial statements.

## Notes to Financial Statements (Continued)

### 33. RESERVES

#### Group

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Fixed assets revaluation reserve HK\$'000	Exchange translation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 May 1999	398,332	12,544	10,740	1,154	(2,901)	(23,112)	396,757
Premium on conversion of convertible notes into ordinary shares	26,773	–	–	–	–	–	26,773
Premium on issue of convertible redeemable preference shares	101,600	–	–	–	–	–	101,600
Premium on issue of ordinary shares	358,360	–	–	–	–	–	358,360
Premium on exercise of share options	2,340	–	–	–	–	–	2,340
Share issue expenses	(11,015)	–	–	–	–	–	(11,015)
Goodwill written off	–	–	–	–	–	(26)	(26)
Capital reserve on acquisition of subsidiaries	–	–	36,282	–	–	–	36,282
Profit for the year	–	–	–	–	–	20,677	20,677
Dividends – note 11	–	–	–	–	–	(7,620)	(7,620)
At 30 April 2000 and 1 May 2000	876,390	12,544	47,022	1,154	(2,901)	(10,081)	924,128
Exchange translation differences	–	–	–	–	121	–	121
Premium on ordinary shares issued upon conversion of 6% convertible redeemable preference shares – note 32	112,233	–	–	–	–	–	112,233
Premium on issue of convertible redeemable preference shares converted and cancelled – note 32	(101,600)	–	–	–	–	–	(101,600)
Issue of new shares – note 32	13,646	–	–	–	–	–	13,646
Share issue expenses	(809)	–	–	–	–	–	(809)
Release upon disposal of fixed assets	–	–	–	(1,154)	–	1,154	–
Profit for the year	–	–	–	–	–	12,818	12,818
Dividends – note 11	–	–	–	–	–	(1,270)	(1,270)
At 30 April 2001	899,860	12,544	47,022	–	(2,780)	2,621	959,267
Retained by:							
Company and subsidiaries	899,860	12,544	36,282	–	(713)	18,250	966,223
Associates	–	–	–	–	(2,067)	(2,725)	(4,792)
Jointly controlled entity	–	–	10,740	–	–	(12,904)	(2,164)
At 30 April 2001	899,860	12,544	47,022	–	(2,780)	2,621	959,267
Retained by:							
Company and subsidiaries	876,390	12,544	36,282	1,154	(834)	5,560	931,096
Associates	–	–	–	–	(2,067)	(2,737)	(4,804)
Jointly controlled entity	–	–	10,740	–	–	(12,904)	(2,164)
At 30 April 2000	876,390	12,544	47,022	1,154	(2,901)	(10,081)	924,128

## Notes to Financial Statements (Continued)

### 33. RESERVES (Continued)

#### Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 May 1999	398,332	86,611	22,048	506,991
Premium on conversion of convertible notes into ordinary shares	26,773	–	–	26,773
Premium on issue of convertible redeemable preference shares	101,600	–	–	101,600
Premium on issue of ordinary shares	358,360	–	–	358,360
Premium on exercise of share options	2,340	–	–	2,340
Share issue expenses	(11,015)	–	–	(11,015)
Profit for the year	–	–	2,393	2,393
Dividends – note 11	–	–	(7,620)	(7,620)
At 30 April 2000 and 1 May 2000	876,390	86,611	16,821	979,822
Premium on ordinary shares issued upon conversion of 6% convertible redeemable preference shares – note 32	112,233	–	–	112,233
Premium on issue of convertible redeemable preference shares converted and cancelled – note 32	(101,600)	–	–	(101,600)
Issue of new shares – note 32	13,646	–	–	13,646
Share issue expenses	(809)	–	–	(809)
Loss for the year	–	–	(238,115)	(238,115)
Dividends – note 11	–	–	(1,270)	(1,270)
At 30 April 2001	899,860	86,611	(222,564)	763,907

The contributed surplus of the Group arose as a result of the Group reorganisation on 8 November 1996 in preparation for the listing of the Company's shares on the Stock Exchange and represents the difference between the nominal value of the shares of the subsidiaries and associates acquired pursuant to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company arose as a result of the same Group reorganisation and represents the excess of the value of the Company's share of the net assets of the subsidiaries and associates acquired, over the nominal value of the Company's shares issued in exchange therefor.

