Notes to the Financial Statements

31st March, 2001
(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

I-Wood International Holdings Limited ("the Company") was incorporated in Bermuda on 8th August, 2000 as an exempted company under the Companies Act 1981 of Bermuda (as amended). Its shares have been listed on The Stock Exchange of Hong Kong Limited since 23rd October, 2000.

On 28th September, 2000, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation ("the Reorganisation") which included exchanges of shares. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the accompanying consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 31st March, 2001, rather than from the date on which the Reorganisation was completed. The comparative figures as at and for the year ended 31st March, 2000 have been presented on the same basis.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised below:

a. Basis of measurement

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of land and buildings and other investments.

b. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (together "the Group"). Significant intra-group transactions and balances have been eliminated on consolidation.

c. Subsidiaries

A company is a subsidiary if more than 50% of the issued voting capital is held long-term, directly or indirectly. Investment in subsidiaries is carried at cost less provision for impairment in value where considered necessary by the directors. The results of the subsidiaries are included in the income statement to the extent of dividends declared by the subsidiaries.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

d. Turnover and revenue recognition

Turnover represents the invoiced value of merchandise sold (net of value-added tax), after allowances for returns and discounts.

All of the Group's sales made in Mainland China are subject to Mainland China value-added tax ("VAT") at a rate of 17% ("output VAT"). Such output VAT is payable after offsetting VAT paid by the Group on purchases ("input VAT").

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Sales revenue is recognised when the merchandise is shipped and title has passed. Other revenue represents interest income, which is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

e. Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

f. Other investments

Other investments are carried at fair value in the balance sheet. Any unrealised holding gain or loss on other investments is recognised in the income statement in the period when it arises. Upon disposal or transfer of other investments, any profit and loss thereon is accounted for in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

g. Property, machinery and equipment and depreciation

Property, machinery and equipment, other than land and buildings and construction-in-progress, are stated at cost less accumulated depreciation. Major expenditures on modifications and betterments of property, machinery and equipment which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Land	2% (lease term)
Buildings	5%
Machinery	10%
Office equipment	20%
Motor vehicles	20%

Land and buildings are subject to independent valuations on a regular basis, with the last valuation performed on 31st March, 2001. Any increase in land and buildings valuation is credited to the property revaluation reserve; any decrease is first offset against any increase on earlier valuation in respect of the same property and is thereafter charged to operating profit.

Construction-in-progress represents factories and office buildings under construction and machinery pending installation. Construction-in-progress is stated at cost, which includes land costs, construction expenditures incurred, cost of machinery and other direct cost capitalised during the construction and installation period. No depreciation is provided in respect of construction-in-progress until the construction work is completed.

The carrying value of property, machinery and equipment is assessed periodically or when factors indicating an impairment are present. Property, machinery and equipment carried at cost less accumulated depreciation are reduced to their recoverable amount if this is lower than net book value, with the difference charged to the income statement. In determining the recoverable amount of items of property, machinery and equipment, expected future cash flows are not discounted to their present value.

Gains and losses on disposal of property, machinery and equipment are recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

h. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method of costing and includes all costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated normal selling prices in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

i. Provisions and contingencies

A provision is recognised when there is a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

j. Operating leases

Leases are classified as operating leases whenever substantially all the risks and rewards incidental to ownership of the leased assets remain with the lessor. Lease payments under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term. The aggregate benefit of incentives on operating leases is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

k. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the years in which they are incurred.

l. Staff retirement benefits

The costs of staff retirement benefits are recognised as an expense in the years in which they are incurred.

m. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains and losses are dealt with in the income statements of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date and income and expense items are translated into Hong Kong dollars at the average applicable exchange rates during the year. Exchange differences arising from such translations are dealt with as movements of cumulative translation adjustments.

3. RELATED PARTY TRANSACTIONS

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.

Particulars of significant transaction between the Group and a related party are as follows:

During the year, the Group entered into a tenancy agreement with Joy Glory Development Limited ("JGDL"), a company beneficially owned by Mr. Yau Kwai Tun, a director and a substantial shareholder of the Company, for rental of office premises. Rental charged by JGDL amounted to $246,000 (2000 – Nil) during the year.

