

Notes to the Financial Statements

For the year ended 31st March, 2001

1. GENERAL

The Company is incorporated as an exempted company with limited liability in Bermuda under The Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. The principal activities of the Group are the manufacture and sale of knitted fabrics and dyed yarns, the provision of dyeing, bleaching, setting and finishing service.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention 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 31st March 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.

Service income is recognised when services are provided.

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

Notes to the Financial Statements

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the assets have 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 asset.

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

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

Depreciation and amortisation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, as follows:

Leasehold land	Over the term of the leases
Leasehold buildings	Over the estimated useful lives of 50 years or the period of the leases, if shorter
Plant and machinery	6-10%
Furniture, fixtures and equipment	20%
Motor vehicles and vessels	20-30%

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as assets owned by the Group or, where shorter, the terms of the relevant leases.

Notes to the Financial Statements

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in subsidiaries

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

Investment in subsidiaries is included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Investments in securities

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

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in the financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interests in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

Notes to the Financial Statements

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 the estimated costs to complete production and the estimated costs necessary to make the sale.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the period of the relevant lease term.

Foreign currencies

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

On consolidation, the financial statements of overseas operations which are denominated in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the exchange reserve.

Notes to the Financial Statements

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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

Turnover represents the gross amounts received and receivable for goods sold, less returns and allowances, and services rendered, by the Group to outside customers during the year.

	2001 HK\$'000	2000 HK\$'000
The turnover comprises:		
Sale of goods	365,963	336,023
Subcontracting fee income	5,214	7,641
	<u>371,177</u>	<u>343,664</u>

4. SEGMENTAL INFORMATION

The head office of the Group is in Hong Kong and all of its manufacturing operations are located in the People's Republic of China, other than Hong Kong (the "PRC"). Sales of knitted fabrics and dyed yarns account for more than 90% of the Group's turnover for the year ended 31st March, 2001, substantially all of which are made to customers based in Hong Kong.

Notes to the Financial Statements

For the year ended 31st March, 2001

5. PROVISION FOR BAD AND DOUBTFUL DEBTS

	2001	2000
	HK\$'000	HK\$'000
The amount comprises:		
Provision for bad and doubtful debts	(6,870)	(500)
Recovery of bad and doubtful debts previously provided for	–	759
	(6,870)	259
	(6,870)	259

6. PROFIT FROM OPERATIONS

	2001	2000
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs including directors' remuneration:		
– Salaries and other benefits	21,300	17,908
– Retirement benefit scheme contributions	246	60
	21,546	17,968
Auditors' remuneration	511	466
Depreciation:		
Assets owned by the Group	20,363	18,520
Assets held under finance leases	881	1,008
	21,244	19,528
Loss on disposal of property, plant and equipment	137	4,695
Rentals payable under operating leases in respect of rented premises	1,262	1,238
and after crediting:		
Interest income from banks	1,940	1,639
Interest income from overdue debtors	–	85
	–	85

Notes to the Financial Statements

For the year ended 31st March, 2001

7. FINANCE COSTS

	2001	2000
	HK\$'000	HK\$'000
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Interest on borrowings wholly repayable within five years:		
Bank borrowings	138	147
Finance leases	209	1,544
	<u>347</u>	<u>1,691</u>

8. DIRECTORS' EMOLUMENTS

	2001	2000
	HK\$'000	HK\$'000
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Directors' fees:		
Executive directors	–	–
Independent non-executive directors	150	150
Other emoluments (executive directors):		
Salaries and other benefits	5,655	4,662
Retirement benefit scheme contributions	16	–
	<u>5,821</u>	<u>4,812</u>

Emoluments of the directors were within the following bands:

	2001	2000
	Number of directors	Number of directors
<hr/>		
Below HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	4	4
	<u>4</u>	<u>4</u>

Included in directors' other emoluments are rentals in the aggregate amount of approximately HK\$972,000 (2000: HK\$562,000) under operating leases paid by the Group in respect of accommodation provided to certain directors.

Notes to the Financial Statements

For the year ended 31st March, 2001

9. EMPLOYEES' EMOLUMENTS

Of the five individuals with highest emoluments in the Group, four (2000: four) are directors of the Company, details of whose emoluments are set out in note 8 above. The emoluments of the remaining individual are as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	645	608
Retirement benefit scheme contributions	4	–

10. TAXATION

	2001 HK\$'000	2000 HK\$'000
The taxation (credit) charge comprises:		
Hong Kong Profits Tax	13	16
Overseas taxation	55	83
	68	99
Deferred taxation (note 22)		
Current year	(470)	(430)
	(402)	(331)

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for both years. Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

Details of deferred taxation are set out in note 22.

