

NOTES TO THE FINANCIAL STATEMENTS

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

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The subsidiaries are engaged in the manufacture and trading of chemical fibres, properties investment, securities investment and financial services.

The financial statements for the current period cover the nine-month period from 1st April, 2000 to 31st December, 2000. The comparative amounts shown for the income statement, statement of recognised gains and losses, cash flows and related notes covered a twelve-month period ended 31st March, 2000 may not be comparable with amounts shown for the current period.

As the majority of the Group's business are operated by a subsidiary and a jointly controlled entity in The People's Republic of China (the "PRC") where they are required by statutes to adopt 31st December as the fiscal year end, the directors believe that the change of the Company's financial year end date to 31st December would facilitate the preparation of the Group's consolidated financial information.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and certain investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

During the period, the Company changed its financial year end date from 31st March to 31st December. Therefore, the consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December, 2000 for the current period and made up to 31st March, 2000 for last year.

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration is credited to reserves.

Any premium or discount arising on the acquisition of an interest in a jointly controlled entity, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the jointly controlled entity at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

On disposal of investments in subsidiaries or a jointly controlled entity, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary or a jointly controlled entity.

Investments in subsidiaries

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

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

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities. The Group's share of post-acquisition results of the jointly controlled entities is included in the consolidated income statement.

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

Investments made by means of joint venture structures which do not result in the Group having joint control with the other venturers are accounted for as subsidiaries (where the Group controls the board of directors or equivalent governing body), associates (where the Group is in a position to exercise significant influence) or investments in securities (where the Group exercises neither control nor significant influence).

NOTES TO THE FINANCIAL STATEMENTS

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in securities

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities or other investments.

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

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

Trademarks

Trademarks are stated at cost less amortisation and provision for permanent diminution in value, if necessary. Amortisation is calculated to write off the cost of trademarks over a period of ten years, using the straight line method.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed while service revenue is recognised when services are provided.

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

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

Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

Sales of investments in securities are recognised on a trade date basis.

NOTES TO THE FINANCIAL STATEMENTS

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

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

On disposal of investment properties, the balance on the investment properties revaluation reserve attributable to the disposed properties is transferred to the income statement.

No depreciation is provided in respect of investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment other than construction in progress, are stated at cost less depreciation and amortisation at the balance sheet date.

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 the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

The cost of land use rights is amortised over the period of the lease using the straight line method.

Construction in progress is stated at cost which includes all development expenditure and other direct costs attributable to such projects including borrowing costs capitalised. It is not depreciated or amortised until completion of construction. Costs of completed construction works are transferred to the appropriate categories of property, plant and equipment.

Depreciation and amortisation is provided to write off the cost of other assets over their estimated useful lives, using the straight line method, at the following rates per annum:

Buildings	2% – 18%
Furniture and fixtures	20%
Motor vehicles	20%
Plant and machinery	6% – 23%

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Inventories

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

Retirement benefits scheme contributions

Contributions payable by the Group to its defined contribution retirement benefits scheme are charged to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas operations which are denominated in currencies other than the Hong Kong dollar are translated at the rates ruling on the balance sheet date. Exchange differences arising, if any, are classified as equity and are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

Cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS

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

3. TURNOVER

Turnover represents the aggregate of the net amounts received and receivable from third parties and is summarised as follows:

	THE GROUP	
	1.4.2000	1.4.1999
	to	to
	31.12.2000	31.3.2000
	HK\$'000	HK\$'000
Sales of goods	255,605	364,181
Interest income from investments	18,744	21,989
Rental income and property management	3,499	6,689
Sales proceeds from disposal of other investments	—	10,566
	<u>277,848</u>	<u>403,425</u>

4. (LOSS) PROFIT FROM OPERATIONS

	THE GROUP	
	1.4.2000	1.4.1999
	to	to
	31.12.2000	31.3.2000
	HK\$'000	HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Staff costs		
— Directors' emoluments (<i>note 5</i>)	140	140
— Other staff costs	45,261	56,414
	<u>45,401</u>	<u>56,554</u>
Amortisation of trademarks	280	374
Auditors' remuneration	700	656
Depreciation and amortisation of property, plant and equipment	14,724	20,135
Loss on disposal of property, plant and equipment	1,889	1,287
Management fee to a subsidiary of a controlling shareholder	9,000	12,000
Operating lease rentals in respect of land and buildings	1,854	2,471
and after crediting:		
Property rental income, net of outgoings of HK\$471,000 (1.4.1999 to 31.3.2000: HK\$596,000)	2,395	5,248
Interest income, other than from investments	<u>1,165</u>	<u>1,552</u>

NOTES TO THE FINANCIAL STATEMENTS

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5. DIRECTORS' EMOLUMENTS

	THE GROUP	
	1.4.2000	1.4.1999
	to	to
	31.12.2000	31.3.2000
	HK\$'000	HK\$'000
Directors' fees:		
Executive	80	80
Independent non-executive	60	60
	<u>140</u>	<u>140</u>
Other emoluments of executive directors:		
Salaries and other benefits	—	—
	<u>140</u>	<u>140</u>

None of the directors has waived any emoluments during the period/year.

6. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals are as follows:

	THE GROUP	
	1.4.2000	1.4.1999
	to	to
	31.12.2000	31.3.2000
	HK\$'000	HK\$'000
Salaries and other benefits	253	352
Bonus	22	34
	<u>275</u>	<u>386</u>

NOTES TO THE FINANCIAL STATEMENTS

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7. FINANCE COSTS

	THE GROUP	
	1.4.2000	1.4.1999
	to	to
	31.12.2000	31.3.2000
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	13,505	18,260
Less: Interest capitalised in construction in progress	(2,096)	(5,529)
	<u>11,409</u>	<u>12,731</u>

8. TAXATION

	THE GROUP	
	1.4.2000	1.4.1999
	to	to
	31.12.2000	31.3.2000
	HK\$'000	HK\$'000
The charge (credit) comprises:		
Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the period/year	—	331
Overprovision in prior years	(291)	(31)
	(291)	300
PRC income tax, other than Hong Kong Profits Tax	1,126	1,953
	835	2,253
Share of PRC income tax of a jointly controlled entity	1,299	590
	2,134	2,843

PRC income tax is calculated in accordance with the relevant laws and regulations in the PRC.

Details of unrecognised deferred tax assets are set out in note 28.

NOTES TO THE FINANCIAL STATEMENTS

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9. (LOSS) PROFIT FOR THE PERIOD/YEAR

The Group's (loss) profit for the period/year includes a loss of approximately HK\$14,342,000 (1.4.1999 to 31.3.2000: a profit of HK\$34,909,000) which has been dealt with in the financial statements of the Company.

10. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the (loss) profit for the period/year of HK\$19,411,000 (1.4.1999 to 31.3.2000: a profit of HK\$11,839,000) and on the 1,214,115,987 shares in issue during the period/year.

For the year ended 31st March, 2000, no diluted earnings per share amount has been presented as the exercise prices of the outstanding share options were higher than the market prices of the Company's shares during that year.

11. INVESTMENT PROPERTIES

	<i>HK\$'000</i>
THE GROUP	
VALUATION	
At 1st April, 2000	60,000
Deficit arising on revaluation	<u>(3,000)</u>
At 31st December, 2000	<u><u>57,000</u></u>

The investment properties of the Group were revalued at 31st December, 2000 on an open market value basis by A A Property Services Limited, an independent firm of professional property valuers. The deficit arising on the revaluation amounted to HK\$3,000,000, out of which HK\$2,000,000 has been charged to the investment properties revaluation reserve (note 24) and the remaining balance of HK\$1,000,000, being the excess of the deficit over the balance on the investment properties revaluation reserve, is charged to the income statement.

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

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12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Plant and machinery HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP						
COST						
At 1st April, 2000	123,243	88	3,452	196,407	217,854	541,044
Additions	—	—	—	1,641	4,007	5,648
Transfers	254	—	—	757	(1,011)	—
Disposals	—	—	(135)	(1,147)	(1,582)	(2,864)
At 31st December, 2000	<u>123,497</u>	<u>88</u>	<u>3,317</u>	<u>197,658</u>	<u>219,268</u>	<u>543,828</u>
DEPRECIATION AND AMORTISATION						
At 1st April, 2000	31,984	54	1,446	83,964	37,394	154,842
Provided for the period	3,069	13	516	11,126	—	14,724
Impairment loss	—	—	—	—	45,500	45,500
Eliminated on disposals	—	—	(119)	(551)	—	(670)
At 31st December, 2000	<u>35,053</u>	<u>67</u>	<u>1,843</u>	<u>94,539</u>	<u>82,894</u>	<u>214,396</u>
NET BOOK VALUE						
At 31st December, 2000	<u>88,444</u>	<u>21</u>	<u>1,474</u>	<u>103,119</u>	<u>136,374</u>	<u>329,432</u>
At 31st March, 2000	<u>91,259</u>	<u>34</u>	<u>2,006</u>	<u>112,443</u>	<u>180,460</u>	<u>386,202</u>
THE COMPANY						
COST						
At 1st April, 2000 and 31st December, 2000	—	88	3,317	—	—	3,405
DEPRECIATION						
At 1st April, 2000	—	54	1,345	—	—	1,399
Provided for the period	—	13	497	—	—	510
At 31st December, 2000	—	<u>67</u>	<u>1,842</u>	—	—	<u>1,909</u>
NET BOOK VALUE						
At 31st December, 2000	—	<u>21</u>	<u>1,475</u>	—	—	<u>1,496</u>
At 31st March, 2000	—	<u>34</u>	<u>1,972</u>	—	—	<u>2,006</u>

