

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

## 1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in Bermuda under The Companies Act 1981 of Bermuda (as amended) on February 5, 1999. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from May 25, 1999. Its ultimate holding company is United Vision International Limited, a company incorporated in The British Virgin Islands.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the design, manufacture and sales of optical products.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on May 7, 1999. The Group Reorganisation carried out on May 7, 1999 principally involved the exchange of the Company's shares for the entire issued share capital of Sun Hing Optical International Group Limited ("Sun Hing International"), the then holding company of the Group. Accordingly, the consolidated income statement and the consolidated cash flow statement for the year ended March 31, 2000 include the results and the cash flows, respectively, of the companies comprising the Group as if the current group structure had been in existence throughout the years under review, or since the dates of incorporation of the companies whichever is a shorter period.

Further details of the Group Reorganisation are set out in the prospectus issued by the Company dated May 11, 1999.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to March 31, each year.

The results of subsidiaries acquired or disposed of during the 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 intercompany transactions and balances within the Group are eliminated on consolidation.

### **Revenue recognition**

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

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

### **Subsidiaries**

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

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any impairment losses recognised. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Operating lease

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

### Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost or valuation less depreciation or amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the 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.

Leasehold land and buildings located in Hong Kong are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined by using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sales or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

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.

Construction in progress is stated at cost, less any impairment loss recognised. Cost comprises construction expenditure and other direct costs attributable to such projects, including borrowing costs capitalised in accordance with the Group's policy. Construction in progress is not depreciated or amortised until the completion of construction. The cost of completed construction work is transferred to an appropriate category of property, plant and equipment.

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

Leasehold land and buildings	Over the term of leases
Leasehold improvements	10% – 20%
Plant and machinery	20% – 30%
Furniture and fixtures	20%
Motor vehicles	20%

Assets held under finance leases and hire purchase contracts are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

#### **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 first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs to completion and the estimated costs necessary to make the sale.

#### **Taxation**

The charge for taxation is based on the results for the 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 the resulting 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. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries which are denominated in currencies other than Hong Kong dollar are translated at the rates ruling at the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

#### **Retirement benefits scheme**

The contributions payable in respect of the year are charged to the income statement.

#### **Cash equivalents**

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

### **3. TURNOVER**

The Group is principally engaged in the design, manufacture and sales of optical products. No business segment analysis is presented as management considers that the Group has one single business segment.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

An analysis of the Group's turnover by geographical market is as follows:

	<b>2001</b> <b>HK\$000</b>	2000 <i>HK\$000</i>
United States	<b>210,562</b>	166,258
Europe	<b>86,472</b>	32,663
Others	<b>30,835</b>	10,222
	<b><u>327,869</u></b>	<u>209,143</u>

An analysis of the contribution to operating profit by geographical segment has not been presented as the contribution to profit from each geographical segment is substantially in line with the overall ratio of profit to turnover achieved by the Group.

## 4. PROFIT FROM OPERATIONS

	<b>2001</b> <b>HK\$000</b>	2000 <i>HK\$000</i>
Profit from operations has been arrived at after charging:		
Staff costs, including directors' emoluments	<b>58,227</b>	33,995
Retirement benefits scheme contributions ( <i>note 28</i> )	<b>462</b>	311
	<b><u>58,689</u></b>	<u>34,306</u>
Total staff costs	<b>58,689</b>	34,306
Auditors' remuneration	<b>625</b>	550
Depreciation of property, plant and equipment	<b>13,805</b>	8,399
Operating lease rentals in respect of premises	<b>3,637</b>	1,955
	<b><u>76,756</u></b>	<u>45,210</u>

## 5. FINANCE COSTS

	<b>2001</b> <b>HK\$000</b>	2000 <i>HK\$000</i>
Interest on:		
Bank borrowings wholly repayable within five years	<b>305</b>	273
Bank borrowings not wholly repayable within five years	–	205
Finance leases and hire purchase contracts	–	24
	<b><u>305</u></b>	<u>502</u>

## 6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

	<b>2001</b> <i>HK\$000</i>	2000 <i>HK\$000</i>
Fees:		
Executive directors	–	–
Non-executive directors	<b>193</b>	145
Independent non-executive directors	<b>120</b>	160
	<u>313</u>	<u>305</u>
Other emoluments (executive directors):		
Salaries and other benefits	<b>2,438</b>	2,046
Retirement benefits scheme contributions	<b>48</b>	36
	<u>2,486</u>	<u>2,082</u>
Total emoluments	<u><b>2,799</b></u>	<u>2,387</u>

The emoluments of each of the directors were less than HK\$1,000,000.