Notes to the Financial Statements

For the year ended 31st March, 2001

11. NET (LOSS) PROFIT FOR THE YEAR

Of the Group's net loss for the year of approximately HK\$16,083,000 (2000: a profit of approximately HK\$6,379,000), a loss of approximately HK\$22,649,000 (2000: a profit of approximately HK\$89,000) has been dealt with in the financial statements of the Company.

12. (LOSS) EARNINGS PER SHARE

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

	2001 HK\$'000	2000 HK\$'000
(Loss) earnings for the purposes of basis and diluted (loss) earnings per share	<u>(16,083)</u>	<u>6,379</u>
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	1,587,794,521	1,231,797,814
Effect of dilutive potential ordinary shares in respect of share options	<u>—</u>	<u>259,970</u>
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	<u>1,587,794,521</u>	<u>1,232,057,784</u>

The exercise of the share option outstanding during the year ended 31st March, 2001 would result in reduction in loss per share.

Notes to the Financial Statements

For the year ended 31st March, 2001

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles and vessels HK\$'000	Total HK\$'000
THE GROUP					
COST					
At 1st April, 2000	17,564	152,095	20,128	8,430	198,217
Exchange realignment	–	1,722	699	120	2,541
Additions	480	12,521	6,571	4,664	24,236
Reclassification	–	12,272	(12,272)	–	–
Disposals	–	–	(643)	–	(643)
At 31st March, 2001	18,044	178,610	14,483	13,214	224,351
DEPRECIATION AND AMORTISATION					
At 1st April, 2000	2,315	65,714	4,887	5,838	78,754
Exchange realignment	–	982	88	105	1,175
Provided for the year	360	16,370	2,754	1,760	21,244
Reclassification	–	1,803	(1,803)	–	–
Eliminated on disposals	–	–	(506)	–	(506)
At 31st March, 2001	2,675	84,869	5,420	7,703	100,667
NET BOOK VALUES					
At 31st March, 2001	15,369	93,741	9,063	5,511	123,684
At 31st March, 2000	15,249	86,381	15,241	2,592	119,463

Notes to the Financial Statements

For the year ended 31st March, 2001

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The net book value of leasehold land and buildings held by the Group as at the balance sheet date comprises:

	2001 HK\$'000	2000 HK\$'000
Land and buildings held under:		
Medium-term leases in Hong Kong	3,092	2,682
Medium-term leases in the PRC	12,277	12,567
	<u>15,369</u>	<u>15,249</u>

The net book value of the Group's plant and machinery and motor vehicles and vessels at 31st March, 2001 includes an amount of approximately HK\$5,194,000 (2000: HK\$6,897,000) in respect of assets held under finance leases.

14. INVESTMENT IN SUBSIDIARIES

	2001 & 2000 HK\$'000
Unlisted shares	<u>84,948</u>

The carrying value of the unlisted shares is based on the directors' estimate of the underlying net assets of the subsidiaries attributable to the Group at the time these subsidiaries were acquired by the Company, less subsequent impairment losses.

Details of the Company's subsidiaries at 31st March, 2001 are set out in note 33.

Notes to the Financial Statements

For the year ended 31st March, 2001

15. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets	26,653	–

At 31st March, 2001, a subsidiary of the Company held 40% of the share capital of Global Network Holdings Limited, an investment holding company incorporated in the British Virgin Islands.

16. INVESTMENTS IN SECURITIES

	THE GROUP						THE COMPANY	
	Trading securities		Other securities		Total		Trading securities	
	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities:								
Listed – Hong Kong	926	–	–	–	926	–	926	–
Unlisted	–	–	10	–	10	–	–	–
	926	–	10	–	936	–	926	–
Classified under								
Current	926	–	–	–	926	–	926	–
Non-current	–	–	10	–	10	–	–	–
	926	–	10	–	936	–	926	–
Market value of								
listed securities	926	–	–	–	926	–	926	–

Notes to the Financial Statements

For the year ended 31st March, 2001

17. INVENTORIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	39,721	35,182
Work in progress	9,569	14,654
	<u>49,290</u>	<u>49,836</u>

18. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables of the Group are trade receivables of approximately HK\$92,377,000 (2000: HK\$149,284,000).