NOTES TO THE FINANCIAL STATEMENTS

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

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's land and buildings, which are situated in the PRC are held under land use rights for a term of 30 years commencing on 28th December, 1993.

Included in the Group's construction in progress as at 31st December, 2000 was interest capitalised amounting to approximately HK\$28.3 million (31.3.2000: HK\$26.3 million).

In addition, included in the Group's construction in progress as at 31st December, 2000 were buildings under construction situated in the PRC with a carrying value of approximately HK\$35.4 million (31.3.2000: HK\$31.4 million).

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	31.12.2000 HK\$'000	31.3.2000 HK\$'000
Unlisted shares, at cost less provision	38,766	38,195
Amounts due from subsidiaries less provision	200,758	227,011
	<u>239,524</u>	<u>265,206</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of directors, the amounts will not be repayable within one year of the balance sheet date and accordingly, the amounts are shown in the balance sheet as non-current.

Particulars of the Company's principal subsidiaries, all of which are wholly-owned and held directly by the Company except otherwise indicated, at 31st December, 2000 are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued and fully paid share capital/ registered capital	Principal activity
Brilliant Prospect Limited *	British Virgin Islands	US\$1	Investment holding
Eastern Prosper Developments Ltd.	British Virgin Islands	US\$1	Securities investment
Equal Link Investments Limited *	Hong Kong	HK\$2	Investment holding

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13. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued and fully paid share capital/ registered capital	Principal activity
Grandace Investments Ltd.	British Virgin Islands	US\$2	Investment holding
杭州藍孔雀化學纖維(股份)有限公司 (Hangzhou B.P. Chemical Fibre Co., Ltd.) ("Hangzhou B.P.") **	PRC	US\$27,272,727	Manufacture and trading of chemical fibres
Honest Power Investment Limited	Hong Kong	HK\$2	Property investment
Lolliman Finance Limited	Hong Kong	HK\$1,000,000	Financial services
Lolliman Property Nominees Limited	Hong Kong	HK\$2	Property services
Marvellous Development Limited	Hong Kong	HK\$100	Property investment
Time Profit Investments Limited	Hong Kong	HK\$100	Property investment

* This subsidiary is indirectly wholly-owned by the Company.

** This subsidiary is 55% indirectly held by the Company and established for a term of 30 years commencing on 28th December, 1993.

The above table only lists those subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

All the above subsidiaries, except Brilliant Prospect Limited and Eastern Prosper Developments Ltd. which operate principally in Hong Kong, operate in their respective places of incorporation/registration.

None of the subsidiaries had any debt securities outstanding at the end of the period/year, or at any time during the period/year.

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14. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	31.12.2000 HK\$'000	31.3.2000 HK\$'000
Share of net assets of a jointly controlled entity	<u>48,489</u>	<u>46,858</u>

The Group's investment represents a 30% indirect equity interest in 上海虹橋友誼商城有限公司 Shanghai Hong Qiao Friendship Shopping Center Co., Ltd. ("Shanghai Hong Qiao") which is established in the PRC for a term of 20 years commencing on 30th March, 1993. Shanghai Hong Qiao is engaged in the business of retail sales of high end consumer goods and is currently operating in two shopping centres in Shanghai and Suzhou, the PRC.

