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Notes to Financial Statements

31 March 2001

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- Manufacture and sale of laminates
- Manufacture and sale of printed circuit boards
- Manufacture and sale of copper foils

2. 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.

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 permanent diminutions in values, 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.



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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

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

Freehold land	Nil
Leasehold land	Over the lease terms
Buildings	2% – 4.5%
Leasehold improvements	20%
Plant and machinery	9% – 10%
Furniture and office equipment	10% – 20%
Motor vehicles	18% – 20%

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.

Construction in progress

Construction in progress represents factory buildings and plant and machinery under construction and is included in fixed assets at cost. Cost comprises the direct costs of construction. No depreciation is provided until the construction work is completed. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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 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 the 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 as incurred over the lease terms.

Trademark

The trademark is stated at cost and is not amortised. Provision is made for any impairment in value deemed necessary by the directors.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for any obsolete or slow-moving items. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less any estimated costs expected to be incurred to completion and disposal.



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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties held for resale

Properties held for resale, consisting of completed properties, are classified under current assets and stated at the lower of cost and net realisable value. Cost consists of all expenditure directly attributable to the acquisition and development of the properties plus other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices, less all costs of marketing and selling, on an individual basis.

Deferred tax

Provision is made for deferred tax, 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.

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 are translated at the applicable rates of exchange ruling at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. All translation differences arising on consolidation are dealt with in the exchange equalisation reserve.

With respect to the investments in certain overseas subsidiaries which are financed by way of loans that are not repayable in the foreseeable future, rather than by equity, the resulting exchange differences on translation are included in the exchange equalisation reserve. In the opinion of the directors, such loans are for practical purposes as permanent as equity and, accordingly, are treated as part of the Group's net investment in the subsidiaries.

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



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2. 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.

Retirement benefits scheme

The Group operates defined contribution schemes for those employees in Hong Kong and Thailand who are eligible and have elected to participate in the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. When an employee leaves the scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

Following the introduction of the Mandatory Provident Fund retirement benefits scheme in Hong Kong (the "MPF Scheme"), the Group has restructured its retirement scheme arrangements in Hong Kong to comply with the Mandatory Provident Fund Schemes Ordinance. The Group has terminated the above retirement benefits scheme in Hong Kong and transferred the fund balance to, and hence participated in, an approved defined contribution MPF Scheme with effect from 1 December 2000. Ongoing contributions to the MPF Scheme are made based on a percentage of the employee's salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Cash and 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 and bank balances represent assets which are not restricted as to use.

3. TURNOVER

Turnover represents the net invoiced value of sales, after allowance for returns and trade discounts.



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4. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived at after charging/(crediting):

	Group	
	2001	2000
	HK\$'000	HK\$'000
Auditors' remuneration	639	653
Depreciation:		
Owned fixed assets	15,272	15,645
Leased fixed assets	798	74
	<u>16,070</u>	<u>15,719</u>
Provisions/(write back of provisions) for bad and doubtful debts	2,168	(374)
Provisions for impairment in value of properties held for resale	450	592
Staff costs (including directors' remuneration – note 6):		
Pension contributions	340	337
Less: Forfeited contributions	(153)	(104)
Net pension contributions*	187	233
Salaries and wages	25,294	25,783
	<u>25,481</u>	<u>26,016</u>
Foreign exchange losses, net	2,573	161
Loss on disposal of fixed assets, net	3	910
Compensation received in respect of loss of fixed assets	–	(1,000)
Interest income	(31)	(139)
	<u>(31)</u>	<u>(139)</u>

* At 31 March 2001, there were no forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years (2000: Nil).

5. FINANCE COSTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest expense on:		
Bank loans and other borrowings wholly repayable within five years	6,186	8,306
Factoring arrangements	3,854	2,440
Finance leases	207	610
	<u>10,247</u>	<u>11,356</u>



Notes to Financial Statements

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6. DIRECTORS' REMUNERATION

The directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	—	—
	<u>—</u>	<u>—</u>
	—	—
Other emoluments:		
Salaries, allowances and benefits in kind:		
Executive directors	7,077	6,739
Independent non-executive directors	300	300
	<u>7,377</u>	<u>7,039</u>

The management fee of HK\$448,000 (2000: HK\$448,000) paid to Emerald Hope Investments Limited during the year is included in the above remuneration, details of which are set out in the section headed "Directors' service contracts" in the Report of the Directors.

