

1. CORPORATE INFORMATION AND GROUP REORGANISATION

The Company was incorporated in Bermuda on 5 January 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

During the year, the Group was engaged in the trading of polyurethane materials, and the manufacture and sales of polyurethane foam and related foam products.

Pursuant to a reorganisation scheme (the "Group reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 24 March 2001. This was accomplished by acquiring the entire issued share capital of Market Reach Group Limited ("Market Reach"), the then holding company of the subsidiaries listed in note 14 to the financial statements, in consideration of and in exchange for the allotment and issue of 1,000,000 new ordinary shares of HK\$0.10 each in the share capital of the Company, credited as fully paid, to the then shareholders of Market Reach, and the 1,000,000 shares issued nil paid upon incorporation, credited as fully paid at par. Further details of the Group reorganisation and of the subsidiaries acquired pursuant thereto are set out in notes 14 and 24, respectively, to the financial statements and in the Company's prospectus dated 30 March 2001.

2. BASIS OF PRESENTATION AND CONSOLIDATION

The Group reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting in accordance with Statement of Standard Accounting Practice ("SSAP") No. 2.127 "Accounting for Group Reconstructions" as a result of the Group reorganisation completed on 24 March 2001. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of its acquisition of the subsidiaries. Accordingly, the consolidated results of the Group for the years ended 31 March 2000 and 2001 include the results of the Company and its subsidiaries with effect from 1 April 1999 or since the respective dates of their incorporation or establishment, where this is a shorter period. The comparative consolidated balance sheet as at 31 March 2000 has been prepared on the basis that the existing Group had been in place at that date.

Although the Group reorganisation had not been completed and the Group did not legally exist until 24 March 2001, in the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Comparative amounts have not been presented for the Company because the Company did not exist as at 31 March 2000.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, 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.

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 diminutions in values other than these considered to be temporary in nature, when they are written down to values determined by the directors.

Fixed assets and depreciation

Fixed assets are stated at cost 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 that asset.

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

Plant and machinery	20% – 30%
Furniture, fixtures and equipment	20% – 30%
Motor vehicles	30%

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.

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 manufacturing overheads and/or, where appropriate, subcontracting charges. Net realisable value is based on estimated selling prices less any further estimated costs to be incurred to completion and disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Trade receivables

Trade receivables, which generally have credit terms of 30 to 90 days, are recognised and carried at the original invoiced amount less an allowance for any doubtful debts. An estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

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

Pension costs

The Group has participated in a defined contribution mandatory provident fund scheme (the "Hong Kong Scheme") for its employees who are eligible to participate, in accordance with the Mandatory Provident Fund Schemes Ordinance. The Hong Kong Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Hong Kong Scheme. The assets of the Hong Kong Scheme are held separately from those of the Group in an independently-administered fund. The Group's employer's contributions vest fully with the employees when contributed into the Hong Kong Scheme, except for the Group's employer's voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Hong Kong Scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Pension costs *(Continued)*

The Group's subsidiaries operating in the People's Republic of China ("PRC") have also participated in an employee retirement scheme which is operated by the local municipal government bureau (the "PRC Scheme") pursuant to the relevant regulations of the PRC. The Group's subsidiaries are required to make contributions, as calculated under the rules specified by the relevant local municipal government bureau, to the PRC Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the Group's subsidiaries. The only obligation of the Group with respect to the PRC Scheme is to pay the on-going required contributions under the PRC Scheme mentioned above. Contributions under the PRC Scheme are charged to the profit and loss account as incurred. There are no provisions under the PRC Scheme whereby forfeited contributions may be used to reduce future contributions.

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.

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:

- the sales 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; and
- interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, 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.

3. 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 denominated in foreign currencies 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.

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.

4. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for goods returns and trade discounts. All significant intercompany transactions have been eliminated on consolidation.