15. TRADEMARKS

	HK\$'000
THE GROUP	
COST	
At 1st April, 2000 and 31st December, 2000	<u>3,738</u>
AMORTISATION	
At 1st April, 2000	2,337
Provided for the period	<u>280</u>
At 31st December, 2000	<u>2,617</u>
NET BOOK VALUE	
At 31st December, 2000	<u>1,121</u>
At 31st March, 2000	<u>1,401</u>

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16. INVESTMENTS IN SECURITIES

THE GROUP

	Held-to-		Investment securities		Other investments		Total	
	maturity security							
	31.12.2000	31.3.2000	31.12.2000	31.3.2000	31.12.2000	31.3.2000	31.12.2000	31.3.2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities								
Listed	—	—	—	—	2,765	4,720	2,765	4,720
Unlisted	—	—	2,251	3,072	—	—	2,251	3,072
	<u>—</u>	<u>—</u>	<u>2,251</u>	<u>3,072</u>	<u>2,765</u>	<u>4,720</u>	<u>5,016</u>	<u>7,792</u>
Debt securities								
— Unlisted	<u>1,503</u>	<u>2,176</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,503</u>	<u>2,176</u>
Total								
— Listed in								
Hong Kong	—	—	—	—	2,765	4,720	2,765	4,720
— Unlisted	<u>1,503</u>	<u>2,176</u>	<u>2,251</u>	<u>3,072</u>	<u>—</u>	<u>—</u>	<u>3,754</u>	<u>5,248</u>
	<u>1,503</u>	<u>2,176</u>	<u>2,251</u>	<u>3,072</u>	<u>2,765</u>	<u>4,720</u>	<u>6,519</u>	<u>9,968</u>
Market value of listed securities	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,765</u>	<u>4,720</u>	<u>2,765</u>	<u>4,720</u>
Carrying amount analysed for reporting purposes as:								
Current	—	—	—	—	2,765	4,720	2,765	4,720
Non-current	<u>1,503</u>	<u>2,176</u>	<u>2,251</u>	<u>3,072</u>	<u>—</u>	<u>—</u>	<u>3,754</u>	<u>5,248</u>
	<u>1,503</u>	<u>2,176</u>	<u>2,251</u>	<u>3,072</u>	<u>2,765</u>	<u>4,720</u>	<u>6,519</u>	<u>9,968</u>

The Group's unlisted investment securities represent a 33 $\frac{1}{3}$ % interest in the capital of 南杭漿粕絲綢廠 (Nanhang Pulp Filaments Factory), which is a factory engaged in the manufacture of chemical fibre in the PRC. In the opinion of the directors, the Group is not in a position to exercise significant influence over the financial and operating policies of the factory and, accordingly, this investment has not been accounted for as an associate.

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17. INVENTORIES

	THE GROUP	
	31.12.2000 HK\$'000	31.3.2000 HK\$'000
Raw materials	44,664	41,240
Work in progress	13,280	14,416
Finished goods	38,342	18,424
	<u>96,286</u>	<u>74,080</u>

Included above are finished goods of approximately HK\$7.5 million (31.3.2000: HK\$5.5 million) which were carried at net realisable value.

18. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

The following is an aging analysis of trade receivables at the balance sheet date:

	THE GROUP	
	31.12.2000 HK\$'000	31.3.2000 HK\$'000
Trade receivables		
0 – 60 days	3,092	7,930
Over 90 days	422	327
	<u>3,514</u>	<u>8,257</u>
Other receivables	23,945	23,011
	<u>27,459</u>	<u>31,268</u>

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19. TRADE AND OTHER PAYABLES

The following is an aging analysis of trade payables at the balance sheet date:

	THE GROUP	
	31.12.2000 HK\$'000	31.3.2000 HK\$'000
Trade payables		
0 – 60 days	24,975	16,524
61 – 90 days	9	396
Over 90 days	620	378
	<u>25,604</u>	<u>17,298</u>
Other payables	25,732	40,999
Value added tax payables	227	635
	<u>51,563</u>	<u>58,932</u>

20. BANK BORROWINGS

	THE GROUP	
	31.12.2000 HK\$'000	31.3.2000 HK\$'000
Bank loans	<u>232,580</u>	<u>212,144</u>
Secured	193,452	175,057
Unsecured	39,128	37,087
	<u>232,580</u>	<u>212,144</u>

	THE GROUP	
	31.12.2000 HK\$'000	31.3.2000 HK\$'000
The maturity of the bank loans is as follows:		
On demand or within one year	98,072	63,363
More than one year, but not exceeding two years	11,219	11,219
More than two years, but not exceeding five years	123,289	137,562
	<u>232,580</u>	<u>212,144</u>
Less: Amount due within one year shown under current liabilities	<u>(98,072)</u>	<u>(63,363)</u>
	<u>134,508</u>	<u>148,781</u>

NOTES TO THE FINANCIAL STATEMENTS

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

21. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repayable within one year of the balance sheet date and accordingly, the amounts are shown as non-current.