The remuneration of the above directors during the year fell within the following bands:

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	5	6
HK\$1,000,001 – HK\$1,500,000	1	—
HK\$1,500,001 – HK\$2,000,000	1	—
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$2,500,001 – HK\$3,000,000	—	1
	<u>8</u>	<u>8</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

No value is included in the directors' remuneration in respect of share options granted during the prior year because, in the absence of a readily available market value for the options on the Company's shares, the directors were unable to arrive at an accurate assessment of the value of the options granted.



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7. SEVEN HIGHEST PAID EMPLOYEES

The seven highest paid employees during the year included five (2000: Five) directors, details of whose remuneration are set out in note 6 above. The details of the remuneration of the remaining two (2000: Two) non-director, highest paid employees are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Salaries, allowances and benefits in kind	<u>1,088</u>	<u>1,186</u>

The remuneration of the non-director, highest paid employees fell within the following band:

	Number of employees	
	2001	2000
Nil – HK\$1,000,000	<u>2</u>	<u>2</u>

No value is included in the above remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.

8. TAX

	Group	
	2001 HK\$'000	2000 HK\$'000
Provision for the year:		
People's Republic of China ("PRC")		
Hong Kong	–	–
Elsewhere	90	302
Overseas	1,546	–
Underprovision in prior year	<u>197</u>	<u>–</u>
Tax charge for the year	<u>1,833</u>	<u>302</u>

No provision for Hong Kong profits tax has been made as the Group has no assessable profits which were earned in or derived from Hong Kong during the year. Taxes on profits assessable elsewhere in the PRC have been calculated at the applicable rates of tax prevailing in the regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations in the PRC, certain of the Group's PRC subsidiaries enjoy income tax exemptions and reductions.



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8. TAX (continued)

The overseas tax represents CIT payable by a subsidiary operating in Thailand. The tax is charged at 30% (2000: Nil) on the income earned from non-promoted activities as defined by the the Board of Investment in Thailand. The subsidiary received promotional privileges from the Board of Investment under promotion certificates issued for the manufacture of copper foil. Under these privileges, this subsidiary was exempt from certain taxes and duties as detailed in the certificates, including exemption from CIT for a period of seven years from the date of commencement of the promoted business of this subsidiary. As a promoted industry, the subsidiary is required to comply with the terms and conditions as specified in the promotion certificates.

9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$6,947,000 (2000: HK\$5,928,000).

10. DIVIDENDS

	Group and Company	
	2001	2000
	HK\$'000	HK\$'000
Interim dividend: 1 HK cent (2000: 1 HK cent) per share	3,718	3,695
Proposed final dividend: 1 HK cent (2000: Nil) per share	3,718	—
	<u>7,436</u>	<u>3,695</u>

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of HK\$11,059,000 (2000: HK\$3,184,000) and the weighted average of 372,913,184 (2000: 353,997,992) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders of HK\$11,059,000 (2000: HK\$3,184,000). The weighted average number of ordinary shares used in the calculation is the sum of 372,913,184 (2000: 353,997,992) ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 47,481 (2000: 1,347,579) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year. The warrants outstanding in 2000 have not been included in the calculation of the comparative diluted earnings per share as these warrants have an anti-dilutive effect on the comparative basic earnings per share.