An analysis of the Group's turnover and revenue is as follows:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover – Sales of goods	<u>670,180</u>	<u>483,605</u>
Other revenue:		
Bank interest income	1,012	347
Others	<u>370</u>	<u>170</u>
	<u>1,382</u>	<u>517</u>
Total revenue	<u><u>671,562</u></u>	<u><u>484,122</u></u>

4. TURNOVER AND REVENUE (Continued)

The Group's turnover by principal activity and by geographical area of principal market of the Group's products, disclosed pursuant to the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
By principal activity		
Trading of polyurethane materials	570,353	403,243
Manufacture and sales of polyurethane foam and related products	<u>99,827</u>	<u>80,362</u>
	<u>670,180</u>	<u>483,605</u>
By geographical area		
PRC:		
Hong Kong	172,311	206,842
Elsewhere in the PRC	486,766	249,048
Others	<u>11,103</u>	<u>27,715</u>
	<u>670,180</u>	<u>483,605</u>

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	599,777	433,655
Auditors' remuneration	680	180
Depreciation:		
Owned fixed assets	452	475
Leased fixed assets	204	–
Loss on disposal of fixed assets	63	–
Operating lease rentals on land and buildings	540	130
Provision for doubtful debts	671	554
Exchange losses, net	504	939
Staff costs:		
Salaries and wages (directors' remuneration included)	4,925	2,994
Pension contributions	90	–
	<u>5,015</u>	<u>2,994</u>
and after crediting:		
Bank interest income	<u>1,012</u>	<u>347</u>

The Group's profit from operating activities by principal activity and by geographical area of principal market of the Group's products, disclosed pursuant to the requirements of the Listing Rules, were as follows:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
By principal activity		
Trading of polyurethane materials	41,787	26,994
Manufacture and sales of polyurethane foam and related products	9,571	9,858
	<u>51,358</u>	<u>36,852</u>

5. PROFIT FROM OPERATING ACTIVITIES (Continued)

	Group	
	2001 HK\$'000	2000 HK\$'000
By geographical area		
PRC:		
Hong Kong	9,120	8,837
Elsewhere in the PRC	40,943	23,526
Others	1,295	4,489
	<u>51,358</u>	<u>36,852</u>

6. DIRECTORS' REMUNERATION

Details of the directors' remuneration of the Company for the period, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	2001 HK\$'000	2000 HK\$'000
Fees of executive directors	—	—
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	1,273	981
Pension contributions	12	—
	<u>1,285</u>	<u>981</u>
	<u>1,285</u>	<u>981</u>

There were no fees or other emoluments paid or payable to the independent non-executive directors for the period.

The remuneration of each of the six directors fell within the nil to HK\$1,000,000 band for the years ended 31 March 2000 and 2001.

During the year, there were no bonuses paid or payable to the directors (2000: Nil). No directors waived or agreed to waive any remuneration during the year (2000: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2000: Nil).

7. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included three (2000: Four) directors, details of whose remuneration are set out in note 6 above. The remuneration of the remaining two non-director, highest paid individuals, which each fell within the nil to HK\$1,000,000 band, is as follows:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Basic salaries, housing benefits, other allowances and benefits in kind	496	180
Pension contributions	7	–
	<u>503</u>	<u>180</u>

During the year, there were no bonuses paid or payable to any of the five highest paid individuals of the Group (2000: Nil). No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2000: Nil).

8. FINANCE COSTS

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interest on:		
Trust receipt loans wholly repayable within five years	354	402
Finance leases	40	–
Amounts due to directors	720	900
	<u>1,114</u>	<u>1,302</u>

9. TAX

	2001 HK\$'000	Group 2000 HK\$'000
Current year provision:		
Hong Kong	1,510	2,400
Elsewhere	6,520	3,734
Overprovision in prior years	(92)	(20)
Deferred tax (<i>note 23</i>)	246	–
	<u>8,184</u>	<u>6,114</u>
Tax charge for the year		

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong for the year. Taxes on profits assessable elsewhere have been calculated at the rates applicable in the respective jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Jiwangsheng Resin (Shenzhen) Co. Ltd. (“Jiwangsheng”, 吉旺晟樹脂(深圳)有限公司) and Aotebao Home Furniture and Decorative (Shenzhen) Co. Ltd. (“Aotebao”, 奧特寶家飾(深圳)有限公司), the Group’s wholly-owned subsidiaries established and operating in the PRC, were both exempt from PRC corporate income tax for their first two profitable years of operations, and therefore, are eligible for a 50% relief from PRC corporate income tax for the following three years under the relevant tax law of the PRC. As Jiwangsheng and Aotebao have remained dormant since their establishment, there were no assessable profits generated by either of them, which were subject to PRC corporate income tax, during the year. Accordingly, no PRC corporate income tax provision was made in respect thereof.

