

# Notes to Financial Statements

31 March 2001

## 1. CORPORATE INFORMATION

The Group was principally involved in the design, manufacture and sale of toys, and the manufacture and sale of electrical household appliances and motors. There were no significant changes in the principal activities of the Group during the year.

The Company is a subsidiary of Resplendent Global Limited ("Resplendent Global"), a company incorporated in the British Virgin Islands. The directors consider Padora Global Inc., a company also incorporated in the British Virgin Islands, to be the Company's ultimate holding company.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

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

### Basis of consolidation

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

### Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been impairments in values other than those considered to be temporary, when they are written down to values determined by the directors.

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

### Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of the net assets under the equity method of accounting less any additional provisions for impairment in values deemed necessary by the directors.

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

### Goodwill

A capital reserve/discount or goodwill/premium arising on acquisition of subsidiaries/associates represents the excess or shortfall of fair values ascribed to the net assets acquired over the purchase consideration. A capital reserve/discount arising on acquisition is credited directly to the capital reserve on consolidation. Goodwill/premium arising on acquisition is eliminated against reserves in the year in which it arises. On disposal of subsidiaries/associates, the relevant portion of attributable capital reserve/discount or goodwill/premium previously credited or eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

### Fixed assets and depreciation

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

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

### Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Medium term leasehold land in Hong Kong	Over the remaining lease terms
Medium term leasehold buildings in Hong Kong	4%
Medium term leasehold land and buildings outside Hong Kong	Over the remaining lease terms
Moulds, tools, and plant and machinery	10% to 20%
Furniture, equipment and motor vehicles	10% to 25%

Construction in progress represents the costs incurred in connection with the construction of fixed assets. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

Changes in the values of fixed assets resulting from revaluations are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. A subsequent revaluation increase is recognised as income to the extent that it reverses a revaluation deficit of the same asset previously charged to the profit and loss account.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset. On disposal or retirement of a fixed asset that has previously been revalued, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

### Deferred development costs

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable; there is reasonable certainty that the projects are technically feasible and the products have commercial value. Product development expenditure which does not meet these criteria, and research costs, are expensed when incurred.

Deferred development costs are amortised, using the straight-line basis over the commercial lives of the underlying products of not exceeding five years commencing in the year when the products are put into commercial production.

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

### Inventories

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

### Short term investments

Investments in listed equity securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Equity-linked notes are unlisted debt securities with a residual maturity within one year, whose return is linked to the share price performance of a certain reference Hong Kong or overseas listed equity. The Group purchases such equity-linked notes at a discount and receives the full nominal amount of the notes (the "Nominal Value") at the maturity date, provided that the closing price of the particular reference equity on the maturity date is above the Nominal Value. If the closing price of the reference equity on the maturity date is at or below the Nominal Value, the Group is obliged to redeem the equity-linked notes in exchange for shares in the underlying reference equity.

Due to the uncertain nature of the possible returns on the equity-linked notes, the probability that the Group will receive a return is normally uncertain until the maturity date. Therefore, revenue on equity-linked notes is normally not recognised until maturity and equity-linked notes are stated at cost. Where a decrease in the market price of the particular reference equity indicates that the cost of the equity-linked notes is impaired, provision is made for any portion of the carrying value of the notes not expected to be recoverable. The net gains or losses so arising are credited or charged to the profit and loss account for the period in which they arise.

### Operating leases

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

### Deferred tax

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

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

### Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries and the Group's share of net assets of overseas associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

### Staff retirement schemes

The Group continues to operate a defined contribution scheme (the "Scheme") for its employees, the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. When an employee leaves the Scheme before his/her interest in the employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

Apart from the Scheme, the Group also joined the Mandatory Provident Fund ("MPF") on 1 December 2000. Certain employees who were members of the Scheme have elected to move to the MPF. Accordingly, their share of the underlying assets of the Scheme was transferred to the MPF. Contributions to the MPF are made based on rates applicable to the respective employees' relevant income from the Group and are charged to the profit and loss account as they become payable in accordance with government regulations. The Group's mandatory contributions are fully and immediately vested in favour of the employees.