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

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
0 – 60 days	47,935	57,357
61 – 90 days	9,562	28,541
Over 90 days	34,880	63,386
	<u>92,377</u>	<u>149,284</u>

The credit terms given to the customers vary from cash on delivery to 90 days and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

Notes to the Financial Statements

For the year ended 31st March, 2001

19. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts are unsecured, interest free and have no fixed repayment terms.

20. TRADE AND OTHER PAYABLES

Included in trade and other payables of the Group are trade payables of approximately HK\$22,891,000 (2000: HK\$53,136,000).

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

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
0 – 60 days	13,727	42,728
61 – 90 days	2,643	4,220
Over 90 days	6,521	6,188
	<u>22,891</u>	<u>53,136</u>

21. OBLIGATIONS UNDER FINANCE LEASES

The maturity of obligations under finance leases is as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Within one year	1,017	1,940
More than one year, but not exceeding two years	–	1,016
	<u>1,017</u>	<u>2,956</u>
Less: Amounts due within one year and shown under current liabilities	<u>(1,017)</u>	<u>(1,940)</u>
Amounts due after one year	<u>–</u>	<u>1,016</u>

Notes to the Financial Statements

For the year ended 31st March, 2001

22. DEFERRED TAXATION

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Balance at beginning of the year	6,261	6,691
Credit for the year (note 10)	(470)	(430)
Balance at end of the year	<u>5,791</u>	<u>6,261</u>

The components of deferred tax liabilities (assets) at the balance sheet date were as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Tax effect of timing differences arising from:		
Excess of tax depreciation allowances over accounting depreciation	13,235	13,821
Tax losses available to set off against future assessable profits	(7,444)	(7,560)
	<u>5,791</u>	<u>6,261</u>

There was no significant unprovided deferred taxation for the year or at the balance sheet date.

Notes to the Financial Statements

For the year ended 31st March, 2001

23. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.10 each		
Authorised:		
At 1st April, 1999 and 2000 and 31st March, 2001	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 1st April, 1999	1,080,000,000	108,000
Exercise of share options	108,000,000	10,800
Issue of new shares on placement	<u>346,000,000</u>	<u>34,600</u>
At 1st April, 2000	1,534,000,000	153,400
Issue of shares for acquisition of investments in securities	<u>77,000,000</u>	<u>7,700</u>
At 31st March, 2001	<u>1,611,000,000</u>	<u>161,100</u>

- (a) On 16th November, 1999, an arrangement was made for a private placement to independent private investors of 90,000,000 shares of HK\$0.10 each in the Company at a price of HK\$0.170 by Rayten Limited, which, in turn, subscribed the same number of shares at the same price from the Company. The price of HK\$0.170 represented a discount of approximately 4.5% to the closing price of HK\$0.178 per share of the Company quoted on 16th November, 1999. These new shares were issued under the general mandate granted to the Company's directors at the annual general meeting on 29th September, 1999.
- (b) On 13th December, 1999, the Company entered into a conditional placing agreement to place 118,000,000 shares of HK\$0.10 each in the Company at a price of HK\$0.172 to independent private investors. The price of HK\$0.172 represented a discount of approximately 25.2% to the closing price of HK\$0.230 per share of the Company quoted on 10th December, 1999. These new shares were issued under the general mandate granted to the Company's directors at the annual general meeting on 29th September, 1999.

Notes to the Financial Statements

For the year ended 31st March, 2001

23. SHARE CAPITAL (continued)

- (c) On 8th January, 2000, the Company also entered into a conditional placing agreement to place 138,000,000 shares of HK\$0.10 each in the Company at a price of HK\$0.20 to independent private investors. The price of HK\$0.20 represented a discount of approximately 12.28% to the closing price of HK\$0.228 per share of the Company quoted on 8th January, 2000. This placing of new shares was approved by the shareholders of the Company in the special general meeting held on 14th February, 2000.
- (d) During the year ended 31st March, 2000, the Company issued and allotted a total of 108,000,000 shares of HK\$0.10 each in the Company for cash as a result of the exercise of share options by certain employees of the Group at exercise prices ranging from HK\$0.216 to HK\$0.265 per share.
- (e) On 20th July, 2000, the Company issued 77,000,000 ordinary shares of HK\$0.10 each at HK\$0.12 per share to satisfy the consideration for the acquisition of approximately 7% of the issued share capital of Victory Tech Investment Limited, a company incorporated in Hong Kong and is principally engaged in investment holding.