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the period from 5 January 2001 (date of incorporation) to 31 March 2001 was approximately HK\$43,000.

11. DIVIDENDS

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interim dividends	–	23,000
Special dividends	<u>17,500</u>	<u>–</u>
	<u>17,500</u>	<u>23,000</u>

No dividend has been paid or declared by the Company since its incorporation.

All of the dividends for the years ended 31 March 2000 and 2001 were declared and paid by certain subsidiaries of the Company to their then shareholders prior to the Group reorganisation, which was completed on 24 March 2001. Further details of the Group reorganisation are set out in note 1 to the financial statements.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the year of HK\$42,060,000 (2000: HK\$29,436,000) and the weighted average of 150,000,000 (2000: 150,000,000) ordinary shares in issue during the year.

The weighted average number of shares used to calculate the basic earnings per share for the two years ended 31 March 2001 includes the pro forma issued share capital of the Company, comprising the 1,000,000 ordinary shares issued nil paid upon incorporation of the Company, the 1,000,000 ordinary shares issued as consideration for the acquisition of the entire issued share capital of Market Reach, and the capitalisation issue of 148,000,000 ordinary shares, as further detailed in note 24 to the financial statements.

The diluted earnings per share for the years ended 31 March 2000 and 2001 have not been presented as there were no potential dilutive ordinary shares in existence during either of the years.

13. FIXED ASSETS

Group	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At 1 April 2000	1,271	335	425	2,031
Additions	1,733	377	953	3,063
Disposals	–	–	(128)	(128)
At 31 March 2001	<u>3,004</u>	<u>712</u>	<u>1,250</u>	<u>4,966</u>
Accumulated depreciation:				
At 1 April 2000	590	155	178	923
Provided during the year	300	101	255	656
Disposals	–	–	(65)	(65)
At 31 March 2001	<u>890</u>	<u>256</u>	<u>368</u>	<u>1,514</u>
Net book value:				
At 31 March 2001	<u>2,114</u>	<u>456</u>	<u>882</u>	<u>3,452</u>
At 31 March 2000	<u>681</u>	<u>180</u>	<u>247</u>	<u>1,108</u>

The net book values of the assets of the Group as at 31 March 2001 held under finance leases included in the total amount of fixed assets amounted to HK\$749,000 (2000: Nil).

14. INTERESTS IN SUBSIDIARIES

Company

	2001 <i>HK\$'000</i>
Unlisted shares, at cost	54,245
Due to subsidiaries	(3,077)
	<u>51,168</u>

The amounts due to subsidiaries are unsecured, interest-free and are not repayable in the next twelve months.

14. INTERESTS IN SUBSIDIARIES (Continued)

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

Company	Place of incorporation/ establishment	Issued and fully paid-up share/registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Market Reach Group Limited	British Virgin Islands ("BVI")	Ordinary US\$10,000	100%	–	Investment holding
Wah Tat Industrial Limited (formerly known as Alendina Limited)	BVI	Ordinary US\$10	–	100%	Trading of polyurethane materials
Wah Tat Industrial (Hong Kong) Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred (Note (a)) HK\$1,480,000	–	100%	Trading of polyurethane materials
Wah Tat Industrial Trading Limited (formerly known as Bodmaine Limited)	BVI	Ordinary US\$10	–	100%	Trading of polyurethane materials
Kurow Agents Limited	BVI	Ordinary US\$10	–	100%	Provision of transportation services in the PRC
Luen Tai Industrial (H.K.) Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred (Note (a)) HK\$100	–	100%	Manufacture and sales of polyurethane foam and related products
Revolving Maze Trading Limited	BVI	Ordinary US\$10	–	100%	Provision of marketing and technical support services in the PRC