### Revenue recognition

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

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

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

### Related parties

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

### Cash equivalents

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

# Notes to Financial Statements

31 March 2001

## 3. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts but excluding intra-Group transactions.

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

	Turnover		Profit after finance costs	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By principal activity:				
Toys	603,105	469,420	65,470	81,422
Motors	134,952	10,922	28,288	487
Electrical household appliances	47,781	30,275	1,144	1,328
Others	25,723	19,340	8,761	12,482
	<u>811,561</u>	<u>529,957</u>	<u>103,663</u>	<u>95,719</u>
By geographical segment:				
United States of America	432,911	358,198	50,767	64,696
Europe	136,902	82,770	13,105	14,950
Asia	182,730	33,445	33,566	6,041
Middle East	24,808	26,298	2,004	4,750
Canada	11,565	10,725	1,304	1,937
Australia	8,741	9,458	1,081	1,708
Others	13,904	9,063	1,836	1,637
	<u>811,561</u>	<u>529,957</u>	<u>103,663</u>	<u>95,719</u>

# Notes to Financial Statements

31 March 2001

## 4. PROFIT FROM OPERATING ACTIVITIES

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

	2001 HK\$'000	2000 HK\$'000
Auditors' remuneration	850	800
Depreciation	23,912	18,396
Amortisation of deferred development costs	5,821	6,100
Net unrealised holding losses on short term investments	917	–
Operating lease rentals on land and buildings	2,574	3,627
Loss on disposal of fixed assets	38	187
Staff costs (including directors' remuneration – note 5):		
Wages and salaries	86,211	64,877
Pension contributions	1,067	912
Less: Forfeited contributions*	–	(119)
	<u>87,278</u>	<u>65,670</u>
Deficit/(surplus) on revaluation of leasehold land and buildings	235	(184)
Gain on disposal of short term investments	(691)	–
Exchange gain, net	(204)	(2,566)
Rental income, net of outgoings of HK\$135,000 (2000: HK\$158,000)	(1,701)	(1,436)
Interest income	<u>(6,333)</u>	<u>(8,289)</u>

\* The forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years were not material at both balance sheet dates.

# Notes to Financial Statements

31 March 2001

## 5. DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUALS

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

	2001 HK\$'000	Group 2000 HK\$'000
Executive directors:		
Fees	–	–
Salaries, allowances and benefits in kind	5,579	6,218
Pension scheme contributions	209	95
	<u>5,788</u>	<u>6,313</u>
Non-executive directors:		
Fees	100	100
	<u>5,888</u>	<u>6,413</u>

The remuneration of directors fell within the following bands:

	2001	Number of directors 2000
Nil – HK\$1,000,000	3	3
HK\$1,500,001 – HK\$2,000,000	3	2
HK\$2,000,001 – HK\$2,500,000	–	1

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

The six highest paid individuals during the year included four (2000: Four) directors, details of whose remuneration are set out above. The details of the emoluments of the remaining two (2000: Two) non-director, highest paid employees are set out below:

	2001 HK\$'000	2000 HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	1,810	1,743
Pension scheme contributions	53	53
	<u>1,863</u>	<u>1,796</u>

The emoluments of each of the two (2000: Two) non-director, highest paid employees fell within the Nil – HK\$1,000,000 band.

# Notes to Financial Statements

31 March 2001

## 6. FINANCE COSTS

	2001 HK\$'000	Group 2000 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	<u>2,194</u>	<u>555</u>

## 7. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable overseas have been calculated at the applicable rates of tax prevailing in the countries in which the subsidiaries operated during the year.

No provision for tax has been made for the associates because they had no assessable profits for the year (2000: Nil).

	2001 HK\$'000	Group 2000 HK\$'000
Group:		
Current year provision:		
Hong Kong	6,300	7,800
Overseas	604	139
Deferred tax (note 21)	–	890
	<u>6,904</u>	<u>8,829</u>
Tax charge for the year	<u>6,904</u>	<u>8,829</u>

## 8. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders dealt with in the financial statements of the Company is HK\$39,860,000 (2000: HK\$41,173,000).

## 9. DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Interim – HK2.5 cents (2000: HK2.5 cents) per ordinary share	9,476	9,421
Proposed final – HK7cents (2000: HK7 cents) per ordinary share	<u>26,531</u>	<u>26,379</u>
	<u>36,007</u>	<u>35,800</u>

# Notes to Financial Statements

31 March 2001

## 10. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit attributable to shareholders for the year of HK\$84,692,000 (2000: HK\$86,259,000) and the weighted average of 377,715,000 (2000: 372,005,547) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 March 2001 is based on the net profit attributable to shareholders for the year of HK\$84,692,000 (2000: HK\$86,259,000) and 388,326,782 (2000: 386,759,229) ordinary shares, being the weighted average number of shares outstanding during the year, adjusted for the effects of the dilutive potential ordinary shares outstanding during the year.