All the abovementioned new shares rank *pari passu* with the then existing shares in issue in all respects. The proceeds from placing of new shares during the year ended 31st March, 2000 were used and applied to reduce borrowings, to upgrade production facilities and to provide additional working capital for the Group.

24. SHARE OPTION SCHEME

Pursuant to the share option scheme of the Company adopted on 3rd March, 1997 (the "Scheme"), the directors of the Company may grant options to any executive director or employee of the Company or any of its subsidiaries to subscribe for shares in the Company at the subscription price which shall not be less than the higher of the nominal value of the Company's shares and 80% of the average of the closing prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

Notes to the Financial Statements

For the year ended 31st March, 2001

24. SHARE OPTION SCHEME *(continued)*

During the year ended 31st March, 2000, options were granted to certain employees of the Group under the Scheme to subscribe for 111,000,000 ordinary shares of the Company at any time between 15th July, 1999 and 31st December, 2002 at exercise prices ranging from HK\$0.163 to HK\$0.265 per share. A total of 108,000,000 shares of HK\$0.10 each in the Company were issued upon exercise of certain of the above options. Consideration received by the Company for options granted during the year ended 31st March, 2000 amounted to HK\$7.

During the year ended 31st March, 2001, no share option was granted to or exercised under the scheme.

At 31st March, 2001 and 2000, options to subscribe for 3,000,000 ordinary shares of HK\$0.10 each in the Company within the exercisable period from 3rd January, 2000 to 31st December, 2002 at exercise price of HK\$0.163 per share were outstanding.

Notes to the Financial Statements

For the year ended 31st March, 2001

25. RESERVES

	Share premium account HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP				
Balance at 1st April, 1999	17,839	(636)	79,229	96,432
Premium arising from issue of shares, net of expenses	42,092	–	–	42,092
Exchange differences arising from translation of financial statements of overseas operations	–	(2,309)	–	(2,309)
Net profit for the year	–	–	6,379	6,379
Balance at 1st April, 2000	59,931	(2,945)	85,608	142,594
Premium arising from issue of shares, net of expenses	1,518	–	–	1,518
Exchange differences arising from translation of financial statements of overseas operations	–	2,077	–	2,077
Net loss for the year	–	–	(16,083)	(16,083)
Balance at 31st March, 2001	<u>61,449</u>	<u>(868)</u>	<u>69,525</u>	<u>130,106</u>
Attributable to:				
– the Company and subsidiaries	61,449	(868)	82,802	143,383
– an associate	–	–	(13,277)	(13,277)
	<u>61,449</u>	<u>(868)</u>	<u>69,525</u>	<u>130,106</u>

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25. RESERVES (continued)

	Share premium account HK\$'000	Exchange (accumulated reserve HK\$'000	Retained profits (accumulated loss) HK\$'000	Total HK\$'000
THE COMPANY				
Balance at 1st April, 1999	17,839	30,748	222	48,809
Premium arising from issue of shares, net of expenses	42,092	–	–	42,092
Net profit for the year (note 11)	–	–	89	89
Balance at 1st April, 2000	59,931	30,748	311	90,990
Premium arising from issue of shares, net of expenses	1,518	–	–	1,518
Net loss for the year (note 11)	–	–	(22,649)	(22,649)
Balance at 31st March, 2001	<u>61,449</u>	<u>30,748</u>	<u>(22,338)</u>	<u>69,859</u>

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of a previous group reorganisation less amounts utilized on bonus issue of shares.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

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

Notes to the Financial Statements

For the year ended 31st March, 2001

25. RESERVES (continued)

In the opinion of the directors, the Company's reserves available for distribution to shareholders at the balance sheet date consisted of:

	2001	2000
	HK\$'000	HK\$'000
Contributed surplus	30,748	30,748
Retained profits	–	311
	30,748	31,059