### (b) Employees' emoluments

The five highest paid individuals for the years ended March 31, 2001 and 2000 included two executive directors of the Company, whose emoluments are set out in (a) above. The emoluments of the remaining three individuals for the years ended March 31, 2001 and 2000 are as follows:

	<b>2001</b> <i>HK\$000</i>	2000 <i>HK\$000</i>
Salaries and other benefits	<b>1,676</b>	1,453
Retirement benefits scheme contributions	<b>67</b>	62
	<u>1,743</u>	<u>1,515</u>

The emoluments of each of the three highest paid individuals were less than HK\$1,000,000.

During the years ended March 31, 2001 and 2000, no emoluments were paid by the Company to any of the directors or the five highest paid individuals, as an inducement to join or upon joining the Company or as compensation for loss of office. None of the directors has waived any emoluments during the years ended March 31, 2001 and 2000.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

## 7. TAXATION

	<b>2001</b> <i>HK\$000</i>	2000 <i>HK\$000</i>
The charge comprises:		
Hong Kong Profits Tax calculated at 16% on the assessable profit for the year		
Current year	<b>4,479</b>	3,627
Under(over) provision in the prior years	<b>6</b>	(69)
	<b>4,485</b>	3,558

## 8. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year of HK\$70,358,000 (2000: HK\$54,236,000), a net profit of HK\$21,702,000 (2000: HK\$13,931,000) has been dealt with in the financial statements of the Company.

## 9. DIVIDENDS

	<b>2001</b> <i>HK\$000</i>	2000 <i>HK\$000</i>
Interim, paid – 3.4 Hong Kong cents per ordinary shares (2000: 3 Hong Kong cents)	<b>6,970</b>	5,400
Final, proposed – 6.8 Hong Kong cents per ordinary share (2000: 3.2 Hong Kong cents)	<b>13,940</b>	6,560
	<b>20,910</b>	11,960
Dividends paid by certain subsidiaries of the Group to their then shareholders prior to the Group Reorganisation	–	70
	<b>20,910</b>	12,030

## 10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>2001</b> <i>HK\$000</i>	2000 <i>HK\$000</i>
Net profit for the year	<b>70,358</b>	54,236
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>205,000,000</b>	178,128,415
Effect of dilutive potential ordinary shares – share options	<b>1,489,655</b>	373,179
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>206,489,655</b>	178,501,594

The calculation of the diluted earnings per share does not assume the exercise of warrants outstanding during the year since their exercise price was higher than the market price during the year ended March 31, 2001.

## 11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>							
<b>COST OR VALUATION</b>							
At April 1, 2000	17,094	9,876	35,326	13,440	2,693	1,498	79,927
Additions	5,700	4,068	20,595	9,300	1,132	5,304	46,099
Transfers	1,206	114	-	-	-	(1,320)	-
Disposals	-	-	-	-	(280)	-	(280)
Deficit arising on revaluation	(1,200)	-	-	-	-	-	(1,200)
<b>At March 31, 2001</b>	<b>22,800</b>	<b>14,058</b>	<b>55,921</b>	<b>22,740</b>	<b>3,545</b>	<b>5,482</b>	<b>124,546</b>
Comprising:							
At cost	19,100	14,058	55,921	22,740	3,545	5,482	120,846
At valuation – 2001	3,700	-	-	-	-	-	3,700
	<u>22,800</u>	<u>14,058</u>	<u>55,921</u>	<u>22,740</u>	<u>3,545</u>	<u>5,482</u>	<u>124,546</u>
<b>DEPRECIATION AND AMORTISATION</b>							
At April 1, 2000	249	3,695	16,464	7,457	1,658	-	29,523
Provided for the year	391	2,183	7,677	2,947	607	-	13,805
Eliminated on disposals	-	-	-	-	(163)	-	(163)
Eliminated on revaluation	(98)	-	-	-	-	-	(98)
<b>At March 31, 2001</b>	<b>542</b>	<b>5,878</b>	<b>24,141</b>	<b>10,404</b>	<b>2,102</b>	<b>-</b>	<b>43,067</b>
<b>NET BOOK VALUES</b>							
<b>At March 31, 2001</b>	<b>22,258</b>	<b>8,180</b>	<b>31,780</b>	<b>12,336</b>	<b>1,443</b>	<b>5,482</b>	<b>81,479</b>
At March 31, 2000	<u>16,845</u>	<u>6,181</u>	<u>18,862</u>	<u>5,983</u>	<u>1,035</u>	<u>1,498</u>	<u>50,404</u>