The reconciliation of weighted average number of shares used in calculating basic and diluted earnings per share is as follows:

	2001	2000
Weighted average number of ordinary shares used in calculating basic earnings per share	377,715,000	372,005,547
Weighted average number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all options outstanding during the year	<u>10,611,782</u>	<u>14,753,682</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u><u>388,326,782</u></u>	<u><u>386,759,229</u></u>

# Notes to Financial Statements

31 March 2001

## 11. FIXED ASSETS

### Group

	Medium term leasehold land and buildings <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Moulds, tools, and plant and machinery <i>HK\$'000</i>	Furniture, equipment and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:					
At beginning of year	129,420	2,164	114,934	43,288	289,806
Additions	23,495	11,575	33,362	6,042	74,474
Disposals	-	-	(51)	(235)	(286)
Revaluation surplus	(395)	-	-	-	(395)
<b>At 31 March 2001</b>	<b>152,520</b>	<b>13,739</b>	<b>148,245</b>	<b>49,095</b>	<b>363,599</b>
Accumulated depreciation:					
At beginning of year	-	-	61,544	23,786	85,330
Provided during the year	5,476	-	12,379	6,057	23,912
Disposals	-	-	(1)	(176)	(177)
Write-back on revaluation	(5,476)	-	-	-	(5,476)
<b>At 31 March 2001</b>	<b>-</b>	<b>-</b>	<b>73,922</b>	<b>29,667</b>	<b>103,589</b>
Net book value:					
<b>At 31 March 2001</b>	<b>152,520</b>	<b>13,739</b>	<b>74,323</b>	<b>19,428</b>	<b>260,010</b>
At 31 March 2000	129,420	2,164	53,390	19,502	204,476

An analysis of the valuation of the leasehold land and buildings of the Group at the balance sheet date is as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Hong Kong	28,720	6,720
Outside Hong Kong	123,800	122,700
Total valuation	152,520	129,420

# Notes to Financial Statements

31 March 2001

## 11. FIXED ASSETS (continued)

As at 31 March 2001, the Group's leasehold land and buildings were revalued on an open market, existing use basis by RHL Appraisal Ltd., an independent firm of professional valuers, at HK\$152,520,000. A revaluation surplus of HK\$5,316,000 and a revaluation deficit of HK\$235,000 resulting from the above valuation have been credited to the asset revaluation reserve and debited to the profit and loss account, respectively.

Had the Group's leasehold land and buildings stated at valuation been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$103,478,087 (2000: HK\$83,904,133).

## 12. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	104,950	104,950
Due from subsidiaries	132,213	127,270
	<u>237,163</u>	<u>232,220</u>

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

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

Name	Place of incorporation/ registration and operations	Paid-up share/ registered capital	Equity interest attributable to the Company	Principal activities
<b>Directly held</b>				
Kin Yat Industrial Holdings Limited	British Virgin Islands	Ordinary US\$3,000	100%	Investment holding

## 12. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Paid-up share/ registered capital	Equity interest attributable to the Company	Principal activities
<b>Indirectly held</b>				
Kin Yat (HK) Holdings Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred HK\$6,000,000	100%	Investment holding, property investment and machinery leasing
Evertop (Oversea) Industrial Company Limited	British Virgin Islands/ People's Republic of China	Ordinary US\$100	100%	Manufacture of toys
Kin Yat Industrial Company Limited	Hong Kong	Ordinary HK\$3,200,000	100%	Trading of toys and moulds, and sourcing of materials
Unicon Investments Limited	Hong Kong	Ordinary HK\$10,000	100%	Property holding
Newway Electrical Industries Limited	Hong Kong	Ordinary HK\$3,000,000	100% (Note)	Trading of electrical household appliances
Shenzhen Newway Electrical Industries Co., Ltd.	People's Republic of China	HK\$10,000,000	100% (Note)	Manufacture of electrical household appliances
Penta Blesses Enterprises Limited	Hong Kong	Ordinary HK\$1,000,000	100%	Investment holding, and manufacture and trading of toys