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12. FIXED ASSETS

GROUP

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost:							
At beginning of year	66,761	4,939	167,433	15,426	2,812	54,294	311,665
Additions	165	–	2,291	611	–	7,455	10,522
Disposals	–	–	(2,936)	(18)	–	–	(2,954)
Transfer from construction in progress	254	–	11,510	799	–	(12,563)	–
Exchange realignment	(4,419)	–	(9,644)	(344)	(72)	(3,075)	(17,554)
At 31 March 2001	62,761	4,939	168,654	16,474	2,740	46,111	301,679
Accumulated depreciation:							
At beginning of year	8,964	4,777	78,014	10,074	2,209	–	104,038
Provided during the year	1,776	41	12,499	1,493	261	–	16,070
Disposals	–	–	(2,936)	(8)	–	–	(2,944)
Exchange realignment	(425)	–	(3,377)	(167)	(29)	–	(3,998)
At 31 March 2001	10,315	4,818	84,200	11,392	2,441	–	113,166
Net book value:							
At 31 March 2001	52,446	121	84,454	5,082	299	46,111	188,513
At 31 March 2000	57,797	162	89,419	5,352	603	54,294	207,627

At the balance sheet date, the Group's land and buildings were situated in the following locations under the following lease terms:

	2001 HK\$'000	2000 HK\$'000
At cost:		
Freehold land and buildings situated in Thailand	23,618	28,117
Medium term leasehold land and buildings situated in Hong Kong	1,039	1,039
Medium term leasehold land and buildings situated elsewhere in the PRC	38,104	37,605
	62,761	66,761

The net book value of plant and machinery, motor vehicles and construction in progress held under finance leases at the balance sheet date amounted to HK\$7,171,000 (2000: Nil), HK\$153,000 (2000: HK\$262,000) and HK\$1,850,000 (2000: HK\$8,812,000), respectively.



Notes to Financial Statements

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12. FIXED ASSETS (continued)

As at 31 March 2001, the Group's land and buildings with a net book value of HK\$21,754,000 (2000: HK\$26,263,000) were pledged for banking facilities granted to the Group (note 18).

13. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	63,074	63,074
Amounts due from subsidiaries	172,761	178,058
Amount due to a subsidiary	(11)	(10)
	<u>235,824</u>	<u>241,122</u>

The balances with subsidiaries are unsecured and interest-free.

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operations	Nominal value of issued/registered capital	Percentage of equity attributable to the Company		Principal activities
			2001	2000	
Nam Hing (B.V.I.) Limited	British Virgin Islands	US\$50,000	100	100	Investment holding
Nam Hing Industrial Laminate Limited	Hong Kong	HK\$200 HK\$2,000,000*	100	100	Trading of laminates
Nam Hing Circuit Board Company Limited	Hong Kong	HK\$500,000	100	100	Trading of printed circuit boards
Natural Century Limited	Hong Kong	HK\$2	100	100	Trading of raw materials for production of laminates
Bangkok Industrial Laminate Company Limited #	Thailand	Baht20,000,000	100	100	Trading and manufacture of copper foil
Zhongshan Nam Hing Insulating Material Limited	PRC	HK\$43,000,000	100	100	Manufacture of laminates



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13. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration and operations	Nominal value of issued/registered capital	Percentage of equity attributable to the Company		Principal activities
			2001	2000	
Nam Hing Circuit Board (Dongguan) Co., Ltd.	PRC	HK\$28,000,000	100	100	Manufacture of printed circuit boards
Suzhou Nam Hing Industrial Laminate Co., Ltd.	PRC	US\$6,800,000	100	100	Not yet commence business

Not audited by Ernst & Young

* Non-voting deferred shares

Except for Nam Hing (B.V.I.) Limited which operates in Hong Kong, all of the other subsidiaries' places of operations are the same as their places of incorporation/registration.

Except for Nam Hing (B.V.I.) Limited, all subsidiaries are indirectly held by the Company.

The above summary 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.

14. TRADE DEBTORS

The ageing analysis of trade debtors at the balance sheet date is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Within 3 months	25,630	41,180
4 to 6 months	11,176	12,473
Over 6 months	2,239	2,577
	<u>39,045</u>	<u>56,230</u>

The credit terms given to the customers vary, and are generally around three months, and are granted based on the financial strengths of the individual customers. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically by management.