3. RELATED PARTY TRANSACTIONS *(Continued)*

In the opinion of the Directors, the above related party transaction was conducted in the usual course of business and on normal commercial terms.

4. TURNOVER AND REVENUE

Turnover and revenue consisted of:

	2001	2000
	$'000	*$'000*
Turnover – sales of merchandise	**193,113**	169,322
Interest income	**423**	132
Total turnover and revenue	**193,536**	169,454

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

	2001	2000
	$'000	*$'000*
Japan	**164,988**	144,581
Mainland China	**21,721**	19,671
Others	**6,404**	5,070
	193,113	169,322

Note: Others include Hong Kong, Malaysia and Singapore.

* *Turnover by geographical location is determined on the basis of the destination of delivery of merchandise.*

No analysis of profit attributable to shareholders by geographical location is presented as it is generally in line with the distribution of turnover as set out above.

The Group has only one business segment, which is the design, manufacture, and sale of wooden furniture products. Substantially all of the Group's assets are located in Mainland China.

5. PROFIT BEFORE TAXATION

Profit before taxation was stated after charging and crediting the following:

	2001	2000
	$'000	*$'000*
After charging –		
Cost of inventories (excluding provision for obsolete and slow-moving inventories)	**124,934**	109,628
Staff costs (including directors' emoluments)	**16,529**	17,544
Provision for/Write off of doubtful trade receivables	**1,600**	1,990
Provision for obsolete and slow-moving inventories	**200**	2,214
Depreciation of property, machinery and equipment	**2,901**	1,165
Interest on bank borrowings wholly repayable within five years	**1,675**	2,219
Operating lease rental of rented premises	**396**	449
Net exchange loss	**–**	3
Auditors' remuneration	**680**	112
After crediting –		
Interest from bank deposits	**423**	132
Net exchange gain	**69**	–

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments are:

	2001	2000
	$'000	*$'000*
Fees for executive directors	**–**	–
Fees for non-executive directors	**–**	–
Other emoluments for executive directors		
Basic salaries and allowances	**1,339**	677
Bonus *	**–**	935
Contribution to pension scheme	**8**	–
	1,347	1,612

* *The Company's executive directors were entitled to a discretionary bonus not exceeding 10% of the Group's consolidated net profit after taxation and minority interests but before extraordinary items.*

No directors waived any emoluments during the year.

Analysis of directors' emoluments by number of directors and emolument range is as follows:

	2001	2000
Executive directors		
– Nil to $1,000,000	**2**	–
– $1,500,001 to $2,000,000	**–**	1
	2	1
Non-executive directors		
– Nil to $1,000,000	**2**	–

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

b. Details of emoluments of the five highest individuals (including directors and other employees) are:

	2001	2000
	$'000	*$'000*
Basic salaries and allowances	**1,993**	1,051
Bonus *	**–**	1,869
Contribution to pension scheme	**8**	–
	2,001	2,920

* *The Company's executive directors and certain senior executives were entitled to a discretionary bonus.*

Two (2000 – One) of the highest paid individuals were directors of the Company, whose emoluments have been included in Note 6.a above.

During the year, no emoluments of the five highest paid individuals (including directors and other employees) were incurred as inducement to join or upon joining the Group or as compensation for loss of office.

Analysis of emoluments of the five highest paid individuals (including directors and other employees) by number of individuals and emolument range is as follows:

	2001	2000
Nil to $1,000,000	**5**	4
$1,500,001 to $2,000,000	**–**	1
	5	5

7. TAXATION

The Company and its subsidiaries are subject to income tax on an entity basis on income arising in or derived from the tax jurisdiction in which they operate.

The Company is exempted from taxation in Bermuda until March 2016.

Xiamen Xiyingmen Furniture Product Co., Ltd., which is established in a special economic zone in Mainland China, is subject to Mainland China enterprise income tax at a rate of 15%. However, it is exempted from state income tax and local income tax for two years starting from first year of profitable operations after offsetting prior years' losses, followed by a 50% reduction in state income tax for the next three years. Xiamen Xiyingmen Furniture Product Co., Ltd. was entitled to tax exemption up to December 2000 and has been subject to income tax at the reduced rate of 7.5% since 1st January, 2001.