## Notes to Financial Statements (Continued)

### 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001 HK\$'000	2000 HK\$'000
Profit from operating activities	95,450	63,990
Depreciation	13,127	11,927
Deficit/(surplus) on revaluation of investment properties, net	(3,500)	7,658
Loss on disposal of fixed assets	274	64
Provision for diminution in value of other properties	–	11,000
Provision for an amount due from a jointly controlled entity	41,928	20,925
Provision for doubtful debts	19,083	–
Provision for properties held for resale	1,501	–
Provision for investment securities	7,686	–
Interest income	(155,776)	(153,840)
Loss on deemed disposal of an associate	–	2,552
Gain on disposal of an associate	–	(10)
Gain on deemed partial disposal of a subsidiary	(85,170)	–
Decrease/(increase) in inventories and gold bullion	(73,740)	5,673
Decrease in an amount due from a shareholder of an associate	–	42,435
Increase in amounts due from bullion brokerage customers	(28,346)	(44,227)
Increase in bullion finance debtors and money loan and accounts receivable	(175,174)	(443,653)
Increase in other receivables, prepayments and deposits	(23,602)	(470)
Increase in accounts payable, other payables and accrued expenses	161,470	92,693
Increase in gold loan payable	13,877	8,478
Increase/(decrease) in amounts due to bullion brokerage customers	(25,462)	21,549
Increase in an amount due to a related company	17,893	–
Decrease in amounts due to associates	(7,097)	(16)
Decrease in amounts due from associates	6,837	–
Exchange translation differences	121	35
Net cash outflow from operating activities	(198,620)	(353,237)

## Notes to Financial Statements (Continued)

### 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

#### (b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Convertible notes and promissory notes HK\$'000	Minority interests HK\$'000	Bank and other borrowings HK\$'000	Pledged deposits HK\$'000	Advance from shareholders HK\$'000
At 1 May 1999	487,881	231,426	824	–	10,836	–
Net cash inflow/(outflow) from financing	380,765	–	78	122,905	(8,830)	–
Conversion of convertible notes into ordinary shares	29,059	(29,025)	–	–	–	–
Issue of redeemable convertible preference shares – note 34 (c)	127,000	–	–	–	–	–
Share of loss for the year	–	–	(1,174)	–	–	–
At 30 April 2000 and 1 May 2000	1,024,705	202,401	(272)	122,905	2,006	–
Net cash inflow/(outflow) from financing	26,215	–	–	127,960	(1,209)	45,000
Repayment of other borrowings by means of issue and allotment of shares in a subsidiary, credited as fully paid – note 34(d)	–	–	–	(79,430)	–	–
Arising from deemed partial disposal of a subsidiary	–	–	24,198	–	–	–
Share of loss for the year	–	–	(2,173)	–	–	–
At 30 April 2001	1,050,920	202,401	21,753	171,435	797	45,000



## Notes to Financial Statements *(Continued)*

### 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

#### (c) Acquisition of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Fixed assets	–	190,865
Investment securities	–	290
Other receivables, prepayments and deposits	–	1,232
Accounts payable and accrued expenses	–	(4,365)
	<u>–</u>	<u>188,022</u>
Goodwill	–	26
Capital reserve	–	(36,282)
	<u>–</u>	<u>151,766</u>
Discharged by:		
Convertible redeemable preference shares issued and credited fully paid as consideration (note 34 (b))	–	127,000
Cash consideration	–	24,766
	<u>–</u>	<u>151,766</u>

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

	2001 HK\$'000	2000 HK\$'000
Cash consideration	<u>–</u>	<u>24,766</u>

The subsidiaries acquired during the preceding year ended 30 April 2000 contributed HK\$2,520,000 of the Group's net operating cash flows and utilised HK\$2,519,000 for investing activities in the year of acquisition. The post-acquisition contribution from these subsidiaries to the Group's turnover and results for the year ended 30 April 2000 amounted to HK\$10,129,000 and net loss of HK\$182,000.

# Notes to Financial Statements (Continued)

## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (d) Major non-cash transactions

During the year, the Group was engaged in the following major non-cash transactions:

- (i) The Company's other borrowings of HK\$79,430,000 were repaid through the issue and allotment of 389,576,719 Trasy shares to the creditors of such borrowings upon the listing of Trasy shares on GEM of the Stock Exchange (note 27).
- (ii) The Group repurchased a total US\$5,000,000 (approximately HK\$39,000,000) by denomination of convertible notes by the issuance of new promissory notes of the same amount in exchange therefor (notes 29 and 30).
- (iii) The Group acquired equity interests in certain associates from independent third parties for a consideration of HK\$1,498,000,000. The consideration for the acquisition was satisfied by the assignment to the vendors by the Group's receivables, mainly bullion finance advances, of the equivalent amount in aggregate. Further details of the acquisition of interests in associates are set out in note 16 to the financial statements.