The net book value of the leasehold land and buildings of the Group comprises:

	<b>2001</b> <b>HK\$000</b>	2000 <i>HK\$000</i>
Properties held under medium-term leases:		
Hong Kong	<b>3,700</b>	4,900
The People's Republic of China (the "PRC")	<b>18,558</b>	11,945
	<u><b>22,258</b></u>	<u>16,845</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

The leasehold land and buildings located in Hong Kong are carried at valuation. They were valued at March 31, 2001 by Chesterton Petty Limited, an independent property valuer, on an open market existing use basis. The deficit on revaluation of HK\$1,102,000 (2000: HK\$392,000) has been charged to the consolidated income statement.

If leasehold land and buildings located in Hong Kong had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation and amortisation at HK\$7,486,951 (2000: HK\$7,647,816).

The leasehold land and buildings located in the PRC were not assigned a commercial value by the valuer as they were not fully transferable, and accordingly, they are carried at cost less depreciation and amortisation.

## 12. INVESTMENT IN A SUBSIDIARY

	<b>THE COMPANY</b> 2001 & 2000 HK\$'000
Unlisted shares, at cost	111,968

Details of the subsidiaries of the Company at March 31, 2001 are as follows:

Name of company	Place of incorporation	Issued and fully paid ordinary share capital	Proportion of nominal value of issued share capital held by the Company <i>(note a)</i>	Principal activities <i>(note b)</i>
New Prosperity Optical Manufactory Limited	The British Virgin Islands	US\$1	100%	Manufacture of optical frames and related products in the PRC
Sun Hing Optical Manufactory Limited	Hong Kong	HK\$2	100%	Sales of optical frames and related products
Sun Hing Optical International Group Limited <i>(note a)</i>	The British Virgin Islands	HK\$106	100%	Investment holding
Yorkshire Holdings Limited	Hong Kong	HK\$10	100%	Property holding
101 Studio Limited	Hong Kong	HK\$9	100%	Sales of optical frames and related products
Pacific Grand Limited	Hong Kong	HK\$4	50% <i>(note c)</i>	Inactive
Parkside Holdings Limited	Hong Kong	HK\$10	100%	Inactive
Visiontech Holdings Limited	The British Virgin Islands	US\$100	100%	Inactive



Notes:

- (a) Sun Hing Optical International Group Limited is directly held by the Company and all other subsidiaries are indirectly held.
- (b) The principal activities are carried out in the place of incorporation except as otherwise stated under principal activities above.
- (c) Pacific Grand Limited is regarded as a subsidiary as the Group is entitled to appoint a majority of the board of directors under a shareholder agreement.

None of the subsidiaries had any loan capital outstanding at the balance sheet date or at any time during the year.

### 13. AMOUNTS DUE FROM (TO) SUBSIDIARIES

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

### 14. INVENTORIES

	<b>2001</b> <b>HK\$000</b>	2000 <i>HK\$000</i>
Raw materials	<b>22,769</b>	22,746
Work in progress	<b>26,925</b>	19,268
Finished goods	<b>17,827</b>	8,654
	<b><u>67,521</u></b>	<u>50,668</u>

Included above are raw materials of HK\$2,662,000 (2000: HK\$2,100,000) which are carried at net realisable value.