22. SHARE CAPITAL

	31.12.2000
	and
	31.3.2000
	HK\$'000
Authorised:	
1,800,000,000 ordinary shares of HK\$0.50 each	<u>900,000</u>
Issued and fully paid:	
1,214,115,987 ordinary shares of HK\$0.50 each	<u>607,058</u>

There were no movements in the share capital of the Company in the period/year.

23. SHARE OPTIONS

Pursuant to the Company's share option scheme adopted on 5th December, 1990, the Company may grant options at nil consideration to executive directors and full time employees of the Company or its subsidiaries to subscribe for shares in the Company. Options granted are exercisable within ten years from the date the options are granted. The maximum number of shares in respect of which options may be granted shall not exceed 10% of the issued share capital of the Company from time to time.

A summary of the movements during the period in the share options granted under the Company's share option scheme is as follows:

Date of grant	Exercise price per share HK\$	Number of shares subject to options				
		Outstanding at 1.4.2000	Granted during the period	Lapsed during the period	Exercised during the period	Outstanding at 31.12.2000
3rd September, 1997	1.27	53,400,000	—	5,000,000	—	48,400,000
5th June, 1998	0.50	46,000,000	—	5,000,000	—	41,000,000
30th November, 2000	0.50	—	31,300,000	—	—	31,300,000

The share option scheme expired on 4th December, 2000.

NOTES TO THE FINANCIAL STATEMENTS

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

24. (DEFICIT) RESERVES

	Share premium HK\$'000	Investment properties revaluation reserve HK\$'000	Translation reserve HK\$'000	Capital reserve HK\$'000	Statutory surplus reserve HK\$'000	Enterprise expansion fund HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE GROUP								
At 1st April, 1999	2,252	8,168	6,552	—	2,285	663	(23,302)	(3,382)
Deficit arising on revaluation of investment properties	—	(5,000)	—	—	—	—	—	(5,000)
Eliminated on disposal of investment properties	—	(1,168)	—	—	—	—	—	(1,168)
Profit for the year	—	—	—	—	—	—	11,839	11,839
At 31st March, 2000	2,252	2,000	6,552	—	2,285	663	(11,463)	2,289
Deficit arising on revaluation of investment properties	—	(2,000)	—	—	—	—	—	(2,000)
Loss for the period	—	—	—	—	—	—	(19,411)	(19,411)
Transfers	—	—	—	—	274	—	(274)	—
At 31st December, 2000	<u>2,252</u>	<u>—</u>	<u>6,552</u>	<u>—</u>	<u>2,559</u>	<u>663</u>	<u>(31,148)</u>	<u>(19,122)</u>
THE COMPANY								
At 1st April, 1999	2,252	—	—	3,547	—	—	(45,653)	(39,854)
Profit for the year	—	—	—	—	—	—	34,909	34,909
At 31st March, 2000	2,252	—	—	3,547	—	—	(10,744)	(4,945)
Loss for the period (note 9)	—	—	—	—	—	—	(14,342)	(14,342)
At 31st December, 2000	<u>2,252</u>	<u>—</u>	<u>—</u>	<u>3,547</u>	<u>—</u>	<u>—</u>	<u>(25,086)</u>	<u>(19,287)</u>

The accumulated losses of the Group include HK\$1,438,000 (31.3.2000: HK\$3,069,000) attributable to its jointly controlled entity.

As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the PRC subsidiary of the Company is required to maintain three statutory reserves, being a statutory surplus reserve fund, expansion fund and a staff welfare and incentive bonus fund which are non distributable. Appropriations to such reserves are made out of net profit after taxation of the statutory financial statements of the PRC subsidiary and the amount and allocation basis are decided by its board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses of the PRC subsidiary, if any, and can be applied in conversion into capital by means of capitalisation issue. The enterprises expansion fund is used for expanding the capital base of the PRC subsidiary by means of capitalisation issue.

NOTES TO THE FINANCIAL STATEMENTS

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

24. (DEFICIT) RESERVES (Continued)

The amount transferred to the staff welfare and incentive bonus fund in the statutory financial statements of the PRC subsidiary has been adjusted in the consolidated financial statements as an operating expense as in the opinion of the directors, this fund will be used to pay incentive bonus and other benefits to the PRC subsidiary's employees.

Capital reserve represents the amount of initial payment from the shareholders to subscribe new shares at HK\$1 which were subsequently forfeited as a result of non-payment of the remaining committed contribution.

The Company did not have any distributable profit as at the balance sheet date.

25. RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1.4.2000 to 31.12.2000 HK\$'000	1.4.1999 to 31.3.2000 HK\$'000
(Loss) profit before taxation	(39,726)	15,107
Interest income, other than from investments	(1,165)	(1,552)
Interest on bank and other borrowings	11,409	12,731
Dividend received from listed investments	(75)	—
Share of profits of a jointly controlled entity	(2,930)	(780)
Amortisation of trademarks	280	374
Depreciation and amortisation of property, plant and equipment	14,724	20,135
Loss on disposal of property, plant and equipment	1,889	1,287
Loss on disposal of investment securities	—	3,575
Unrealised holding loss (gain) on other investments	1,955	(1,450)
Impairment loss on investment securities	821	209
Impairment loss on construction in progress	45,500	—
Profit on disposal of investment properties	—	(3,468)
Deficit arising on revaluation of investment properties	1,000	—
Increase in inventories	(22,206)	(536)
Decrease (increase) in trade and other receivable	3,879	(2,720)
Increase in short-term loan receivable	—	(25,000)
Increase in other investments	—	(3,270)
(Decrease) increase in trade and other payables	(7,496)	5,721
Increase in trade payable to a minority shareholder	1,425	—
Decrease in deposits received from disposal of an investment property	—	(2,000)
Net cash inflow from operating activities	<u>9,284</u>	<u>18,363</u>

NOTES TO THE FINANCIAL STATEMENTS

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

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

	Amount due to a minority shareholder of a subsidiary <i>HK\$'000</i>	Bank borrowings <i>HK\$'000</i>	Other loans <i>HK\$'000</i>	Minority interest <i>HK\$'000</i>
At 1st April, 1999	55,260	206,827	374	84,811
Borrowings raised	2,083	221,963	—	—
Repayment of borrowings	—	(216,646)	(374)	—
Share of profit of a subsidiary	—	—	—	425
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2000	57,343	212,144	—	85,236
Interest waived by a minority shareholder (note 27)	(7,442)	—	—	7,442
Borrowings raised	9,346	110,758	—	—
Repayment of borrowings	—	(90,322)	—	—
Increase in trade balance with a minority shareholder (note 25)	1,425	—	—	—
Share of loss of a subsidiary	—	—	—	(22,449)
Dividend paid	—	—	—	(1,908)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2000	<u>60,672</u>	<u>232,580</u>	<u>—</u>	<u>68,321</u>

27. MAJOR NON-CASH TRANSACTION

During the period, the minority shareholder of a subsidiary agreed to waive the interest payable to it amounting to HK\$7,442,000 (1.4.1999 to 31.3.2000: Nil).

NOTES TO THE FINANCIAL STATEMENTS

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

28. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, the Group and the Company had an unrecognised net deferred tax asset as follows:

	THE GROUP		THE COMPANY	
	31.12.2000 HK\$'000	31.3.2000 HK\$'000	31.12.2000 HK\$'000	31.3.2000 HK\$'000
Taxation effect of timing differences arising as a result of:				
Tax losses available to set off against future assessable profits	11,283	10,644	10,537	10,028
Excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	(200)	(264)	(200)	(270)
Net deferred tax asset	<u>11,083</u>	<u>10,380</u>	<u>10,337</u>	<u>9,758</u>

The amount of unprovided deferred tax credit for the period/year are as follows:

	THE GROUP		THE COMPANY	
	1.4.2000 to 31.12.2000 HK\$'000	1.4.1999 to 31.3.2000 HK\$'000	1.4.2000 to 31.12.2000 HK\$'000	1.4.1999 to 31.3.2000 HK\$'000
Tax effect of timing differences arising as a result of:				
Tax losses arising	639	736	509	645
Excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	64	126	70	89
	<u>703</u>	<u>862</u>	<u>579</u>	<u>734</u>

The deferred tax asset has not been recognised in the financial statements as it is not certain that the benefit will be realised in the foreseeable future.

In the opinion of the directors, the surplus arising on revaluation of investment properties does not constitute a timing difference for tax purposes.

NOTES TO THE FINANCIAL STATEMENTS

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

29. OPERATING LEASE COMMITMENTS

While the Company had no outstanding operating lease commitments at the balance sheet date, one of its subsidiaries was committed to make rental payments amounting to approximately HK\$2,471,000 (31.3.2000: HK\$2,471,000) in the next year for land and buildings under non-cancellable operating leases which expire in the second to fifth year inclusive.

30. CAPITAL COMMITMENTS

	THE GROUP	
	31.12.2000	31.3.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	39,416	20,428
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	10,290	12,104
	<u>49,706</u>	<u>32,532</u>

The Company had no capital commitments at the balance sheet date.