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

	2001	2000
	HK\$'000	HK\$'000
(Loss) profit before taxation	(16,485)	6,048
Interest expenses	347	1,691
Interest income	(1,940)	(1,724)
Depreciation and amortisation	21,244	19,528
Loss on disposal of property, plant and equipment	137	4,695
Unrealised gain on trading securities	(9)	–
Impairment loss recognised in respect of other securities	9,409	–
Share of loss of an associate	13,277	–
Increase in investments in securities	(917)	–
Decrease (increase) in inventories	546	(13,115)
Decrease (increase) in trade and other receivables	65,974	(38,198)
Decrease in bills receivable	703	939
(Decrease) increase in trade and other payables	(30,382)	3,229
Increase (decrease) in bills payable	1,959	(5,381)
	63,863	(22,288)
Net cash inflow (outflow) from operating activities		

Notes to the Financial Statements

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27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital (including share premium) HK\$'000	Obligations under finance leases HK\$'000
At 1st April, 1999	125,839	24,820
Proceeds from issue of shares	88,835	–
Share issue expenses	(1,343)	–
Repayment during the year	–	(21,864)
At 31st March, 2000	213,331	2,956
Issue of shares for the acquisition of investments in securities	9,240	–
Share issue expenses	(22)	–
Repayment during the year	–	(1,939)
At 31st March, 2001	222,549	1,017

28. CONTINGENT LIABILITIES

The Company has given corporate guarantees to banks to secure general credit facilities granted to certain of its subsidiaries at 31st March, 2001 and 2000.

The extent of such facilities utilised by the subsidiaries at 31st March, 2001 amounted to approximately HK\$18,996,000 (2000: HK\$18,838,000).

29. PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's leasehold land and buildings with an aggregate net book value of approximately HK\$2,620,000 (2000: HK\$13,848,000) have been pledged to banks as security for general banking facilities granted to the Group.

30. CAPITAL COMMITMENTS

At the balance sheet date, the Group had commitments of approximately HK\$2,381,000 (2000: HK\$2,777,000) for capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

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

Notes to the Financial Statements

For the year ended 31st March, 2001

31. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group was committed to make payments in the next twelve months under non-cancellable operating leases in respect of rented premises as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Operating leases which expire:		
Within one year	884	11
In the second to fifth year inclusive	–	264
Over five years	958	910
	<u>1,842</u>	<u>1,185</u>

The Company had no operating lease commitments at the balance sheet date.

32. RETIREMENT BENEFITS

With effect from 1st December, 2000, the Group joined a Mandatory Provident Fund scheme (“MPF Scheme”). The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the MPF Scheme.

The PRC subsidiary of the Group is a participant in a state-managed retirement plan in the PRC pursuant to which the subsidiary pays a fixed percentage of its qualifying staff's wages as contribution to the plan. No significant contributions were made by the Group during the years ended 31st March, 2001 and 2000.

Notes to the Financial Statements

For the year ended 31st March, 2001

33. PARTICULARS OF SUBSIDIARIES

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

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company (Note 1)	Principal activities
Kwong Hing Knitting Fabric Trading Co. Limited	Hong Kong	HK\$1,000,000	100%	Manufacture and sale of knitted fabrics
Kwong Tai Dyeing Co. Limited	Hong Kong	HK\$3,000,000	100%	Provision of dyeing, bleaching, setting and finishing services and sale of dyed yarns
Nanghai Hengxing Dyeing Co., Ltd. ("Hengxing")	PRC	(Note 2)	100%	Provision of dyeing, bleaching, setting and finishing services

Notes to the Financial Statements

For the year ended 31st March, 2001

33. PARTICULARS OF SUBSIDIARIES (continued)

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

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company (Note 1)	Principal activities
Real Honour Enterprises Limited	British Virgin Islands/ PRC	US\$2	100%	Investment holding, provision of dyeing, bleaching, setting and finishing services and provision of marketing services
Sinoplex Limited ("Sinoplex")	British Virgin Islands	US\$75	100%	Investment holding
Unite Might Investment Limited	Hong Kong	HK\$500,000	100%	Provision of administration services
ATX Limited ("ATX")	British Virgin Islands	US\$1	100%	Investment holding

Notes:

1. The Company directly holds the interests in Sinoplex and ATX. All other interests shown above are indirectly held.
2. Hengxing has a registered capital of approximately HK\$70,525,000. According to the latest verification report dated 13th December, 2000, the capital contributed by the Group which has been verified amounted to approximately HK\$63,865,000.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.