### 15. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade debtors. An aged analysis of trade debtors is as follows:

	<b>THE GROUP</b>	
	<b>2001</b> <b>HK\$000</b>	2000 <i>HK\$000</i>
Trade receivables		
Current	<b>59,856</b>	38,743
1 to 90 days overdue	<b>20,262</b>	22,353
More than 91 days overdue	<b>5,057</b>	4,660
	<b>85,175</b>	65,756
Other receivables	<b>3,960</b>	3,794
	<b><u>89,135</u></b>	<u>69,550</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

## 16. TRADE AND OTHER PAYABLES

An aged analysis of trade creditors is as follows:

	THE GROUP	
	2001	2000
	HK\$000	HK\$000
Trade payables		
Current to 90 days overdue	33,595	34,528
More than 91 days overdue	1,449	1,478
	<u>35,044</u>	<u>36,006</u>
Other payables	9,887	7,342
	<u>44,931</u>	<u>43,348</u>

## 17. BANK BORROWINGS

	THE GROUP	
	2001	2000
	HK\$000	HK\$000
Mortgage loans, secured (note 25)	1,948	2,894
Other bank loans, unsecured	1,155	–
	<u>3,103</u>	<u>2,894</u>

The repayment schedule for bank borrowings is as follows:

Within one year or on demand	1,839	911
Between one to two years	374	677
Between two to five years	890	1,163
More than five years	–	143
	<u>3,103</u>	<u>2,894</u>
Less: Amount due within one year shown under current liabilities	(1,839)	(911)
Amount due after one year	<u>1,264</u>	<u>1,983</u>

## 18. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
<b>Authorised:</b>		
On date of incorporation	1,000,000	100
Increase on May 4, 1999 pursuant to the Group Reorganisation	<u>499,000,000</u>	<u>49,900</u>
At March 31, 2000 and 2001	<u>500,000,000</u>	<u>50,000</u>
<b>Issued:</b>		
At March 31, 1999, being nil paid ordinary shares	1,000,000	–
Pursuant to Group Reorganisation: Ordinary shares issued in exchange for Sun Hing International	1,000,000	100
Capitalisation of contributed surplus to pay up the 1,000,000 ordinary shares issued nil paid	–	100
Ordinary shares issued and credited as fully paid to shareholders on record on May 7, 1999 by capitalisation of share premium	157,300,000	15,730
Public issue of ordinary shares	20,700,000	2,070
Placement of ordinary shares	<u>25,000,000</u>	<u>2,500</u>
At March 31, 2000 and 2001	<u>205,000,000</u>	<u>20,500</u>

Pursuant to resolutions passed at a special general meeting of the Company held on May 4, 1999, the following changes in the share capital took place to effect the Group Reorganisation:

- (a) the authorised share capital of the Company was increased from HK\$100,000 to HK\$50,000,000 by the creation of an additional 499,000,000 ordinary shares of HK\$0.10 each;
- (b) 1,000,000 ordinary shares of the Company were issued to the shareholders of Sun Hing International in exchange for the entire issued share capital of Sun Hing International;
- (c) HK\$100,000 was applied from the contributed surplus account to pay up in full the 1,000,000 nil paid ordinary shares issued on March 2, 1999; and
- (d) HK\$15,730,000 to be capitalised from the share premium account being credited as a result of the public issue of ordinary shares to pay up in full 157,300,000 ordinary shares to the shareholders on record on May 7, 1999.

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The Company allotted and issued 20,700,000 ordinary shares to the public on May 21, 1999. The purposes of this exercise are set out in the prospectus issued by the Company dated May 11, 1999.

On March 9, 2000, United Vision International Limited, the ultimate holding company, placed 33,000,000 existing ordinary shares of HK\$0.10 each in the Company to independent investors at a price of HK\$0.85 each and subscribed for 25,000,000 new ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.85 each. These new ordinary shares were allotted on March 18, 2000 and issued for the purpose of raising additional working capital.

All ordinary shares issued by the Company during the year rank *pari passu* with the then existing shares in all respects.

## 19. WARRANTS

On September 4, 2000, the board approved a bonus issue of 41,000,000 warrants on the basis of one warrant for every five issued shares held on September 1, 2000. Each warrant entitles its holder to subscribe in cash at a price of HK\$1.20 for one share of the Company at any time from October 9, 2000 to September 30, 2002, both days inclusive. No warrants were exercised during the year and exercise in full of these warrants would result in the issue of 41,000,000 additional shares of HK\$0.10 each.