## 35. CONTINGENT LIABILITIES

As at 30 April 2001, the Company had contingent liabilities in respect of corporate guarantees of approximately HK\$296,136,000 (2000: HK\$534,639,000) given to banks in connection with the banking and other trade credit facilities granted to certain subsidiaries of which HK\$173,800,000 (2000: HK\$168,236,000) has been utilised as at 30 April 2001.

## 36. CAPITAL COMMITMENTS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted, but not provided for in respect of fixed assets	—	660	—	—

## 37. COMMITMENTS UNDER OPERATING LEASES

At 30 April 2001, the Group and the Company had commitments to make payments in the next twelve months under operating leases which expire as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Land and buildings:				
Within the first year	725	935	313	313
In the second to fifth years, inclusive	4,273	5,128	—	—
	<u>4,998</u>	<u>6,063</u>	<u>313</u>	<u>313</u>

## Notes to Financial Statements *(Continued)*

---

### 38. LITIGATION

A claim of HK\$10 million has been filed against Hing Fung Goldsmith And Refinery Limited (“HFGR”), a wholly-owned subsidiary of the Company for alleged liability in relation to a proposed acquisition. The proposed acquisition was not completed and a related writ of summons was filed by the plaintiff against HFGR on 19 April 2001.

The directors of the Company consider that HFGR has meritorious defence against the claim as, amongst other things, they consider that the non-completion was caused by the plaintiff’s failure to provide relevant information required for the due diligence review of the proposed acquiree company. In arriving at their opinion, the directors have taken account of a formal legal opinion obtained in this connection from the Company’s legal counsel. In view of the foregoing, the directors consider that the likelihood of any significant claim against the Group succeeding is unlikely and, accordingly, a provision therefore has not been made in these financial statements.

### 39. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, the following events occurred:

- (a) On 10 May 2001, the Company completed the placement of an aggregate of 140,000,000 new ordinary shares of HK\$0.10 each in the Company to independent investors at a subscription price of HK\$0.143 per share for a total cash consideration of HK\$20,020,000. The subscription proceeds, net of share issue expenses, realised from the share placement of approximately HK\$19,500,000 were utilised mainly to provide additional working capital for the Group’s operations.
- (b) On 10 May 2001, the Company granted a further 24,000,000 share options, exercisable at a subscription price of HK\$0.1218 per share, under the Scheme to certain directors and employees of the Group for the subscription of new ordinary shares in the Company. All of these share options were exercised on 18 May 2001 and resulted in the issue and allotment of 24,000,000 new ordinary shares in the Company of HK\$0.10 each for a total cash consideration of approximately HK\$2,923,000.
- (c) On 28 May 2001, a total of 34,540,000 share options outstanding in the Company were exercised at a subscription price of HK\$0.1218 per share and resulted in the issue and allotment of 34,540,000 ordinary shares of HK\$0.10 each in the Company for a total cash consideration of approximately HK\$4,207,000.
- (d) On 28 June 2001, the Company completed the placement of an aggregate of 620,000,000 new ordinary shares of HK\$0.10 each in the Company to independent investors at a subscription price of HK\$0.103 per share for a total cash consideration of HK\$63.9 million. The subscription proceeds, net of share issue expenses, realised from the share placement of approximately HK\$63.2 million were utilised mainly in the provision of additional working capital for the Group’s operations and debt reduction. Further details of the share placement are included in the Company’s circular to its shareholders of 9 June 2001.
- (e) On 4 July 2001, the Company completed the placement of an aggregate of 263,987,558 new ordinary shares of HK\$0.10 each in the Company to a creditor company of the Group at a subscription price of HK\$0.103 per share. The subscription consideration of approximately HK\$27,000,000 was settled through the offset of the amount involved against the liability due by the Group to the creditor company of the same balance outstanding as at the balance sheet date. Further details of the share placement are included in the Company’s circular to its shareholders of 9 June 2001.