14. INTERESTS IN SUBSIDIARIES (Continued)

Company	Place of incorporation/ establishment	Issued and fully paid-up share/registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Luen Tai Component Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred (Note (a)) HK\$1,800,000	–	100%	Investment holding
Jiwangsheng Resin (Shenzhen) Co., Ltd. 吉旺晟樹脂(深圳)有限公司	PRC	HK\$2,750,000 (Note (b))	–	100%	Dormant
Aotobao Home Furniture and Decorative (Shenzhen) Co., Ltd. 奧特寶家飾(深圳)有限公司	PRC	HK\$1,000,000 (Note (c))	–	100%	Dormant

Notes:

- (a) The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding-up (other than one half of the balance of such assets after the sum of HK\$100,000,000,000,000 has been distributed to the holders of the ordinary shares of the Company in such winding-up).
- (b) Jiwangsheng Resin (Shenzhen) Co., Ltd. is a wholly foreign-owned enterprise established by the Group in the PRC with a tenure of 20 years commencing from the date of issuance of its business licence on 28 July 1998. Its registered capital was originally HK\$5,500,000, but on 24 January 2000, it was reduced to HK\$2,750,000, which was wholly paid up by the Group.
- (c) Aotobao Home Furniture and Decorative (Shenzhen) Co., Ltd. is a wholly foreign-owned enterprise established by the Group in the PRC with a tenure of 20 years commencing from the date of issuance of its business licence on 23 November 2000. Its registered capital is HK\$1,000,000, which was wholly paid up by the Group.

All subsidiaries operate principally in their places of incorporation/establishment unless specified otherwise under "Principal activities".

15. INVENTORIES

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Raw materials	3,297	2,464
Work in progress	2,327	882
Finished goods	1,746	453
	<u>7,370</u>	<u>3,799</u>

No inventories were stated at net realisable value as at 31 March 2001 (2000: Nil).

16. TRADE AND BILLS RECEIVABLES

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Trade receivables	123,659	78,101
Bills receivable	59	–
	<u>123,718</u>	<u>78,101</u>

The ages of the Group's trade and bills receivables are analysed as follows:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Current to 30 days	55,047	29,052
31 days to 90 days	67,627	28,075
91 days to 180 days	1,384	14,860
181 days to 360 days	–	6,094
Over 360 days	331	20
	<u>124,389</u>	<u>78,101</u>
Provisions	(671)	–
	<u>123,718</u>	<u>78,101</u>

17. PLEDGED TIME DEPOSITS

As at 31 March 2001, the Group had pledged time deposits, in an amount of approximately HK\$11,252,000, for general banking facilities granted from a bank to the Group (note 20). There were no time deposits pledged as at 31 March 2000.

18. CASH AND CASH EQUIVALENTS

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Cash and bank balances	6,486	3,666
Time deposits	–	16,605
	<u>6,486</u>	<u>20,271</u>

19. TRADE PAYABLES

The ages of the Group's trade payables are analysed as follows:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Current to 30 days	8,121	16,968
31 days to 90 days	33,609	6,431
91 days to 180 days	2,681	774
181 days to 360 days	–	1,429
Over 360 days	–	1,130
	<u>44,411</u>	<u>26,732</u>

20. INTEREST-BEARING BANK BORROWINGS

The bank borrowings are all trust receipt loans, which are secured and are repayable within one year.

As at 31 March 2001, the Group's banking facilities were secured by:

- (i) personal guarantees executed by certain executive directors of the Company;
- (ii) pledges of time deposits, in the aggregate amount of approximately HK\$11,252,000 and HK\$1,000,000 belonging to the Group and an executive director of the Company, respectively; and
- (iii) legal charges over certain properties which are beneficially owned by an executive director of the Company, his spouse and independent third parties.