## 20. SHARE OPTION SCHEME

Pursuant to the share option scheme of the Company adopted on May 4, 1999 (the "Scheme"), the directors of the Company may grant options to any full time employee of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the higher of the nominal value of the Company's shares and 80 per cent of the average of the closing prices of the Company's shares as quoted on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10 per cent of the issued share capital of the Company from time to time.

Options to subscribe for an aggregate of 10,800,000 shares of the Company were granted on March 3, 2000, for notional consideration, with an exercise price of HK\$0.75 which can be exercised at any time from the date of grant to the business date preceding the fifth anniversary of the date of grant. No share options were exercised during the year.

## 21. RESERVES

	Share premium HK\$'000	Special reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>THE GROUP</b>					
At April 1, 1999	–	2,914	–	93,125	96,039
Premium arising from public issue of shares and placing of new shares	39,864	–	–	–	39,864
Share issue expenses	(8,230)	–	–	–	(8,230)
Capitalisation of share premium account to pay up in full 157,300,000 ordinary shares	(15,730)	–	–	–	(15,730)
Reserve arising from Group Reorganisation	–	15,730	–	–	15,730
Net profit for the year	–	–	–	54,236	54,236
Dividends ( <i>note 9</i> )	–	–	–	(12,030)	(12,030)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At March 31, 2000	15,904	18,644	–	135,331	169,879
Warrant issue expenses	(138)	–	–	–	(138)
Net profit for the year	–	–	–	70,358	70,358
Dividends ( <i>note 9</i> )	–	–	–	(20,910)	(20,910)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>At March 31, 2001</b>	<b>15,766</b>	<b>18,644</b>	<b>–</b>	<b>184,779</b>	<b>219,189</b>

	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>					
Arising from Group					
Reorganisation	–	–	111,868	–	111,868
Capitalisation of contributed surplus to pay up the 1,000,000 ordinary shares issued nil paid	–	–	(100)	–	(100)
Premium arising from public issue of shares and placing of new shares	39,864	–	–	–	39,864
Share issue expenses	(8,230)	–	–	–	(8,230)
Capitalisation of share premium account to pay up in full 157,300,000 ordinary shares	(15,730)	–	–	–	(15,730)
Net profit for the year	–	–	–	13,931	13,931
Dividends ( <i>note 9</i> )	–	–	–	(11,960)	(11,960)
	<u>15,904</u>	<u>–</u>	<u>111,768</u>	<u>1,971</u>	<u>129,643</u>
At March 31, 2000	15,904	–	111,768	1,971	129,643
Warrant issue expenses	(138)	–	–	–	(138)
Net profit for the year	–	–	–	21,702	21,702
Dividends ( <i>note 9</i> )	–	–	–	(20,910)	(20,910)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(20,910)</u>	<u>(20,910)</u>
<b>At March 31, 2001</b>	<b><u>15,766</u></b>	<b><u>–</u></b>	<b><u>111,768</u></b>	<b><u>2,763</u></b>	<b><u>130,297</u></b>

The special reserve of the Groups at March 31, 2001 represents the difference between the nominal value of shares and the share premium and special reserve of Sun Hing International acquired and the nominal amount of the share capital issued by the Company pursuant to the Group Reorganisation on the basis that the Group Reorganisation was effected on April 1, 1998.

The contributed surplus of the Company represents the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company pursuant to the Group Reorganisation on the basis that the Group Reorganisation was effected on April 1, 1999.

Under the laws in Bermuda, the contributed surplus account of a company is available for distribution. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company's reserves available for distribution to shareholders as at March 31, 2001 are represented by its retained profits and contributed surplus, totalling HK\$128,471,000 (2000: HK\$113,739,000).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

## 22. DEFERRED TAXATION

The deferred tax liability of the Group represents the tax effect of timing differences arising as a result of the excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements.

Neither the Group nor the Company had any significant unprovided deferred taxation for the year or at the balance sheet date.