## Notes to Financial Statements *(Continued)*

---

### 39. SUBSEQUENT EVENTS *(Continued)*

- (f) On 9 July 2001, the Company granted a further 88,000,000 share options, exercisable at a subscription price of HK\$0.10 per share, under the Scheme to certain directors and employees of the Group for the subscription of new ordinary shares in the Company. These share options granted were subsequently exercised in full in two tranches of 42,000,000 and 46,000,000 share options, respectively, on 9 July 2001 and 10 July 2001 and resulted in the issue and allotment of 88,000,000 new ordinary shares in the Company of HK\$0.10 each for a total cash consideration of approximately HK\$8,800,000.
- (g) On 16 July 2001, the Company completed the placement of an aggregate of 518,000,000 new ordinary shares of HK\$0.10 in the Company to independent investors at a subscription price of HK\$0.101 per share for a total consideration of HK\$52.3 million. The subscription proceeds, net of share issue expenses, realised from the share placement of approximately HK\$51.6 million were utilised mainly to provide additional working capital for the Group's operations.
- (h) As set out in note 3 to the financial statements, pursuant to the exercise by the Cheung Kong Companies of their rights under the Shares Subscription Agreements to require the Company to acquire all 'B' Preference Shares in Can Do in consideration of the issue and allotment of new shares in the Company, on 18 September 2001, 69,900,000 new ordinary shares of HK\$0.10 each and 10,819,583 convertible redeemable preference shares of par value of HK\$1.00 each with notional value of HK\$5.00 each in the Company (convertible at a conversion price of HK\$0.2418 into ordinary shares in the Company) were issued and allotted at a share price of HK\$0.2418 per share and HK\$5.00 per share (nominal value equivalent) respectively, to the Cheung Kong Companies as the consideration for the acquisition.
- (i) On 15 November 2001, the Group obtained an advance from a non-financial institution of HK\$29 million. The proceeds from the advance were utilised mainly to provide additional working capital for the Group's operations.
- (j) On 20 November 2001, the Company completed the subscription by Mr. Chan Fat Chu, Raymond and Mr. Chan Fat Leung, Alexander, both of whom are directors and beneficial shareholders of the Company, and also two other independent investors, of 85,000,000, 85,000,000, 250,000,000 and 50,000,000 new ordinary shares of HK\$0.10 each in the Company, respectively, at a subscription price of HK\$0.10 each. The proceeds from subscription in the aggregate amount of approximately HK\$47 million were settled by the capitalisation of certain indebtedness outstanding in the Company of HK\$45 million (note 28) and directors' remuneration incurred of HK\$2 million.
- (k) On 16 November 2001, the Company completed the subscription at par by the Cheung Kong Companies of 322,000,000 new ordinary shares of HK\$0.10 each and 67,800,000 convertible redeemable preference shares of HK\$1.0 each in the Company pursuant to the share subscription agreement entered into between Cheung Kong Companies and the Company on 18 September 2001. The convertible preference shares are convertible at a conversion price of HK\$0.10 each (subject to adjustment) into 678,000,000 ordinary shares of HK\$0.10 each in the Company. The total subscription consideration of HK\$100,000,000 was satisfied by the transfer to the Company by the Cheung Kong Companies of 400,000,000 'A' convertible redeemable preference shares of HK\$0.25 each in Can Do, as previously allotted to the Cheung Kong Companies and now novated to the Company. Each of the 'A' convertible redeemable preference shares is convertible, in three tranches of preference share nominal value of approximately the same denomination of HK\$33,333,300, into new ordinary shares in Can Do during the respective period of 12 months, 24 months and 25 months up to 36 months subsequent to their date of share issue at a conversion price of HK\$0.90 per share, HK\$1.50 per share and HK\$2.50 per share, respectively. Further details of the convertible redeemable preference shares issued by Can Do are included in the Company's circular to its shareholders of 9 June 2001.