# Notes to Financial Statements

31 March 2001

## 12. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Paid-up share/ registered capital	Equity interest attributable to the Company	Principal activities
<b>Indirectly held (continued)</b>				
Kin Chak Science & Technology (Shenzhen) Co., Ltd.	People's Republic of China	HK\$50,000,000	100%	Property holding
World Talent Enterprise Limited	Hong Kong	Ordinary HK\$1,000,000	100%	Trading of toys
Shixing Talent Woods Ltd.	People's Republic of China	RMB2,500,000	100%	Manufacture and trading of toys
Shixing Turbo Toys Industry Co., Ltd.	People's Republic of China	US\$4,000,000	100%	Manufacture and trading of toys
Standard Motor Co., Ltd.	Hong Kong	HK\$40,000,000	70%	Trading of motors
Shixing Standard Motor Co., Ltd.	People's Republic of China	US\$4,000,000	70%	Manufacture of motors
Standard Electric Company Limited	Hong Kong	HK\$10,000	70%	Trading of motors

Note: Subject to the payment of a fixed sum of HK\$34,965 per month to the joint venture party, the Newway Electrical Industries Limited is entitled to all of the profits and bears all of the losses of Shenzhen Newway Electrical Industries Co., Ltd.

## 13. INTERESTS IN ASSOCIATES

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	1,702	389
Loan to an associate	15,360	–
Due from associates	424	668
	<u>17,486</u>	<u>1,057</u>

## 13. INTERESTS IN ASSOCIATES (continued)

The Group's share of net losses retained by the associates for the year amounted to HK\$3,000,000 (2000: HK\$509,000).

The loan to an associate, which was granted in proportion to the Group's shareholding in this associate, is unsecured, interest-free and has no fixed terms of repayment. The other amounts due from associates are unsecured, interest-free and are repayable in accordance with normal trading terms.

Particulars of the Group's associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Group	Principal activities
Yuen Hing Loong Carton Packing Factory Limited ("Yuen Hing Loong")	Corporate	Hong Kong	Ordinary HK\$1,000,000	35%	Investment holding
Guangdong Shixing Yuen Hing Lung Packing Factory Ltd.	Corporate	People's Republic of China	HK\$1,331,000	35%	Manufacture and trading of wooden cartons
Success Mode Industries Limited ("Success Mode")	Corporate	Hong Kong/ People's Republic of China	HK\$1,000,000	49%	Manufacture and trading of metallic parts
Concord Modern Technology Limited	Corporate	Hong Kong	HK\$15,000,000	33.34%	Investment holding and machinery leasing
Concord Modern International Technology Limited	Corporate	Hong Kong	HK\$10,000	33.34%	Manufacture and distribution of compact disc read-only memory or media

# Notes to Financial Statements

31 March 2001

## 14. DEFERRED DEVELOPMENT COSTS

	2001 HK\$'000	Group 2000 HK\$'000
Cost:		
At beginning of year	22,256	16,362
Additions	6,252	5,663
Acquisition of subsidiaries	–	231
	<u>28,508</u>	<u>22,256</u>
At balance sheet date		
Accumulated amortisation:		
At beginning of year	15,340	9,240
Provided during the year	5,821	6,100
	<u>21,161</u>	<u>15,340</u>
At balance sheet date		
Net book value:		
At balance sheet date	<u>7,347</u>	<u>6,916</u>
At beginning of year	<u>6,916</u>	<u>7,122</u>

## 15. INVENTORIES

	2001 HK\$'000	Group 2000 HK\$'000
Raw materials	67,457	49,947
Work in progress	10,957	6,671
Finished goods	42,442	28,619
	<u>120,856</u>	<u>85,237</u>

# Notes to Financial Statements

31 March 2001

## 16. ACCOUNTS RECEIVABLE

The ageing of the Group's accounts receivable is analysed as follows:

	2001		2000	
	HK\$'000	Percentage	HK\$'000	Percentage
0 – 30 days	31,416	64	23,245	64
31 – 60 days	10,884	22	4,226	11
61 – 90 days	2,803	6	4,403	12
Over 90 days	4,127	8	4,695	13
	<u>49,230</u>	<u>100</u>	<u>36,569</u>	<u>100</u>

Trading terms with customers are largely on credit, except for new customers where cash on sale or payment in advance is normally required. Invoices are normally payable within 60 days of issuance, except for certain well-established customers, for whom the credit terms are extended to 90 days.