Provision for taxation for the year ended 31st March, 2001 represents provision for Mainland China enterprise income tax at reduced rate of 7.5% for Xiamen Xiyingmen Furniture Product Co., Ltd. and at an effective tax rate of 15% on the assessable profits for the other group companies with Mainland China operations.

No deferred tax on the revaluation surplus was provided because the revaluation does not constitute a timing difference as the Group intends to hold the land and buildings for long-term production purposes. There was no significant unprovided deferred taxation as at 31st March, 2001.

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

For the year ended 31st March, 2001, the consolidated profit attributable to shareholders included a profit of approximately $5,705,000 dealt with in the financial statements of the Company.

9. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation. The dividends recorded in the accompanying consolidated income statement were paid by a subsidiary of the Company to the then shareholders prior to the Reorganisation and listing of the Company's shares on The Stock Exchange of Hong Kong Limited (see Note 1).

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of approximately $41,719,000 (2000– $33,468,000) and on the weighted average number of approximately 231,538,000 shares (2000 – 212,500,000 shares) deemed to be in issue throughout the year on the assumption that the Reorganisation of the Group, as described in Note 1, had been completed on 1st April, 1999. In determining the number of shares in issue, the 1,955,000 shares issued before the capitalisation issue and the capitalisation issue of 210,545,000 shares referred to in Note 19 were deemed to have been in issue on 1st April, 1999.

The calculation of diluted earnings per share is based on the consolidated profit attributable to shareholders of approximately $41,719,000 and the weighted average number of approximately 232,143,000 shares in issue after adjusting for the effects of all dilutive potential shares. A reconciliation of the weighted average number of shares used in calculating basic and diluted earnings per share is as follows:

	2001 ***'000***
Weighted average number of shares used in calculating basic earnings per share	**231,538**
Adjustment for potential dilutive effect in respect of outstanding share options	**605**
Weighted average number of shares used in calculating diluted earnings per share	**232,143**

Diluted earnings per share for the year ended 31st March, 2000 is not presented because there were no dilutive potential ordinary shares in existence during the year.

11. PROPERTY, MACHINERY AND EQUIPMENT

Movements in property, machinery and equipment were:

Consolidated

	2001						2000
	Land and buildings	**Machinery**	**Office equipment**	**Motor vehicles**	**Construction-in-progress**	**Total**	Total
	$'000	***$'000***	***$'000***	***$'000***	***$'000***	***$'000***	*$'000*
Cost or valuation							
Beginning of year	**19,129**	**4,859**	**475**	**593**	**4,223**	**29,279**	23,697
Additions	**40**	**9,872**	**180**	**61**	**10,111**	**20,264**	5,582
Revaluation	**4,573**	**–**	**–**	**–**	**–**	**4,573**	–
Transfer from construction-in-progress	**12,758**	**–**	**–**	**–**	**(12,758)**	**–**	–
End of year	**36,500**	**14,731**	**655**	**654**	**1,576**	**54,116**	29,279
Analysed as –							
At cost	**–**	**14,731**	**655**	**654**	**1,576**	**17,616**	29,279
At professional valuation	**36,500**	**–**	**–**	**–**	**–**	**36,500**	–
	36,500	**14,731**	**655**	**654**	**1,576**	**54,116**	29,279
Accumulated depreciation							
Beginning of year	**1,468**	**831**	**165**	**235**	**–**	**2,699**	1,534
Provision for the year	**1,895**	**784**	**108**	**114**	**–**	**2,901**	1,165
Revaluation	**(3,363)**	**–**	**–**	**–**	**–**	**(3,363)**	–
End of year	**–**	**1,615**	**273**	**349**	**–**	**2,237**	2,699
Net book value							
End of year	**36,500**	**13,116**	**382**	**305**	**1,576**	**51,879**	26,580
Beginning of year	**17,661**	**4,028**	**310**	**358**	**4,223**	**26,580**	22,163

11. PROPERTY, MACHINERY AND EQUIPMENT *(Continued)*

The geographical location of land and buildings and type of tenure is analysed as follows:

	2001	2000
	$'000	*$'000*
Mainland China – medium-term leases	**36,500**	17,661

All of the Group's land and buildings are factory premises in Mainland China, which are held under land use rights for 50 years up to 2046. They are stated at open market value as at 31st March, 2001 as determined by DTZ Debenham Tie Leung Limited, independent qualified valuers.