## Notes to Financial Statements *(Continued)*

---

### 39. SUBSEQUENT EVENTS *(Continued)*

- (l) On 18 December 2001 and 10 January 2002, the Group issued two promissory notes in the amount of HK\$10 million and HK\$6 million, respectively, to a non-financial institution for the purpose of raising new finance. These two promissory notes bear interests at a rate of 2% per month, repayable on 18 January 2002 and 9 February 2002 and are secured by the Group's entire holdings of Trasy shares (note 14). The proceeds from the issuance of promissory notes were utilised mainly to provide additional working capital for the Group's operations.
- (m) On 7 January 2002, the Company completed the issue of convertible bonds in the aggregate principal denomination of HK\$116,780,000 to several independent investors. These convertible bonds were issued at their nominal value and fall due for repayment in a period of 3 years subsequent to their date of issuance on 6 January 2005. These bonds are convertible at any time during the period from their date of issuance to their date of maturity into 1,167,800,000 ordinary shares of HK\$0.10 each in the Company at a conversion price of HK\$0.10 per share (subject to adjustment). Further details of the issue of convertible bonds are set out in the Company's circular to its shareholders of 15 December 2001. The consideration for the issue of these convertible bonds were satisfied by the novation of certain promissory note liabilities of the equivalent amount of HK\$116,780,000 in aggregate and incurred by the Group during the period from 26 September 2001 to 1 November 2001, the proceeds of which had been utilised as to HK\$44 million in reducing the Group's indebtedness and as to HK\$73 million in the provision of additional working capital for the Group's operations.

Between the period from 7 January 2002 to 23 January 2002, some holders of these convertible bonds served notices to the Company requiring the conversion of bond principal in the total amount of HK\$23,980,000 into new ordinary shares in the Company at the conversion price of HK\$0.10 each. As a result, a total of 239,800,000 new ordinary shares of HK\$0.10 each of the Company were issued and allotted at par upon full conversion of these convertible bonds.

- (n) On 7 February 2002, the Company completed the issue of convertible bonds in the aggregate principal denomination of HK\$40,000,000 to six independent investors. These convertible bonds were issued at zero coupon and fall due for repayment in a period of 3 years subsequent to their date of issuance on 7 February 2002. These bonds together with a redemption premium ranging from 50% to 100% of the outstanding bond principal amount, depending on the number of months lapsed since the issuance of the convertible bonds, are convertible during the period from their date of issue to their date of maturity at an initial conversion price of HK\$0.10 each per share (subject to adjustment) into a maximum of 800,000,000 ordinary shares of HK\$0.10 each in the Company. Further details of the issue of the convertible bonds are set out in the Company's announcement dated 29 January 2002. The proceeds from the issue of the convertible bonds of HK\$40,000,000 have been utilised to provide additional working capital for the Group's operations.

Amongst these convertible bonds issued, an amount with a principal denomination of HK\$30,000,000 has been redeemed at a premium of the same HK\$30,000,000 on 8 February 2002 through conversion into 600,000,000 ordinary shares in the Company. The remaining principal in these convertible bonds with a denomination of HK\$10,000,000 has also been redeemed at a premium of the same HK\$10,000,000 on 21 February 2002 through conversion into 200,000,000 ordinary shares of the Company.

## Notes to Financial Statements (Continued)

### 39. SUBSEQUENT EVENTS (Continued)

- (o) On 15 March 2002, the Company entered into conditional agreements with several independent investors for the subscription of convertible bonds in the aggregate principal denomination of HK\$81,420,000. These convertible bonds were issued at zero coupon and fall due for repayment in a period of 3 years subsequent to their date of issue. These bonds together with a redemption premium ranging from 50% to 100% of the outstanding bond principal amount, depending on the number of months lapsed since the issuance of the convertible bonds, are convertible during the period from their date of issue to their date of maturity at an initial conversion price of HK\$0.10 each per share (subject to adjustment) into a maximum of 1,628,400,000 ordinary shares of HK\$0.10 each in the Company. Further details of the issue of convertible bonds are set out in the Company's announcement dated 18 March 2002. The proceeds from the issue of the convertible bonds will be utilised to reduce the Group's existing indebtedness.
- (p) Subsequent to the balance sheet date and up to the date of this report, the Group closed certain of its contracts in respect of the procurement of gold and delivery of gold with resulting losses of approximately HK\$35 million arising to the Group.

### 40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name	Place of incorporation/ operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
Giant Dragon Limited	British Virgin Islands/ Hong Kong	US\$3	100	–	Investment holding and provision of bullion financing to customers
Tothill Limited	British Virgin Islands/ Hong Kong	US\$1	100	–	Investment holding and provision of loans to customers
Commodity Online Limited	British Virgin Islands/ Hong Kong	US\$1	100	–	Investment holding
Hing Fung Goldsmith And Refinery Limited	Hong Kong	HK\$150,000,000	–	100	Bullion broking, refining, trading of precious metals and provision of bullion financing to customers
M.A.H.F. Precious Metal Refinery Sdn. Bhd.*	Malaysia	RM2,600,002	–	56	Gold refinery and precious metal trading
RNA Assets Management Limited	Hong Kong	HK\$2	–	100	Provision of loans to customers