## 17. SHORT TERM INVESTMENTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Hong Kong listed equity investments	8,513	–
Equity-linked notes	8,838	–
	<u>17,351</u>	<u>–</u>

## 18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	10,663	31,969	70	36
Time deposits	76,116	107,284	–	–
	<u>86,779</u>	<u>139,253</u>	<u>70</u>	<u>36</u>

# Notes to Financial Statements

31 March 2001

## 19. ACCOUNTS PAYABLE, ACCRUED LIABILITIES AND OTHER PAYABLES

	Group			
	2001		2000	
	<i>HK\$'000</i>	<i>Percentage</i>	<i>HK\$'000</i>	<i>Percentage</i>
0 – 30 days	36,951	56	25,886	59
31 – 60 days	15,806	24	7,584	17
61 – 90 days	6,967	11	5,238	12
Over 90 days	<u>6,052</u>	<u>9</u>	<u>5,084</u>	<u>12</u>
Accounts payable	<u>65,776</u>	<u>100</u>	<u>43,792</u>	<u>100</u>
Accrued liabilities and other payables	<u>19,206</u>		<u>20,252</u>	
	<u>84,982</u>		<u>64,044</u>	

# Notes to Financial Statements

31 March 2001

## 20. INTEREST-BEARING BANK BORROWINGS

	2001 HK\$'000	Group 2000 HK\$'000
Secured		
Bank overdrafts	1,573	–
Trust receipt loans	2,075	7,922
Bank loans	<u>10,900</u>	<u>18,501</u>
	<u>14,548</u>	<u>26,423</u>
Unsecured		
Bank overdrafts	3,263	–
Bank loans	<u>14,800</u>	–
	<u>18,063</u>	–
Total bank borrowings	<u><u>32,611</u></u>	<u><u>26,423</u></u>
Bank borrowings repayable:		
Within one year	25,244	26,423
In the second year	6,867	–
In the third to fifth years, inclusive	<u>500</u>	–
	<u>32,611</u>	26,423
Portion classified as current liabilities	<u>(25,244)</u>	<u>(26,423)</u>
Non-current portion	<u><u>7,367</u></u>	<u><u>–</u></u>

The Group's banking facilities were secured by corporate guarantees given by the Company and certain subsidiaries of the Company.

The above secured bank borrowings were secured by personal guarantees given by a director of the Company and certain minority shareholders of a subsidiary.

In the prior year, a short term bank loan of HK\$18,501,000 was secured by a property owned by a related company, in which Cheng Chor Kit, a director of the Company, had a beneficial interest.

# Notes to Financial Statements

31 March 2001

## 21. DEFERRED TAX

	Group	
	2001	2000
	HK\$'000	HK\$'000
At beginning of the year	2,793	1,903
Charge for the year (note 7)	—	890
	<u>2,793</u>	<u>2,793</u>
At balance sheet date	<u>2,793</u>	<u>2,793</u>

The principal components of the Group's deferred tax liabilities/(assets) provided and not provided for at the balance sheet date were as follows:

	Provided		Not provided	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accelerated depreciation allowances	3,287	3,287	1,966	2,330
Tax losses carried forward	(494)	(494)	(1,336)	(963)
	<u>2,793</u>	<u>2,793</u>	<u>630</u>	<u>1,367</u>

The revaluation of the Group's leasehold land and buildings does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

Deferred tax has not been provided for the Company as there were no significant timing differences at the balance sheet date (2000: Nil).

## 22. SHARE CAPITAL

### Shares

	Company	
	2001	2000
	HK\$'000	HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
379,020,000 (2000: 376,845,000) ordinary shares of HK\$0.10 each	<u>37,902</u>	<u>37,685</u>

## 22. SHARE CAPITAL (continued)

The subscription rights attached to 320,000 and 1,855,000 share options were exercised during the year at subscription prices of HK\$0.87 per share and HK\$0.3032 per share respectively, resulting in the issue of 2,175,000 shares of HK\$0.10 each for a total cash consideration of approximately HK\$841,000.