The Group has received consent, in principle, from its banker to the effect that the personal guarantees, pledges of time deposits and legal charges as stated in (i) to (iii) above will be released and replaced by corporate guarantees of the Company and/or other security provided by members of the Group, following the public listing of the Company's shares on the Stock Exchange on 19 April 2001. The directors understand that the banker is currently in the process of finalising the relevant documentation for the release and replacement of the personal guarantees, pledges of time deposits and legal charges stated above.

21. FINANCE LEASE PAYABLES

There were obligations under finance leases as at the balance sheet date as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Amounts payable:		
Within one year	289	—
In the second year	289	—
In the third to fifth years, inclusive	402	—
	<hr/>	<hr/>
Total minimum finance lease payments	980	—
Future finance charges	(219)	—
	<hr/>	<hr/>
Total net finance lease payables	761	—
Portion classified as current liabilities	(224)	—
	<hr/>	<hr/>
Non-current portion	537	—
	<hr/>	<hr/>

22. DUE TO DIRECTORS

The amounts due to directors were unsecured and bore interest at the rates equivalent to those offered by banks to the Group. The amounts were fully settled during the year.

23. DEFERRED TAX

	2001 <i>HK\$'000</i>	Group 2000 <i>HK\$'000</i>
At beginning of year	–	–
Charge for the year (<i>note 9</i>)	<u>246</u>	<u>–</u>
At 31 March	<u>246</u>	<u>–</u>

The provision for deferred tax of the Group is made principally in respect of accelerated depreciation allowances to the extent that a liability is expected to crystallise.

The Group and the Company did not have any significant unprovided deferred tax liabilities as at 31 March 2001 (2000: Nil).

24. SHARE CAPITAL

Authorised:	2001 <i>HK\$'000</i>
2,000,000,000 ordinary shares of HK\$0.10 each	<u>200,000</u>
Issued and fully paid:	
2,000,000 ordinary shares of HK\$0.10 each	<u>200</u>

The following changes in the Company's authorised and issued share capital took place during the period from 5 January 2001 (date of incorporation) to the date of approval of these financial statements:

- (i) On incorporation, the authorised share capital of the Company was HK\$100,000, divided into 1,000,000 ordinary shares of HK\$0.10 each. On 16 January 2001, 1,000,000 ordinary shares were allotted and issued nil paid.
- (ii) On 24 March 2001, the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000,000 by the creation of an additional 1,999,000,000 ordinary shares of HK\$0.10 each, ranking *pari passu* with the existing ordinary shares of the Company.

24. SHARE CAPITAL *(Continued)*

- (iii) On 24 March 2001, as part of the Group reorganisation described in note 1, the Company issued an aggregate of 1,000,000 new ordinary shares of HK\$0.10 each credited as fully paid at par as consideration for the acquisition of the entire issued share capital of Market Reach. The excess of the fair value of the shares of Market Reach, determined on the basis of the consolidated net assets of Market Reach at that date over the nominal value of the Company's shares issued in exchange therefor, amounting to HK\$54,045,000, was credited to the Company's contributed surplus as detailed in note 26 to the financial statements.
- (iv) On 24 March 2001, an amount of HK\$100,000 (being a portion of the amount credited to the contributed surplus of the Company on the issue of shares in exchange for the issued shares of Market Reach as set out in (iii) above) was applied to pay up, in full at par value, the 1,000,000 ordinary shares allotted and issued nil paid on 16 January 2001.
- (v) On 26 March 2001, a total of 148,000,000 ordinary shares of HK\$0.10 each were allotted as fully paid at par to the holders of the shares of the Company whose names appeared on the register of members of the Company at the close of business on that date, in proportion to their then respective shareholdings, by way of the capitalisation of the sum of HK\$14,800,000 standing to the credit of the share premium account of the Company, conditional upon the share premium account being credited as a result of the new issue and placing of shares to the public as detailed in (vi) below. For the purpose of preparing the financial statements of the Group for the years ended 31 March 2000 and 2001, these shares are deemed to have been in issue, nil paid, since 1 April 1999.
- (vi) Subsequent to the balance sheet date, on 19 April 2001, in connection with the Company's initial public offering, 50,000,000 new ordinary shares of HK\$0.10 each were issued to the public at HK\$1.00 each for a total cash consideration, before related expenses, of HK\$50,000,000.