## Notes to Financial Statements *(Continued)*

### 40. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
RNA Investments (Holdings) Limited	Hong Kong	Ordinary shares of HK\$1,000 Non-voting deferred shares of HK\$10,000,000	–	100	Investment holding and property investment
Hing Fung Diamonds Limited	Hong Kong	HK\$1,000,000	–	100	Diamond trading
Hing Fung Jewellery Company Limited	Hong Kong	HK\$2	–	100	Retailing of jewellery and gold ornaments
Hing Fung Golden Rand Limited	Hong Kong	HK\$1,342,282	–	100	Manufacturing and trading of gold products
Diamond Link Limited	Hong Kong	Ordinary shares of HK\$5,000,000 Ordinary shares of US\$2	–	100	Retailing of diamond and jewellery
A & R Gold Mart Sdn. Bhd.*	Malaysia	RM100,000	–	100	Wholesaling and retailing of jewellery
Golden Hand Limited	British Virgin Islands	Ordinary shares of US\$10 Non-voting deferred shares of US\$90	–	100	Investment holding
Rich Famous Development Limited	Hong Kong	HK\$10,000	–	100	Property investment
Tem Fat Hing Fung Investments (Holdings) Limited	Hong Kong	HK\$2	–	100	Property investment and holding
Master Joyce Limited	British Virgin Islands	US\$1	–	100	Property investment
Gold Result Developments Limited	British Virgin Islands	US\$1	–	100	Property investment

## Notes to Financial Statements *(Continued)*

### 40. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
Hottentot Enterprises Limited	British Virgin Islands	US\$1	–	100	Property investment
Moiselle Enterprises Limited	British Virgin Islands	US\$1	–	100	Property investment
True Reality Investments Limited	British Virgin Islands	US\$1	–	100	Property investment
Zamora Enterprises Limited	British Virgin Islands	US\$1	–	100	Property investment
Goldseed Developments Limited	Hong Kong	HK\$2	–	100	Property investment
Chancellor Properties (Holdings) Limited	British Virgin Islands	US\$1	–	100	Investment holding
Trasy Gold Ex Limited*	Cayman Islands	US\$1	–	58.46	Investment holding
The Gold On-line Trading Limited*	Hong Kong	HK\$2	–	58.46	Operation of an internet-based electronic trading system
G9999.com Limited*	Hong Kong	HK\$2	–	58.46	Internet content provider
Wing Shing Loong Goldsmith & Refinery Co. Limited*	Hong Kong	HK\$5,000,000	–	58.46	Gold bullion licence holding
Trasy Technology Limited*	British Virgin Islands/ Hong Kong	US\$1	–	58.46	Research and development and software owner
United Goldnet Limited*	Hong Kong	HK\$2	–	58.46	Investment holding

\* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for 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.



## Notes to Financial Statements *(Continued)*

### 41. PARTICULARS OF PRINCIPAL ASSOCIATES

Company name	Business structure	Place of incorporation/ establishment and operations	Percentage of indirect equity interest attributable to the Company		Principal activities
			2001	2000	
RNA Goldsmith And Refinery (M) Sdn. Bhd.	Corporate	Malaysia	49	49	Property development
Changzhou Hing Fung Jewellery Company Limited	Corporate	The People's Republic of China ("PRC")	50	50	Manufacturing of jewellery and gold ornaments
Cypress Investments Limited	Corporate	Samoa	47.5	–	Investment holding
Kitimat Investments Limited	Corporate	Samoa	47.5	–	Investment holding
Kurilen Investments Limited	Corporate	Samoa	47.5	–	Investment holding
Ossorgim Investors Limited	Corporate	Samoa	47.5	–	Investment holding
Revere Investments Limited	Corporate	Samoa	47.5	–	Investment holding
Sachalin Investment Limited	Corporate	Samoa	47.5	–	Investment holding

The table above lists the particulars of the associates 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 associates would, in the opinion of the directors, result in particulars of excessive length.

The above associates are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

## Notes to Financial Statements *(Continued)*

---

### 42. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation. These include principally the reclassification of interests in an investee entity, previously accounted for as a subsidiary of the Company, as a jointly controlled entity in order to comply with Statement of Standard Accounting Practice No. 2.121 "Accounting for Interests in Joint Ventures", as set out in note 15 to the financial statements.

### 43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 22 March 2002.