### Share options

From 8 April 1997, under the terms of the Company's share option scheme adopted by the Company conditionally upon the listing of the Group, the directors of the Company may, at their discretion, grant options to employees of the Group and directors of the Company to subscribe for shares. Options will entitle the holder to subscribe for shares during such period as may be determined by the directors at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the option. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the share capital of the Company in issue from time to time, and the maximum number of shares in respect of which options may be granted to any one employee may not exceed 25% of the maximum number of shares in respect of which options may be granted under the share option scheme. Shares allotted on the exercise of options will rank pari passu with the other shares in issue at the date of exercise of the relevant option.

Under the above scheme, share options were granted by the Company to all of the executive directors and certain full-time employees of the Company on 7 July 1997 and 6 November 1998 which entitle them to subscribe for a total number of 20,090,000 and 14,120,000 ordinary shares, respectively. The share options are exercisable at prices of HK\$0.87 per share and HK\$0.3032 per share at any time from the date of grant to 7 April 2007 and 6 November 2008, respectively. As detailed in above, 2,175,000 share options were exercised during the year.

At 31 March 2001, the Company had 19,210,000 and 9,650,000 share options outstanding at exercise prices of HK\$0.87 per share and HK\$0.3032 per share, respectively. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 28,860,000 additional shares of HK\$0.10 each and cash proceeds, before issue expenses, of approximately HK\$19,639,000.

# Notes to Financial Statements

31 March 2001

## 23. RESERVES

### Group

	Share premium HK\$'000	Asset revaluation reserve HK\$'000	Capital reserve on consolidation HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 1999	60,344	46,375	1,599	6,150	117,859	232,327
Goodwill on acquisition of subsidiaries	-	-	-	-	(14,138)	(14,138)
Issue of shares	28,316	-	-	-	-	28,316
Share issue expenses	(974)	-	-	-	-	(974)
Revaluation surplus	-	8,135	-	-	-	8,135
Revaluation surplus shared by minority shareholders of a subsidiary	-	(466)	-	-	-	(466)
Net profit for the year	-	-	-	-	86,259	86,259
Dividends	-	-	-	-	(35,800)	(35,800)
At 31 March 2000 and at beginning of year	87,686	54,044	1,599	6,150	154,180	303,659
Goodwill on acquisition of associates	-	-	-	-	(2,327)	(2,327)
Issue of shares	624	-	-	-	-	624
Revaluation surplus	-	5,316	-	-	-	5,316
Revaluation surplus shared by minority shareholders of a subsidiary	-	(1,075)	-	-	-	(1,075)
Net profit for the year	-	-	-	-	84,692	84,692
Dividends	-	-	-	-	(36,007)	(36,007)
At 31 March 2001	88,310	58,285	1,599	6,150	200,538	354,882
The reserves are retained as follows:						
Company and subsidiaries	88,310	58,285	1,599	6,150	203,989	358,333
Associates	-	-	-	-	(3,451)	(3,451)
<b>At 31 March 2001</b>	<b>88,310</b>	<b>58,285</b>	<b>1,599</b>	<b>6,150</b>	<b>200,538</b>	<b>354,882</b>
Company and subsidiaries	87,686	54,044	1,599	6,150	154,631	304,110
Associates	-	-	-	-	(451)	(451)
At 31 March 2000	87,686	54,044	1,599	6,150	154,180	303,659

## 23. RESERVES (continued)

### Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 1999	60,344	104,750	9,569	174,663
Issue of shares	28,316	–	–	28,316
Share issue expenses	(974)	–	–	(974)
Net profit for the year	–	–	41,173	41,173
Dividends	–	–	(35,800)	(35,800)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2000 and at beginning of year	87,686	104,750	14,942	207,378
Issue of shares	624	–	–	624
Net profit for the year	–	–	39,860	39,860
Dividends	–	–	(36,007)	(36,007)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 March 2001</b>	<b><u>88,310</u></b>	<b><u>104,750</u></b>	<b><u>18,795</u></b>	<b><u>211,855</u></b>

The contributed surplus of the Group represents the difference between the nominal value of the shares of the aggregate share capital of the subsidiaries acquired pursuant to the Group reorganisation on 7 April 1998, over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the same reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

Under the Companies Act 1981 of Bermuda, the Company's contributed surplus is available for cash distribution and/or distribution in specie under certain circumstances prescribed by section 54 thereof.