24. SHARE CAPITAL (Continued)

A summary of the above changes in the issued share capital of the Company is as follows:

	Notes	Number of shares issued	Par value HK\$'000
Shares allotted and issued nil paid, upon incorporation	(i)	1,000,000	–
Shares issued as consideration for the acquisition of the entire issued share capital of Market Reach pursuant to the Group reorganisation	(iii)	1,000,000	100
Application of contributed surplus to pay up the 1,000,000 ordinary shares issued nil paid upon incorporation	(iv)	–	100
Shares issued and credited as fully paid conditional on the share premium account of the Company being credited as a result of the new issue and placing of shares to the public	(v)	<u>148,000,000</u>	<u>–</u>
Pro forma issued share capital as at 31 March 2000 and 2001		150,000,000	200
New issue and placing of shares to the public	(vi)	50,000,000	5,000
Capitalisation of the share premium account	(v)	<u>–</u>	<u>14,800</u>
Share capital at the date of approval of these financial statements		<u><u>200,000,000</u></u>	<u><u>20,000</u></u>

25. SHARE OPTIONS

On 26 March 2001, the Company adopted a share option scheme (the "Scheme") conditional upon the public listing of the Company's shares, under which the directors may, at their discretion, grant options to executive directors of the Company (excluding non-executive directors) and full time employees of the Group to subscribe for shares in the Company. The subscription price is subject to adjustments as provided therein and is equal to the higher of the nominal value of the Company's shares and 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the option. The maximum number of shares in respect of which options may be granted under the Scheme is 10% of the share capital of the Company in issue from time to time (except shares issued pursuant to exercise of options granted under the Scheme). In addition, the maximum number of shares in respect of which options may be granted to any eligible person shall not exceed 25% of the total number of shares in respect of which options may be granted under the Scheme.

The Scheme became effective upon the public listing of the Company's shares on the Stock Exchange on 19 April 2001, subsequent to the balance sheet date. Up to the date of approval of these financial statements, no options had been granted or agreed to be granted pursuant to the Scheme.

26. RESERVES

Group	Contributed surplus <i>HK\$'000</i> <i>(note (a))</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 1999	3,081	20,695	23,776
Net profit for the year	–	29,436	29,436
Dividends	–	<u>(23,000)</u>	<u>(23,000)</u>
At 31 March 2000 and 1 April 2000	3,081	27,131	30,212
Issue of new shares of a subsidiary	75	–	75
Net profit for the year	–	42,060	42,060
Dividends	–	<u>(17,500)</u>	<u>(17,500)</u>
At 31 March 2001	<u><u>3,156</u></u>	<u><u>51,691</u></u>	<u><u>54,847</u></u>
	Contributed surplus <i>HK\$'000</i> <i>(note (a))</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Company			
Arising on acquisition of Market Reach <i>(note 24)</i>	54,045	–	54,045
Net loss for the period	–	<u>(43)</u>	<u>(43)</u>
At 31 March 2001	<u><u>54,045</u></u>	<u><u>(43)</u></u>	<u><u>54,002</u></u>

Notes:

- (a) The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation set out in note 1 to the financial statements, over the nominal value of the shares of the Company issued in exchange therefor.

The contributed surplus of the Company represents the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the shares of the Company issued in exchange therefor.

- (b) The Company had distributable reserves of approximately HK\$54,002,000 as at 31 March 2001, which included the Company's contributed surplus in the amount of HK\$54,045,000. Under the Companies Act 1981 of Bermuda, the contributed surplus is distributable to shareholders of the Company, in certain circumstances.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Profit from operating activities	51,358	36,852
Interest income	(1,012)	(347)
Depreciation	656	475
Loss on disposal of fixed assets	63	–
Increase in inventories	(3,571)	(2,721)
Increase in trade and bills receivables	(45,617)	(11,589)
Increase in prepayments, deposits and other receivables	(945)	(9,792)
Increase in trade payables	17,679	10,121
Increase in other payables and accruals	1,687	2,899
Increase/(decrease) in trust receipt loans with original maturity of more than three months	24,834	(1,231)
Net cash inflow from operating activities	<u>45,132</u>	<u>24,667</u>