Had all land and buildings been carried at cost less accumulated depreciation, the net book value of the Group's land and buildings as at 31st March, 2001 would have been approximately $29,573,000 (2000 – $17,661,000).

12. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries consisted of:

	2001
	$'000
Unlisted shares, at cost	**50,081**
Due from subsidiaries	**17,000**
	67,081

The balances with subsidiaries are unsecured, non-interest bearing and not repayable until the subsidiaries are financially capable to do so.

The underlying value of the investment in subsidiaries is, in the opinion of the Directors, not less than its carrying value as at 31st March, 2001.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

12. INVESTMENT IN SUBSIDIARIES *(Continued)*

Details of the subsidiaries as at 31st March, 2001 were as follows:

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group (a)	Principal activity
Foundation Cast Limited	British Virgin Island	US$9,776	100%	Investment holding
Xiamen Xiyingmen Furniture Product Co., Ltd. (b)	Mainland China	US$2,500,000	100%	Manufacturing and trading of wooden furniture
Fairly Good Development Limited	British Virgin Islands/ Mainland China	US$2	100%	Trading of wooden furniture
Kingsight Pacific Limited	British Virgin Islands/ Mainland China	US$2	100%	Trading of wooden furniture
Asian Peak Development Limited	British Virgin Islands	US$2	100%	Dormant

Note:

a. The shares of Foundation Cast Limited are held by the Company directly. The shares of the other subsidiaries are held indirectly.

b. Xiamen Xiyingmen Furniture Product Co., Ltd. is a wholly foreign owned enterprise established in Mainland China to be operated for 50 years up to July 2046.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st March, 2001.

13. INVENTORIES

Inventories (consolidated) consisted of:

	2001	2000
	$'000	*$'000*
Raw materials	**17,745**	17,558
Work-in-progress	**3,174**	2,323
Finished goods	**3,163**	2,263
	24,082	22,144
Less: Provision for obsolete and slow-moving inventories	**(2,414)**	(2,214)
	21,668	19,930

As at 31st March, 2001, no inventories were stated at net realisable value.

14. DUE FROM A DIRECTOR

Details of due from a director (consolidated) were as follows:

	Outstanding balance at 31st March, 2001	Outstanding balance at 31st March, 2000	Maximum balance during the year
	$'000	*$'000*	*$'000*
Due from Yau Kwai Tun*	–	22,061	22,061

**   Yau Kwai Tun is a director and a substantial shareholder of the Company.*

The balance due from a director is unsecured, non-interest bearing and without pre-determined repayment terms.

15. TRADE RECEIVABLES

The credit terms of the Group range from 30 to 90 days. The aging analysis of trade receivables (consolidated) is as follows:

	2001	2000
	$'000	*$'000*
Aged:		
0 to 30 days	**13,938**	11,621
31 to 60 days	**7,607**	7,428
61 to 90 days	**7,837**	3,245
91 to 180 days	**4,294**	32
181 to 365 days	**–**	2
	33,676	22,328
Provision for doubtful trade receivables	**(1,600)**	–
	32,076	22,328

16. OTHER INVESTMENTS

Other investments (Consolidated and Company) consisted of:

	2001	2000
	$'000	*$'000*
Unlisted investments – Hong Kong, at market value	**1,001**	–

As at 31st March, 2001, other investments represented units in an investment fund managed by an investment company in Hong Kong.

17. SHORT-TERM BANK LOANS

Short-term bank loans bore interest at 7.02% per annum (2000 – 6.44% to 8.63% per annum) and were guaranteed by certain third parties.

18. TRADE PAYABLES

The credit terms of the Group range from 30 to 90 days. The aging analysis of trade payables (consolidated) is as follows:

	2001	2000
	$'000	*$'000*
Aged:		
0 to 30 days	**6,305**	5,212
31 to 60 days	**994**	397
61 to 90 days	**228**	178
91 to 180 days	**299**	68
181 to 365 days	**270**	–
	8,096	5,855