## 23. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Profit before taxation	74,828	58,028
Interest income	(3,076)	(2,182)
Interest on bank borrowings	305	478
Interest on finance leases and hire purchase contracts	–	24
Deficit arising on revaluation of land and buildings	1,102	392
Depreciation of property, plant and equipment	13,805	8,399
Loss on disposal of property, plant and equipment	27	–
Increase in inventories	(16,853)	(15,891)
Increase in trade and other receivables	(19,585)	(13,733)
Increase in trade and other payables	1,583	17,238
	<u>52,136</u>	<u>52,753</u>
Net cash inflow from operating activities	<u>52,136</u>	<u>52,753</u>

## 24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Special reserve HK\$'000	Obligations under finance leases and hire purchase contracts HK\$'000	Bank borrowings HK\$'000
<b>THE GROUP</b>				
At April 1, 1999	15,930	2,914	171	4,063
Eliminated on Group Reorganisation	(15,930)	15,930	–	–
Issue of shares and application of contributed surplus to pay up nil paid shares pursuant to the Group Reorganisation	200	(200)	–	–
Proceeds from issue of shares	44,434	–	–	–
Share issue expenses	(8,230)	–	–	–
Repayments during the year	–	–	(171)	(1,169)
	<u>36,404</u>	<u>18,644</u>	<u>–</u>	<u>2,894</u>
At March 31, 2000	36,404	18,644	–	2,894
Borrowing raised	–	–	–	1,155
Repayments during the year	–	–	–	(946)
Warrant issue expenses	(138)	–	–	–
	<u>36,266</u>	<u>18,644</u>	<u>–</u>	<u>3,103</u>
<b>At March 31, 2001</b>	<u>36,266</u>	<u>18,644</u>	<u>–</u>	<u>3,103</u>

## 25. BANKING FACILITIES

At March 31, 2001, the Group has pledged its leasehold land and buildings in Hong Kong with an aggregate net book value of HK\$3,700,000 (2000: HK\$4,900,000) as security for its banking facilities.

At March 31, 2001, bank deposits of the Group amounting to Nil (2000: HK\$1,042,000) were pledged against the Group's short term banking facilities.

## 26. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group was committed to make the following rental payments for land and buildings within one year under non-cancellable operating leases which expire:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Within one year	1,141	192
In the second to fifth year inclusive	1,032	1,906
Over five years	1,479	1,344
	<u>3,652</u>	<u>3,442</u>

The Company has no outstanding commitments under non-cancellable operating leases at the balance sheet date.

## 27. CAPITAL AND OTHER COMMITMENTS

At the balance sheet date, the Group had the following significant capital and other commitments:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Capital expenditure in respect of:		
Acquisition of plant and machinery contracted for but not provided in the financial statements	1,518	6,027
Factory under construction authorised but not contracted for	5,500	1,089
	<u>7,018</u>	<u>7,116</u>
License fee for brandnames contracted for but not provided in the financial statements	6,026	–
	<u>13,044</u>	<u>7,116</u>

The Company has no significant capital commitments at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

## 28. RETIREMENT BENEFITS SCHEME

The Group participates in a pension scheme, which is registered under the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December, 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance.

The Group also operates a defined contribution retirement benefits scheme for its qualifying employees. The assets of the scheme are held separately in a fund which is under the control of an independent trustee. The retirement benefits scheme contributions charged to the income statement represent contributions payable by the Group to the fund at rates specified in the rules of the scheme. When there are employees who leave the scheme prior to becoming fully vested in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Group.

The aggregate employer's contributions, net of forfeited contributions, which have been dealt with in the income statement of the Group amounted to:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Gross employer's contributions	502	382
Less: Forfeited contributions utilised to offset employer's contributions for the year	(40)	(71)
Net employer's contributions charged to the income statement	<u>462</u>	<u>311</u>

## 29. CONTINGENT LIABILITIES

The Group has contingent liabilities in respect of bills of exchange discounted with recourse amounting to approximately HK\$2,530,000 (2000: Nil) at the balance sheet date.

At March 31, 2001, the Company has guaranteed the bank facilities of its subsidiaries amounting to approximately HK\$45,000,000 (2000: HK\$27,000,000) at the balance sheet date.