31. FORWARD CONTRACTS COMMITMENTS

The currencies of the forward contracts entered into by the Group at the balance sheet date are as follows:

	THE GROUP AND THE COMPANY	
	31.12.2000	31.3.2000
	<i>US\$'000</i>	<i>US\$'000</i>
Principal amounts of forward contracts held for hedging purposes against bank deposits		
— sale of United States Dollars	<u>—</u>	<u>13,109</u>

NOTES TO THE FINANCIAL STATEMENTS

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

32. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	31.12.2000	31.3.2000	31.12.2000	31.3.2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks in respect of credit facilities extended to				
— subsidiaries	—	—	—	21,235
— HCF Group (<i>note</i>)	—	13,551	—	—
	<u>—</u>	<u>13,551</u>	<u>—</u>	<u>21,235</u>

Note: Hangzhou Chemical Fibre Group Company (“HCF Group”) is a 45% shareholder of Hangzhou B.P., one of the Company’s non-wholly owned subsidiaries. As at 31st March, 2000, HCF Group had in return provided guarantees of HK\$51.5 million, of which approximately HK\$17.4 million were in proportion to its equity interest in Hangzhou B.P., to certain banks in respect of credit facilities extended to Hangzhou B.P.. The guarantee was released as at 31st December, 2000.

33. PLEDGE OF ASSETS

At the balance sheet date, the credit facilities granted by banks for certain subsidiaries were secured by the followings:

- pledge of bank deposits of HK\$23,291,000 (31.3.2000: HK\$15,473,000);
- pledge of the Group’s investment properties of HK\$57,000,000 (31.3.2000: HK\$60,000,000);
- pledge of certain of the Group’s land and buildings with an aggregate net book value of HK\$68,395,000 (31.3.2000: HK\$71,825,000);
- pledge of shares of those subsidiaries holding the above-mentioned property interests; and
- assignment of rental income received and receivable from the above-mentioned investment properties.

34. RETIREMENT BENEFITS SCHEME

The Company and its subsidiaries in Hong Kong do not operate retirement schemes covering their local permanent employees.

The employees in the subsidiary in the PRC are members of the state-managed retirement benefits scheme operated by the PRC government. The subsidiary is required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is the required contributions under the scheme.

No forfeited contributions are available to reduce the contribution payable in the future years.

NOTES TO THE FINANCIAL STATEMENTS

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

35. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(A) During the period/year, the Group had significant transactions with related parties which are also deemed to be connected persons as defined by the Rules Governing the Listing of Securities on the Stock Exchange. The significant transactions with the connected persons during the period/year, and significant balances with them at the balance sheet date, are as follows:

Connected persons	Nature of transactions/balances	THE GROUP		
		1.4.2000 to 31.12.2000 HK\$'000	1.4.1999 to 31.3.2000 HK\$'000	
Transactions:				
(a)	Subsidiary of CMIC (<i>note i</i>)	Management fee paid by the Group (<i>note ii</i>)	9,000	12,000
(b)	HCF Group and its affiliates	Sales of chemical fibres (<i>note iii</i>)	2,940	17,688
		Sales of chemical fibres under export sale agreement (<i>note iv</i>)	—	17,696
		Purchase of raw materials (<i>note iii</i>)	716	1,418
		Interest expenses (<i>note v</i>)	873	3,663
		At	At	
		31.12.2000	31.3.2000	
		HK\$'000	HK\$'000	
Balances:				
(c)	HCF Group and its affiliates	Payable by the Group (<i>note vi</i>)	60,672	57,343
		Interest payable waived by HCF Group and its affiliates (<i>note vii</i>)	7,442	—
		Trade debtors assigned by the Group (<i>note viii</i>)	1,894	—
		<u> </u>	<u> </u>	

NOTES TO THE FINANCIAL STATEMENTS

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

35. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

Notes:

- (i) Continental Mariner Investment Company Limited ("CMIC") is a controlling shareholder of the Company.
- (ii) The management fee was charged in accordance with the management agreement with CMIC Management Services Limited ("CMIC Management") for the provision of general corporate management and consultancy services to the Company with effect from 16th August, 1993. CMIC Management is a wholly-owned subsidiary of CMIC, whose shares are listed on the Stock Exchange. All the executive directors of the Company are executive directors of CMIC. The management fee charged was determined on the basis of expenses incurred by CMIC Management in connection with the said management agreement.
- (iii) These transactions were carried out at market prices and were subject to a waiver granted by the Stock Exchange from making disclosure on each occasion when they arose as disclosed in the Company's announcement dated 5th August, 1999.
- (iv) Pursuant to the Company's announcement dated 5th August, 1999, Hangzhou B.P. entered into an export sale agreement with HCF Group, and sold chemical fibres to HCF Group at the prevailing market rates. HCF Group then exported such chemical fibres to the overseas buyers designated by Hangzhou B.P. only. The aforesaid agreement was terminated in November 1999.
- (v) The interest was charged at the prevailing market rate on the outstanding advances from HCF Group.
- (vi) The balance is unsecured and has no fixed repayment terms. Other than an amount of approximately HK\$36.4 million (31.3.2000: HK\$59.4 million) which carries interest at the prevailing market rates, the balance is interest-free.
- (vii) In July 2000, HCF Group agreed to waive the interest payable by the Group to it of HK\$7,442,000 (1.4.1999 to 31.3.2000: Nil) and not to charge interest any more.
- (viii) In July 2000, the Group assigned certain long outstanding trade debtors of Hangzhou B.P. to HCF Group at their book value of HK\$1,894,000 (1.4.1999 to 31.3.2000: nil) as part of the agreement pursuant to which the Group acquired its interest in Hangzhou B.P. from HCF Group in 1993.

NOTES TO THE FINANCIAL STATEMENTS

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

35. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(B) As at 31st December, 2000, the Company had given a guarantee amounting to approximately HK\$18.5 million (31.3.2000: HK\$21.2 million) to a bank in respect of credit facilities granted to Hangzhou B.P.. In addition, at 31st December, 2000, the Group had also advanced approximately HK\$30.8 million (31.3.2000: HK\$36 million) to Hangzhou B.P. for financing its operations. These advances are unsecured and have no fixed repayment terms. For the year ended 31st March, 2000, other than an amount of approximately HK\$28.4 million which carried interest at the prevailing market rates, the advances were interest-free. During the period, interest income on these advances amounted to approximately HK\$428,000 (1.4.1999 to 31.3.2000: HK\$1.8 million).

In July 2000, the Group agreed to waive the interest payable by Hangzhou B.P. to the Group of HK\$8,042,000 and not to charge interest any more.

HCF Group, the minority shareholder of Hangzhou B.P., has also provided guarantees in favour of, and advances to, Hangzhou B.P. in proportion not less than those provided by the Group.

(C) Details of guarantees given by connected persons in favour of the Group and guarantees given by the Group in favour of connected persons are set out in note 32.

36. SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to (loss) profit before taxation by geographical market is as follows:

	Turnover		Contribution to (loss) profit before taxation	
	1.4.2000 to 31.12.2000 HK\$'000	1.4.1999 to 31.3.2000 HK\$'000	1.4.2000 to 31.12.2000 HK\$'000	1.4.1999 to 31.3.2000 HK\$'000
The PRC	255,605	364,181	(37,646)	14,372
Hong Kong	22,243	39,244	17,245	25,386
	<u>277,848</u>	<u>403,425</u>	<u>(20,401)</u>	<u>39,758</u>
Less: Central administrative expenses			(10,846)	(12,700)
Interest expenses			(11,409)	(12,731)
			<u>(42,656)</u>	<u>14,327</u>
Add: Share of profit of a jointly controlled entity			2,930	780
(Loss) profit before taxation			<u>(39,726)</u>	<u>15,107</u>

NOTES TO THE FINANCIAL STATEMENTS

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

36. SEGMENT INFORMATION (Continued)

An analysis of the Group's turnover and contribution to (loss) profit before taxation by principal activity is as follows:

	Turnover		Contribution to (loss) profit before taxation	
	1.4.2000 to 31.12.2000 HK\$'000	1.4.1999 to 31.3.2000 HK\$'000	1.4.2000 to 31.12.2000 HK\$'000	1.4.1999 to 31.3.2000 HK\$'000
Manufacturing	255,605	364,181	(37,646)	14,372
Financial services	18,744	21,989	17,507	18,658
Property investment and management	3,499	6,689	1,675	8,501
Securities investment	—	10,566	(1,937)	(1,773)
	<u>277,848</u>	<u>403,425</u>	<u>(20,401)</u>	<u>39,758</u>
Less: Central administrative expenses			(10,846)	(12,700)
Interest expenses			(11,409)	(12,731)
			<u>(42,656)</u>	<u>14,327</u>
Add: Share of profit of a jointly controlled entity			<u>2,930</u>	<u>780</u>
(Loss) profit before taxation			<u>(39,726)</u>	<u>15,107</u>