19. SHARE CAPITAL

	2001	
	Number of shares	**Nominal value**
	'000	***$'000***
Authorised (ordinary share of $0.10 each)		
Upon incorporation (a)	**1,000**	**100**
Increase in authorised share capital (b)	**999,000**	**99,900**
End of year	**1,000,000**	**100,000**
Issued and fully paid		
Issue of shares upon incorporation (a)	**1,000**	**–**
Issue of shares arising from the Reorganisation referred to in Note 1 (c)	**955**	**195**
Issue of shares through public offering and private placement (d)	**40,400**	**4,040**
Capitalisation of share premium (e)	**210,545**	**21,055**
End of year	**252,900**	**25,290**

Notes:

a. On 8th August, 2000, the Company was incorporated with an authorised share capital of $100,000, divided into 1,000,000 shares of $0.10 each. All of these shares were issued and nil paid on 15th August, 2000 and were subsequently paid up in the manner described in Note 19.c. below.

19. SHARE CAPITAL *(Continued)*

b. On 28th September, 2000, the Company's authorised share capital was increased from $100,000 to $100,000,000, by the creation of additional 999,000,000 shares ranking pari passu with the then existing shares in all respects.

c. On 28th September, 2000, the Company issued 955,000 shares which, together with the 1,000,000 shares issued upon incorporation, were credited as fully paid as consideration for the acquisition of the entire issued share capital of Foundation Cast Limited, intermediate holding company. (see Note 1).

d. On 17th October, 2000, 40,400,000 shares were issued at $0.80 per share through a public offering and private placement ("the New Issue"), resulting in cash proceeds of $32,320,000.

e. Immediately after the New Issue, share premium of approximately $21,055,000 was capitalised by the issuance of 210,545,000 shares of $0.10 each on a pro-rata basis to the Company's shareholders before the New Issue.

The Company's share capital as at 31st March, 2000 represented the aggregate nominal value of the share capital of the Company's subsidiaries as at that date.

20. SHARE OPTIONS

The Company has a share option scheme under which it may grant options to executive directors and employees of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the Directors, and will not be less than the higher of the nominal value of the shares and 80% of the average closing price of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the options.

As at 31st March, 2001, the Company had 12,645,000 (2000 – Nil) outstanding share options (at a subscription price of $0.308 per share), which are exercisable during the period from 1st December, 2000 to 31st March, 2004. During the year, no share options were exercised.

21. RESERVES

Movements in reserves were:

	2001						2000
	Share premium	Capital reserve (a)	Contributed surplus (b)	Statutory reserve (c)	Revaluation reserve	Total	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Consolidated							
Beginning of year	–	–	–	–	–	–	–
Premium on issue of ordinary shares *(Note 19)*	28,280	–	–	–	–	28,280	–
Share issuance expenses	(5,470)	–	–	–	–	(5,470)	–
Capitalisation of share premium *(Note 19)*	(21,055)	–	–	–	–	(21,055)	–
Effect of the Reorganisation	–	19,193	–	–	–	19,193	–
Transfer to statutory reserve	–	–	–	1,701	–	1,701	–
Surplus on revaluation of land and buildings	–	–	–	–	7,936	7,936	–
End of year	1,755	19,193	–	1,701	7,936	30,585	–
Company							
Beginning of year	–	–	–	–	–	–	–
Premium on issue of ordinary shares *(Note 19)*	28,280	–	–	–	–	28,280	–
Share issuance expenses	(5,470)	–	–	–	–	(5,470)	–
Capitalisation of share premium *(Note 19)*	(21,055)	–	–	–	–	(21,055)	–
Effect of the Reorganisation	–	–	49,886	–	–	49,886	–
End of year	1,755	–	49,886	–	–	51,641	–

Notes:

a. Capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation (see Note 1 & Note 19.c).

21. RESERVES *(Continued)*

b. Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation (see Note 1 & 19.c). Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders, on the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

c. Statutory reserve:

The subsidiary established in Mainland China has to make appropriation from its retained profit to a general reserve fund in accordance with Mainland China laws and regulations. Movements of the general reserve fund were:

	2001	2000
	$'000	*$'000*
Beginning of year	**–**	–
Transfer from retained profit	**1,701**	–
End of year	**1,701**	–

The subsidiary established in Mainland China is required by Mainland China Company Law to appropriate 10% of its statutory after-tax profit to a general reserve fund until the balance of the fund reaches 50% of share capital and thereafter any further appropriation is optional. The general reserve fund can be utilised to offset prior years' losses or to increase share capital on the condition that the general reserve fund shall be maintained at a minimum of 25% of the share capital after such issuance. During the year ended 31st March, 2001, the board of directors of the subsidiary resolved to appropriate approximately $1,701,000 from retained profit to general reserve fund.