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15. INVENTORIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	26,565	25,274
Work in progress	499	912
Finished goods	30,575	25,407
	<u>57,639</u>	<u>51,593</u>

The carrying amount of inventories carried at net realisable value included in the above is HK\$134,000 (2000: HK\$630,000).

16. PROPERTIES HELD FOR RESALE

	Group	
	2001	2000
	HK\$'000	HK\$'000
At beginning of year	21,750	22,342
Provisions for impairment in value	(450)	(592)
At end of year	<u>21,300</u>	<u>21,750</u>

The Group's properties held for resale are held under medium term leases.

Details of the properties held for resale are as follows:

Location	Use	Site area/gross floor area (sq. feet)	Attributable interest of the Group
Lot Nos. 587, 588, 675, 714, 1875A, 1875B and the remaining portion of Lot Nos. 589 and 1875C, Demarcation District, No. 107, Fung Kat Heung, Yuen Long, New Territories.	Industrial	78,408/ 46,505	100%
Unit 4B, Ground floor, Fo Tan Industrial Centre, Nos. 26-28 Au Pui Wan Street, Shatin, New Territories.	Industrial	N/A/ 3,654	100%

As at 31 March 2001, the Group's properties held for resale with an aggregate carrying amount of HK\$21,300,000 (2000: HK\$21,750,000) were pledged for banking facilities granted to the Group (note 18).



Notes to Financial Statements

31 March 2001

17. TRADE CREDITORS

The ageing analysis of trade creditors at the balance sheet date is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within 3 months	25,316	19,518
4 to 6 months	6,989	7,877
Over 6 months	1,436	1,877
	<u>33,741</u>	<u>29,272</u>

18. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Bank overdrafts:		
Secured	9,637	10,662
Unsecured	–	3,988
Bank loans:		
Secured	11,127	20,665
Unsecured	–	3,500
Trust receipt loans:		
Secured	25,538	15,191
Unsecured	–	7,021
Other loan, unsecured	2,726	9,546
	<u>49,028</u>	<u>70,573</u>
Less: Portion due within one year included under current liabilities	<u>(46,815)</u>	<u>(65,604)</u>
Long term portion	<u>2,213</u>	<u>4,969</u>
Bank loans and other borrowings are repayable:		
Within one year	46,815	65,604
In the second year	2,213	3,162
In the third to fifth years, inclusive	–	1,807
	<u>49,028</u>	<u>70,573</u>



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18. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (continued)

Certain bank borrowings are secured by:

- (a) the Group's leasehold land and buildings with an aggregate net book value of HK\$21,754,000 (2000: HK\$26,263,000);
- (b) the Group's properties held for resale with an aggregate carrying value of HK\$21,300,000 (2000: HK\$21,750,000); and
- (c) properties owned by a director of the Company.

The other loan represents a loan from a director of HK\$2,726,000 (2000: HK\$9,546,000), which bears interest at 5% over HIBOR per annum and has no fixed terms of repayment.

19. FINANCE LEASE CREDITORS

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Amounts payable:		
Within one year	1,135	2,299
In the second year	421	861
In the third to fifth years, inclusive	208	–
Total net finance lease payables	<u>1,764</u>	<u>3,160</u>
Less: Portion due within one year included under current liabilities	<u>(1,135)</u>	<u>(2,299)</u>
Long term portion	<u><u>629</u></u>	<u><u>861</u></u>

20. DEFERRED TAX

The principal components of the Group's and Company's net deferred tax asset position which have not been recognised in the financial statements are as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Accelerated depreciation allowances	(550)	(630)	–	–
Tax losses	5,310	5,140	217	430
	<u><u>4,760</u></u>	<u><u>4,510</u></u>	<u><u>217</u></u>	<u><u>430</u></u>



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21. SHARE CAPITAL

	Company	
	2001	2000
	HK\$'000	HK\$'000
Authorised:		
500,000,000 ordinary shares of HK\$0.10 each	<u>50,000</u>	<u>50,000</u>
Issued and fully paid:		
371,800,800 (2000: 374,042,800) ordinary shares of HK\$0.10 each	<u>37,180</u>	<u>37,404</u>

During the year, the following movements in the Company's share capital were recorded:

- (a) The subscription rights attaching to 50,000 share options were exercised at the subscription price of HK\$0.168, resulting in the issue of 50,000 ordinary shares of HK\$0.10 each for a total cash consideration before the related issue expenses of HK\$8,400.
- (b) During the year, the Company repurchased a total of 2,292,000 ordinary shares of the Company of HK\$0.10 each on The Stock Exchange of Hong Kong Limited as follows:

Month	Number of shares	Price per share		Total price paid
		Highest	Lowest	
		HK\$	HK\$	HK\$
September 2000	1,986,000	0.240	0.222	472,772
October 2000	306,000	0.198	0.193	59,758
	<u>2,292,000</u>			<u>532,530</u>

The repurchased shares were cancelled upon repurchase and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares of HK\$303,000 has been debited to the share premium account. An amount equivalent to the total par value of the shares cancelled of HK\$229,000 has been transferred from the retained profits of the Company to the capital redemption reserve.

The repurchase of the Company's shares during the year was effected by the directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

A summary of the above movements in the Company's share capital during the year is as follows:

	Carrying amount	Number of issued shares
	HK\$'000	
At beginning of year	37,404	374,042,800
Exercise of share options	5	50,000
Repurchase of shares	(229)	(2,292,000)
At end of year	<u>37,180</u>	<u>371,800,800</u>



Notes to Financial Statements

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21. SHARE CAPITAL (continued)

Share options

On 12 January 1994, the Company adopted a share option scheme (the "Scheme") under which the directors may, at their discretion, invite any employee or director of the Company and one of its subsidiaries to take up options to subscribe for ordinary shares of the Company. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 10% of the issued share capital of the Company.

As at 1 April 2000, there were 23,700,000 share options outstanding. These share options entitle the holders to subscribe in cash for fully paid ordinary shares of HK\$0.10 each in the Company at subscription prices ranging from HK\$0.168 to HK\$0.48 per share (subject to adjustment) during various periods between 5 May 1997 and 6 January 2003.

During the year, the Company granted a total of 3,930,000 share options to its employees for a total cash consideration of HK\$25. These share options entitle the holders to subscribe in cash for fully paid ordinary shares of HK\$0.10 each in the Company at a subscription price of HK\$0.2104 per share (subject to adjustment) during the period from 22 November 2000 to 21 November 2003.

50,000 share options with a subscription price of HK\$0.168 were exercised during the year.

During the year, 1,000,000 and 12,000,000 share options with subscription prices of HK\$0.44 and HK\$0.48, respectively, remained unexercised and lapsed upon expiry accordingly. 120,000 share options with a subscription price of HK\$0.2104 were cancelled upon the resignation of the entitled employees.

At the balance sheet date, the Company had 14,460,000 outstanding share options. These share options entitle the holders to subscribe in cash for fully paid ordinary shares of HK\$0.10 each in the Company at subscription prices ranging from HK\$0.168 to HK\$0.262 per share (subject to adjustment) during various periods between 10 August 1998 and 21 November 2003. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 14,460,000 additional shares of HK\$0.10 each, with aggregate proceeds before related issue expenses of HK\$3,578,000.



Notes to Financial Statements

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22. RESERVES

Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange equalisation reserve HK\$'000	Capital redemption reserve HK\$'000	Total HK\$'000
At 1 April 1999	106,089	2,031	(20,597)	101	87,624
Issue of shares	14,547	–	–	–	14,547
Exchange differences on translation of the financial statements of overseas subsidiaries	–	–	417	–	417
At 31 March 2000 and 1 April 2000	120,636	2,031	(20,180)	101	102,588
Repurchase of shares	(303)	–	–	229	(74)
Premium on shares issued	3	–	–	–	3
Exchange differences on translation of the financial statements of overseas subsidiaries	–	–	(11,225)	–	(11,225)
Balance at 31 March 2001	<u>120,336</u>	<u>2,031</u>	<u>(31,405)</u>	<u>330</u>	<u>91,292</u>

Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Total HK\$'000
At 1 April 1999	106,089	62,604	101	168,794
Issue of shares	14,547	–	–	14,547
At 31 March 2000 and 1 April 2000	120,636	62,604	101	183,341
Repurchase of shares	(303)	–	229	(74)
Premium on shares issued	3	–	–	3
Balance at 31 March 2001	<u>120,336</u>	<u>62,604</u>	<u>330</u>	<u>183,270</u>

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation on 12 January 1994, over the nominal value of the Company's shares issued in exchange therefor.