- (b) Analysis of changes in financing during the year

	Due to directors HK\$'000	Finance lease obligations HK\$'000
At 1 April 1999	7,872	–
Net cash inflow from financing	<u>17,067</u>	<u>–</u>
At 31 March 2000 and 1 April 2000	24,939	–
Net cash outflow from financing	(24,939)	(192)
Inception of finance lease contracts	<u>–</u>	<u>953</u>
At 31 March 2001	<u><u>–</u></u>	<u><u>761</u></u>

- (c) Major non-cash transactions

- (i) The Group reorganisation in preparation for the public listing of the Company's shares involved the acquisition of Market Reach through the issue of shares of the Company, further details of which are set out in notes 1 and 24 to the financial statements.
- (ii) During the year, the Group entered into finance lease arrangements in respect of fixed assets with an aggregate capital value of HK\$953,000 at the inception of the leases.

There were no finance lease arrangements entered into by the Group during the year ended 31 March 2000.

28. COMMITMENTS

As at 31 March 2001, the Group had operating lease commitments, in the amount of HK\$610,000 (2000: HK\$366,000), under non-cancellable operating leases to make payments in the following year in respect of land and buildings expiring in the second to fifth years, inclusive.

The Company had no material commitments at the balance sheet date (2000: Nil).

29. POST BALANCE SHEET EVENT

As further detailed in note 24 to the financial statements, on 19 April 2001, the Company issued 50,000,000 new ordinary shares of HK\$0.10 each to the public, upon the public listing of its shares on the Stock Exchange, at HK\$1.00 per share for the net proceeds of HK\$35,500,000.

A condensed pro forma adjusted consolidated balance sheet of the Group as at 31 March 2001, which is based on the audited net assets of the Group as at 31 March 2001 and adjusted as if the public listing of the Company's shares as set out above had taken place on 31 March 2001, is presented below:

	Audited consolidated net assets at 31 March 2001 <i>HK\$'000</i>	Pro forma adjustment: New issue and placing of shares <i>HK\$'000</i>	Pro forma consolidated net assets at 31 March 2001 <i>HK\$'000</i>
Non-current assets	3,452	–	3,452
Current assets	159,767	35,500	195,267
Current liabilities	(107,389)	–	(107,389)
Net current assets	52,378	35,500	87,878
Non-current liabilities	(783)	–	(783)
Net assets	<u>55,047</u>	<u>35,500</u>	<u>90,547</u>
Issued capital	200	5,000	5,200
Reserves	<u>54,847</u>	<u>30,500</u>	<u>85,347</u>
	<u>55,047</u>	<u>35,500</u>	<u>90,547</u>

30. RELATED PARTY TRANSACTIONS

- (a) The Group had the following transactions with related parties during the year:

Nature of transaction	Notes	Group	
		2001 HK\$'000	2000 HK\$'000
Interest on current accounts with certain directors of the Company	(i)	720	900
Rental expenses paid to a director	(ii)	—	130

Notes:

- (i) Interest expenses were charged on the amounts advanced from certain executive directors of the Company to the Group at a rate which was determined based on the lending interest rates offered by banks to the Group. The amounts were fully settled in March 2001, prior to the public listing of the Company's shares on the Stock Exchange.
- (ii) Rental expenses paid to an executive director were for leasing a property which was solely used by the Group as an office. The rental was determined between an executive director of the Company and the Group with reference to the then market conditions.
- (b) During the year, certain of the credit facilities of the Group were secured by personal guarantees given by certain executive directors of the Company, the pledges of time deposits of approximately HK\$1,000,000 belonging to an executive director of the Company, and legal charges over properties which are beneficially owned by an executive director of the Company and his spouse, at nil consideration. Further details of the personal guarantees, pledges of time deposit and legal charges are set out in note 20 to the financial statements.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 26 July 2001.