The Company's reserves as at 31st March, 2001 available for distribution to shareholders amounted to approximately $55,591,000.

22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Reconciliation of profit before taxation to net cash inflow from operating activities:

	2001 **$'000**	2000 $'000
Profit before taxation	**47,782**	38,979
Interest income	**(423)**	(132)
Interest expense	**1,675**	2,219
Depreciation of property, machinery and equipment	**2,901**	1,165
Increase in inventories	**(1,738)**	(8,257)
(Increase) Decrease in prepayments and other receivables	**(789)**	3,102
Increase in trade receivables	**(9,748)**	(5,420)
Increase (Decrease) in trade payables	**2,241**	(4,092)
(Decrease) Increase in accruals and other payables	**(2,746)**	409
Net cash inflow from operating activities	**39,155**	27,973

b. Analysis of changes in financing is as follows:

	Share capital and Share premium $'000	**Capital reserve** $'000	**Short-term bank loans** $'000	**Total** $'000
Balance as at 1st April, 1999	10,944	–	19,061	30,005
Increase in paid-in capital	7,848	–	–	7,848
New short-term bank loans	–	–	26,144	26,144
Repayment of short-term bank loans	–	–	(19,061)	(19,061)
Balance as at 31st March, 2000	18,792	–	26,144	44,936
Increase in paid-in capital	596	–	–	596
Issuance of new shares for cash	32,320	–	–	32,320
Shares issuance expenses	(5,470)	–	–	(5,470)
Effect of the Reorganisation	(19,193)	19,193	–	–
New short-term bank loans	–	–	6,542	6,542
Repayment of short-term bank loans	–	–	(26,144)	(26,144)
Balance as at 31st March, 2001	**27,045**	**19,193**	**6,542**	**52,780**

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

c. Major non-cash transactions

During the year, 1,955,000 ordinary shares of $0.10 each were issued and credited as fully paid in exchange for the entire issued share capital of Foundation Cast Limited (see Note 19).

In addition, share premium of approximately $21,055,000 was capitalised for the issuance of 210,545,000 shares of $0.10 each (see Note 19).

d. Analysis of cash and cash equivalents:

	2001	2000
	$'000	*$'000*
Cash and bank deposits	**31,126**	4,681
Other investments	**1,001**	–
	32,127	4,681

23. OPERATING LEASE COMMITMENTS

As at 31st March, 2001, the Group had commitments in respect of rented premises under a non-cancellable operating lease agreement (see Note 3). The commitments payable under the agreement are analysed as follows:

	2001	2000
	$'000	*$'000*
Amounts payable		
– within one year	**492**	150
– between one and two years	**287**	–
	779	150

23. OPERATING LEASE COMMITMENTS *(Continued)*

The commitments payable within the next twelve months are analysed as follows:

	2001	2000
	$'000	*$'000*
Lease expiring within a period		
– not exceeding one year	**–**	150
– within two to five years	**492**	–
	492	150

24. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st March, 2001, the Group had aggregate and utilised banking facilities of approximately $6,542,000 (2000 – $26,144,000) from several banks for loans which were guaranteed by certain third parties.

25. RETIREMENT BENEFITS

From 1st December, 2000, the Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme ("the MPF Scheme"). The MPF Scheme is a defined contribution scheme managed by an independent trustee. Under the MPF scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employees' contributions are subject to a cap of monthly earnings of $20,000 and thereafter contributions are voluntary.

As stipulated by the rules and regulations in Mainland China, the Group contributes to a state-sponsored retirement plan for its employees in Mainland China. The Group contributes approximately 14% to 19% of the basic salaries of its employees, and has no further obligations for the actual payment of pensions or post-retirement benefits. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

For the year ended 31st March, 2001, the aggregate amount of the Group's employer contributions was approximately $653,000 (2000 – $701,000). There were no forfeited contributions utilised to reduce the Group's future employer contributions.

26. ULTIMATE HOLDING COMPANY

The Directors of the Company consider Wealth Vision Investments Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company.