# Notes to Financial Statements

31 March 2001

## 24. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2001 HK\$'000	2000 HK\$'000
Profit from operating activities	105,857	96,274
Interest income	(6,333)	(8,289)
Depreciation	23,912	18,396
Loss on disposal of fixed assets	38	187
Amortisation of deferred development costs	5,821	6,100
Revaluation deficit/(surplus) of leasehold land and buildings	235	(184)
Net unrealised holding losses on short term investments	917	–
Gain on disposal of short term investments	(691)	–
Decrease/(increase) in inventories	(35,619)	23,175
Decrease/(increase) in accounts receivable	(12,661)	12,704
Increase in prepayments, deposits and other receivables	(2,519)	(1,685)
Decrease/(increase) in amounts due from associates	244	(368)
Increase/(decrease) in accounts payable, accrued liabilities and other payables	20,938	(29,246)
Net cash inflow from operating activities	<u>100,139</u>	<u>117,064</u>

# Notes to Financial Statements

31 March 2001

## 24. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital and share premium <i>HK\$'000</i>	Bank borrowings <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
At 1 April 1999	94,344	–	–
Acquisition of subsidiaries	–	18,501	6,798
Share of revaluation surplus	–	–	466
Share of net profit	–	–	122
Net cash inflow from financing	<u>31,027</u>	<u>–</u>	<u>240</u>
At 31 March 2000 and at beginning of year	125,371	18,501	7,626
Share of revaluation surplus	–	–	1,075
Share of net profit	–	–	9,067
Net cash inflow from financing	<u>841</u>	<u>7,199</u>	<u>160</u>
At 31 March 2001	<u><u>126,212</u></u>	<u><u>25,700</u></u>	<u><u>17,928</u></u>

# Notes to Financial Statements

31 March 2001

## 24. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

### (c) Acquisition of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Fixed assets	–	26,147
Deferred development costs	–	231
Inventories	–	23,332
Accounts receivable	–	17,852
Prepayments, deposits and other receivables	–	1,969
Cash and bank balances	–	2,454
Accounts payable, accrued liabilities and other payables	–	(24,186)
Interest-bearing bank borrowings	–	(25,139)
Minority interests	–	(6,798)
	<u>–</u>	<u>15,862</u>
Goodwill on acquisition	–	14,138
	<u>–</u>	<u>30,000</u>
Satisfied by:		
Cash	–	30,000
	<u>–</u>	<u>30,000</u>

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

	2001 HK\$'000	2000 HK\$'000
Cash consideration	–	30,000
Cash and bank balances acquired	–	(2,454)
Bank borrowings with original maturity of less than three months	–	6,638
	<u>–</u>	<u>34,184</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>–</u>	<u>34,184</u>

The subsidiaries acquired in the prior year contributed HK\$116,000 to the Group's net operating cash outflows, paid HK\$362,000 in respect of the net returns on investments and servicing of finance, but had no significant impact in respect of tax, investing activities or financing activities.

## 24. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

### (c) Acquisition of subsidiaries (continued)

The subsidiaries acquired in the prior year contributed HK\$10,922,000 to turnover and HK\$696,000 to the consolidated profit after tax and before minority interests for the year ended 31 March 2000.

## 25. RELATED PARTY AND CONNECTED TRANSACTIONS

The Group had the following transactions with related and connected parties during the year:

	Notes	2001 HK\$'000	2000 HK\$'000
Purchases of raw materials from Grandhold Enterprises Limited ("Grandhold")	(i)	–	68
Purchases of raw materials from Yuen Hing Loong	(ii)	–	324
Purchases of raw materials from Success Mode	(ii)	3,361	1,149
Purchases of raw materials from Standard Electric	(iii)	13,171	6,064
Sub-contracting fee income from Standard Motor	(iv)	<u>6,687</u>	<u>1,588</u>