Notes to Financial Statements

31 March 2001

22. RESERVES (continued)

The contributed surplus of the Company represents the excess of the fair value of the subsidiaries acquired pursuant to the same reorganisation, over the nominal value of the Company's shares issued for their acquisition. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

The capital redemption reserve represents the par value of shares of the Company which have been repurchased and cancelled.

23. NOTES TO THE 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	23,139	14,842
Interest income	(31)	(139)
Depreciation	16,070	15,719
Provisions/(write back of provisions) for bad and doubtful debts	2,168	(374)
Provisions for impairment in value of properties held for resale	450	592
Loss on disposal of fixed assets	3	910
Changes in current assets and liabilities:		
Decrease in trade debtors	15,017	7,313
Decrease/(increase) in other debtors, prepayments and deposits	1,394	(4,013)
Increase in inventories	(6,046)	(4,979)
Increase in trade creditors	4,469	8,779
Increase/(decrease) in bills payable	(8,638)	5,107
Decrease in other creditors and accruals	(1,780)	(227)
Decrease in trust receipt loans with original maturity of over three months	(6,150)	(6,148)
Net cash inflow from operating activities	<u>40,065</u>	<u>37,382</u>



Notes to Financial Statements

31 March 2001

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Bank loans and other loans HK\$'000	Finance lease obligations HK\$'000
Balance at 1 April 1999	137,003	51,207	7,537
Cash inflow/(outflow) from financing activities, net	21,037	(17,436)	(4,360)
Exchange realignment	–	(60)	(17)
Balance at 31 March 2000 and 1 April 2000	158,040	33,711	3,160
Cash outflow from financing activities, net	(524)	(18,130)	(955)
Exchange realignment	–	(1,728)	(441)
Balance at 31 March 2001	<u>157,516</u>	<u>13,853</u>	<u>1,764</u>

24. CONTINGENT LIABILITIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Debts factored with recourse	31,977	26,125
Bills discounted with recourse	–	593
	<u>31,977</u>	<u>26,718</u>

(a) At the balance sheet date, the Company had guarantees given to banks in connection with facilities granted to its subsidiaries to the extent of approximately HK\$66,668,000 (2000: HK\$80,410,000), within which HK\$46,302,000 (2000: HK\$58,142,000) had been utilised at the balance sheet date.

(b) At the balance sheet date, 14 (2000: 13) employees had completed the required number of years of service under the Employment Ordinance (the "Ordinance") to be eligible for long service payments upon termination of their employment. The Group is only liable to make such payments where the termination meets the required circumstances specified in the Ordinance.

If the termination of employment of all these employees met the circumstances required by the Ordinance, the Group's liability for long service payments at the balance sheet date would be HK\$1,124,000 (2000: HK\$1,169,000). No provision has been made for this amount in the financial statements as, in the opinion of the directors, it is unlikely that such a liability will crystallise.



Notes to Financial Statements

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25. COMMITMENTS

At the balance sheet date, the Group had the following commitments in respect of capital expenditure, which was contracted, but not provided for in the financial statements:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Capital contribution to a PRC subsidiary	50,000	—	—	—
Construction of factory	17,136	—	—	—
	<u>67,136</u>	<u>—</u>	<u>—</u>	<u>—</u>

26. RELATED PARTY TRANSACTIONS

During the year, the Group paid interest of HK\$820,000 (2000: HK\$1,076,000) on a loan from a director, further details of which are set out in note 18.

During the year, certain banking facilities of the Group were secured by properties owned by a director of the Company. The director received no consideration for providing this collateral.

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 19 July 2001.