### Notes:

- (i) The directors consider that the purchases of raw materials from Grandhold, a company incorporated in Hong Kong in which Cheng Chor Kit, a director and major shareholder of the Company, has a beneficial interest, were made according to prices and conditions similar to those offered by non-related suppliers of the Group.
- (ii) The directors consider that the purchases of raw materials from Yuen Hing Loong and Success Mode, two associates of the Group, were made according to prices and conditions similar to those offered by non-related suppliers of the Group.
- (iii) The directors consider that the purchases of raw materials from Standard Electric were made according to prices and conditions similar to those offered by non-related suppliers of the Group. As further explained below, prior to 1 February 2000, Standard Electric was a subsidiary of Resplendent Global. The purchases of raw materials from Standard Electric for the period from 1 February 2000 to 31 March 2000, when it was accounted for as a subsidiary of the Group, amounted to approximately HK\$602,000.
- (iv) The directors consider that the sub-contracting fee was calculated on a basis mutually agreed by both parties which was similar to those charged by non-related sub-contractors to Standard Motor. As further explained below, prior to 1 February 2000, Standard Motor was a subsidiary of Resplendent Global. The sub-contracting fee received from Standard Motor for the period from 1 February 2000 to 31 March 2000, when it was accounted for as a subsidiary of the Group, amounted to approximately HK\$637,000.

## 25. RELATED PARTY AND CONNECTED TRANSACTIONS (continued)

As detailed in note 13, the Group granted a loan of HK\$15,360,000 (2000: Nil) to an associate in proportion to its shareholding in this associate. This loan is unsecured, interest-free and has no fixed term of repayment.

As detailed in note 20, certain bank borrowings of the Group were secured by personal guarantees given by a director of the Company and certain minority shareholders of a subsidiary.

In addition, as detailed in note 20 to the financial statements, a short term loan of HK\$18,501,000 at 31 March 2000 was secured by a property owned by a related company, in which Cheng Chor Kit had beneficial interest.

In the prior year, on 13 December 1999, New Bright (Oversea) Holdings Company Limited, a wholly-owned subsidiary of the Group, entered into an agreement with Resplendent Global to acquire from the latter the entire issued share capital of Cavetto Investments Limited ("Cavetto"), a company incorporated in the British Virgin Islands, at a consideration of HK\$30,000,000.

Resplendent Global is beneficially owned by Cheng Chor Kit, Cheng Chor Chiu and Cheng Chor Yip, directors and major beneficial shareholders of the Company, and Cheng Chor Kei, a brother of Cheng Chor Kit, Cheng Chor Chiu and Cheng Chor Yip (collectively the "Chengs").

The sole asset of Cavetto consisted of a 70% equity interest in Standard Motor Company Limited ("Standard Motor") and its subsidiaries (including Standard Electric Company Limited ("Standard Electric") and Shixing Standard Motor Company Limited) (collectively the "Standard Motor Group"). The remaining 21.875% and 8.125% of the issued share capital of Standard Motor are held, respectively, by the senior management of Standard Motor, who are independent third parties and Kanspar (BVI) Corp., a private company which is owned by four senior staff of the Group, who are independent third parties.

The Chengs have jointly and severally warranted that the audited consolidated profit after tax and before extraordinary items of the Standard Motor Group for each of the years ended 31 March 2000 and 31 March 2001 would not be less than HK\$3,000,000 and HK\$9,000,000, respectively. This profit requirement has been met for both years.

This agreement was completed on 1 February 2000 upon the approval by the independent shareholders of the Company on 31 January 2000.

## 26. COMMITMENTS

(i) At the balance sheet date, the Group had contracted capital commitments in respect of its wholly-owned investments in the People's Republic of China amounting to HK\$20,644,000 (2000: HK\$20,644,000).

(ii) Capital commitments

At the balance sheet date, the Group had contracted for capital commitments of HK\$9,146,425 (2000: HK\$1,016,000). In the prior year, the Group also had contracted for a commitment to acquire leasehold land and buildings which were worth HK\$19,800,000.

The Group did not have any significant authorised, but not contracted for, capital commitments as at the balance sheet date (2000: Nil).

(iii) Annual commitments payable by the Group in the following year under non-cancellable operating leases in respect of land and buildings expiring:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Within one year	1,105	25
In the second to fifth years, inclusive	1,293	2,107
After five years	<u>179</u>	<u>179</u>
	<u><u>2,577</u></u>	<u><u>2,311</u></u>

The Company did not have other significant commitments at the balance sheet date (2000: Nil).

## 27. CONTINGENT LIABILITIES

At the balance sheet date, the Company had provided guarantees of HK\$115,500,000 (2000: HK\$97,200,000) in respect of banking facilities granted to certain subsidiaries, of HK\$32,611,000 (2000: HK\$6,946,000) had been utilized as at the balance sheet date.

## 28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 20 July 2001.