



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2001

## 1. GENERAL

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

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of fabric knitting, dyeing and finishing services and the production and sale of finished knitted fabric.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or up to their effective dates of acquisition or disposal, whichever is appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

### **Goodwill**

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group’s share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves on acquisition.

On disposal of a subsidiary, the attributable amount of goodwill previously charged to reserves at the time of acquisition is included in the calculation of profit or loss on disposal.





## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Investments 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.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss.

### **Turnover**

Turnover represents the net amounts received and receivable for goods sold and services rendered, net of returns and allowances, to outside customers during the year.

### **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 is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Rental income under operating leases is recognised on a straight line basis over the term of the relevant lease.

Dividend income from subsidiaries is recognised by the Company when the Company's right to receive payment has been established.





## NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2001

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Property, plant and equipment

Construction in progress is stated at cost. Cost includes all development expenditure and other direct costs, including borrowing costs capitalised in accordance with the Group's accounting policy, attributable to such projects and deposits made for property acquisitions. It is not depreciated until completion of construction. Cost on completed construction works is transferred to the appropriate categories of property, plant and equipment.

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation or amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has 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 the asset. The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of that asset and is recognised in the income statement.

When 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 discounted to their present values.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight line method, as follows:

Leasehold land	Over the remaining term of the relevant lease
Buildings	2% - 4%
Furniture, fixtures and equipment	15% - 25%
Leasehold improvements	10% - 20%
Motor vehicles	20%
Plant and machinery	6 <sup>2</sup> / <sub>3</sub> % - 25%

Assets held under hire purchase contracts are depreciated over their estimated useful lives on the same basis as assets owned by the Group.

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.





**2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease, including the renewal period, is twenty years or less.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost 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.

**Assets held under finance leases and hire purchase contracts**

Assets held under finance leases and hire purchase contracts are capitalised at their fair value at the dates of acquisition. The corresponding principal portions of the finance lease and hire purchase commitments are shown as obligations of the Group in the balance sheet. The finance costs, which represent the difference between the total finance lease and hire purchase commitments and the original principal amounts at the inception of the leases or contracts, are charged to the income statement over the period of the relevant lease or contract so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.





## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

FOR THE YEAR ENDED 31 MARCH 2001

### 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Capitalisation of borrowing costs**

Borrowing costs, including exchange differences to the extent that they are considered as an adjustment to borrowing costs, directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

#### **Taxation**

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under 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.

#### **Foreign currencies**

Transactions in currencies other than Hong Kong dollars are translated at the approximate rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange other than those which are considered to be an adjustment to borrowing costs incurred on qualifying assets are dealt with in the income statement.

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



# NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2001



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

### Retirement benefit costs

Payments to defined contribution plans are charged as an expense as they fall due.

### 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 advance.

## 3. TURNOVER

	<u>2001</u>	<u>2000</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
An analysis of the Group's turnover is as follows:		
Sales of goods	<b>598,860</b>	484,379
Subcontracting fee income	<b>4,608</b>	3,379
	<b><u>603,468</u></b>	<b><u>487,758</u></b>

The Group's turnover and contribution to profit before tax analysed by geographical market are as follows:

	<u>Turnover</u>		<u>Contribution to profit before tax</u>	
	<u>2001</u>	2000	<u>2001</u>	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong and other regions in the People's Republic of China ("PRC")	<b>481,646</b>	400,762	<b>23,487</b>	21,622
United States of America	<b>121,822</b>	86,996	<b>1,089</b>	2,124
	<b><u>603,468</u></b>	<b><u>487,758</u></b>	<b><u>24,576</u></b>	<b><u>23,746</u></b>





## NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2001

### 4. PROFIT BEFORE TAX

	<u>2001</u>	<u>2000</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before tax has been arrived at after charging:		
Directors' remuneration ( <i>Note (i)</i> )	<b>6,704</b>	5,403
Retirement benefits scheme contributions ( <i>Note (ii)</i> )	<b>1,129</b>	490
Other staff costs	<b>32,044</b>	29,492
Total staff costs	<b>39,877</b>	35,385
Interest on:		
— bank borrowings wholly repayable within five years	<b>8,033</b>	5,320
— bank borrowings not wholly repayable within five years	<b>303</b>	696
— finance leases and hire purchase contracts	<b>3,659</b>	3,464
Total borrowing costs	<b>11,995</b>	9,480
Less: Interest capitalised	<b>(628)</b>	—
	<b>11,367</b>	9,480
Auditors' remuneration:		
— current year	<b>550</b>	501
— under(over)provision in prior years	<b>49</b>	(50)
Deficit arising on revaluation of investment properties	<b>313</b>	40
Depreciation and amortisation on:		
— assets owned by the Group	<b>16,375</b>	13,917
— assets held under finance leases and hire purchase contracts	<b>8,273</b>	7,460
Guaranteed distribution paid to a joint venture partner in the PRC ( <i>Note (iii)</i> )	<b>3,431</b>	3,389
Operating lease rentals in respect of rented premises	<b>1,877</b>	2,043
and after crediting:		
Gross rental income from investment properties under operating leases	<b>724</b>	1,454
Less: Outgoings	<b>(295)</b>	(242)
Net property rental income	<b>429</b>	1,212
Gain on disposal of property, plant and equipment	<b>138</b>	—
Interest income	<b>353</b>	87



# NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2001



## 4. PROFIT BEFORE TAX (Continued)

Notes:

### (i) Information regarding directors' and employees' emoluments

#### Directors

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees:		
Executive directors	—	—
Independent non-executive directors	300	300
	<u>300</u>	<u>300</u>
Other emoluments to executive directors:		
Basic salaries and other benefits	1,302	1,200
Preference share dividend received from a subsidiary	3,458	2,660
Performance related incentive payments	1,514	1,153
Retirement benefits scheme contributions	130	90
	<u>6,404</u>	<u>5,103</u>
	<u><b>6,704</b></u>	<u><b>5,403</b></u>

Emoluments of the directors were within the following bands:

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

#### Employees

The five highest paid individuals of the Group for both years included three directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining two highest paid individuals of the Group, not being directors of the Company, are as follows:

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries and other benefits	1,542	1,428
Performance related incentive payments	401	357
Retirement benefits scheme contributions	132	107
	<u>2,075</u>	<u>1,892</u>

Emoluments of these individuals were within the following bands:

	Number of individuals	
	2001	2000
Nil - HK\$1,000,000	1	1
HK\$1,000,001 - HK\$1,500,000	<u>1</u>	<u>1</u>





## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

FOR THE YEAR ENDED 31 MARCH 2001

### 4. PROFIT BEFORE TAX *(Continued)*

Notes: *(Continued)*

#### (ii) Retirement benefits scheme contributions

The Group has operated a defined contribution retirement benefits scheme for all qualifying employees in Hong Kong since 1 April 1995. The assets of the scheme are held separately from those of the Group in a provident fund managed by an independent trustee. The retirement benefits scheme contributions represent contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. According to the Mandatory Provident Fund ("MPF") legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2000, the Group is required to participate in an MPF scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited to 5% of HK\$20,000 for each eligible employee) as calculated under the MPF legislation.

The amount of retirement benefits scheme contributions and MPF contributions for the Group's employees and directors, which has been dealt with in the income statement of the Group for the year ended 31 March 2001, was approximately HK\$1,259,000 (2000: HK\$580,000). Forfeited contributions utilised to offset contributions in the year ended 31 March 2000 amounted to approximately HK\$127,000 (2001: Nil).

As at 31 March 2001 and 2000, there were no forfeited contributions available to offset future employers' contributions to the scheme.

#### (iii) Guaranteed distribution paid to a joint venture partner in the PRC

The amount includes operating lease rentals in respect of rented premises amounting to approximately HK\$728,000 (2000: HK\$728,000).



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2001



### 5. TAXATION

	2001	2000
	<u>HK\$'000</u>	<u>HK\$'000</u>
The tax charge comprises:		
Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the year		
— current year	(482)	(428)
— overprovision in prior years	<u>3</u>	<u>335</u>
	(479)	(93)
Enterprise income tax in the PRC attributable to a subsidiary	(157)	(129)
Overseas income tax	<u>(233)</u>	<u>—</u>
	<u><b>(869)</b></u>	<u><b>(222)</b></u>

Taxation arising in jurisdictions other than Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

Deferred taxation has not been provided in the financial statements as there were no significant timing differences arising during the year or at the balance sheet date.

### 6. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year of HK\$23,872,000 (2000: HK\$23,528,000), a profit of HK\$26,000 (2000: HK\$27,000) has been dealt with in the financial statements of the Company.

### 7. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year of HK\$23,872,000 (2000: HK\$23,528,000) and on the weighted average number of 255,144,000 ordinary shares (2000: 230,400,000 ordinary shares) in issue during the year. The weighted average number of ordinary shares in issue for the current and prior year has been adjusted for the consolidation of shares in November 1999 and for the bonus issue in January 2001.





## NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2001

### 8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Construction in progress	Furniture, fixtures and equipment	Leasehold improvements	Motor vehicles	Plant and machinery	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>							
<b>COST</b>							
At 1 April 2000	103,059	3,354	5,992	5,406	7,601	199,346	324,758
Additions	5,499	17,580	485	933	3,552	21,041	49,090
Reclassification	6,407	(12,516)	—	—	—	6,109	—
Disposal	—	—	—	—	(923)	—	(923)
Transfer to investment properties (note 9)	(960)	—	—	—	—	—	(960)
<b>At 31 March 2001</b>	<b>114,005</b>	<b>8,418</b>	<b>6,477</b>	<b>6,339</b>	<b>10,230</b>	<b>226,496</b>	<b>371,965</b>
<b>DEPRECIATION AND AMORTISATION</b>							
At 1 April 2000	7,215	—	3,859	3,150	6,854	75,879	96,957
Provided for the year	4,122	—	899	737	652	18,238	24,648
Eliminated on disposal	—	—	—	—	(923)	—	(923)
Transfer to investment properties (note 9)	(77)	—	—	—	—	—	(77)
<b>At 31 March 2001</b>	<b>11,260</b>	<b>—</b>	<b>4,758</b>	<b>3,887</b>	<b>6,583</b>	<b>94,117</b>	<b>120,605</b>
<b>NET BOOK VALUES</b>							
<b>At 31 March 2001</b>	<b>102,745</b>	<b>8,418</b>	<b>1,719</b>	<b>2,452</b>	<b>3,647</b>	<b>132,379</b>	<b>251,360</b>
At 31 March 2000	95,844	3,354	2,133	2,256	747	123,467	227,801

The Group's property interests other than interest properties comprise:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Properties situated:		
— in Hong Kong	<b>11,163</b>	12,530
— in other regions in the PRC	<b>100,000</b>	86,668
	<b>111,163</b>	99,198



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2001



### 8. PROPERTY, PLANT AND EQUIPMENT (Continued)

All of the Group's land and buildings are held under medium-term leases.

The net book value of property, plant and equipment held under finance leases and hire purchase contracts at 31 March 2001 amounted to approximately HK\$64,472,000 (2000: HK\$68,546,000).

Plant and machinery with an aggregate cost of approximately HK\$3,829,000 (2000: nil) is held for rental purpose. No depreciation has been provided for such plant and machinery as these assets have not been leased out by 31 March 2001.

Included in construction in progress at 31 March 2001 is net interest capitalised of approximately HK\$628,000 (2000: nil).

### 9. INVESTMENT PROPERTIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
At the beginning of the year	1,320	5,490
Transfer from (to) property, plant and equipment ( <i>note 8</i> )	883	(4,130)
Deficit on revaluation	(313)	(40)
At the end of the year	<u>1,890</u>	<u>1,320</u>

The investment properties of the Group were revalued at 31 March 2001 by Messrs. Chesterton Petty Limited, a firm of independent professional valuers, on an open market, existing use basis. The deficit arising on revaluation of investment properties has been charged to the income statement.

All of the Group's investment properties are situated in Hong Kong and are held under medium-term leases. They are held for rental purpose under operating leases.





## NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2001

### 10. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	85,985	85,985
Amounts due from subsidiaries	184,886	174,071
	<b>270,871</b>	<b>260,056</b>

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, the amounts will not be settled within twelve months of the balance sheet date and accordingly the amounts are shown as non-current assets.

Details of the Company's subsidiaries at 31 March 2001 are set out in note 27.

### 11. INVENTORIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	88,014	87,457
Work in progress	41,966	43,215
Finished goods	23,704	28,047
	<b>153,684</b>	<b>158,719</b>

Included above are raw materials of HK\$359,000 (2000: HK\$386,000) and finished goods of HK\$53,000 (2000: HK\$560,000) which are carried at net realisable value.

### 12. TRADE RECEIVABLES

The Group allows an average credit period of 90 days to its trade customers.

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	88,913	66,236
61 - 90 days	41,402	23,404
Over 90 days	36,263	31,224
	<b>166,578</b>	<b>120,864</b>



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2001



### 13. TRADE PAYABLES

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	44,810	48,773
61 - 90 days	10,153	20,391
Over 90 days	28,812	16,564
	<b>83,775</b>	<b>85,728</b>

### 14. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Within one year	14,581	14,318
Between one to two years	10,119	13,400
Between two to five years	4,542	11,244
	<b>29,242</b>	<b>38,962</b>
Less: Amount due within one year included in current liabilities	<b>(14,581)</b>	<b>(14,318)</b>
Amount due after one year	<b>14,661</b>	<b>24,644</b>





## NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2001

### 15. BANK BORROWINGS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Import loans and trust receipts	52,241	46,068
Bank loans	45,248	16,744
Mortgage loans	5,660	6,752
Bank overdrafts	2,566	124
	<b>105,715</b>	<b>69,688</b>
Analysed as:		
— secured	27,255	20,396
— unsecured	78,460	49,292
	<b>105,715</b>	<b>69,688</b>
The bank borrowings bear interest at prevailing market rates and are repayable as follows:		
Within one year or on demand	84,686	64,037
Between one to two years	8,745	1,216
Between two to five years	11,604	3,077
Over five years	680	1,358
	<b>105,715</b>	<b>69,688</b>
Less: Amount due within one year included in current liabilities	<b>(84,686)</b>	<b>(64,037)</b>
Amount due after one year	<b>21,029</b>	<b>5,651</b>



# NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2001



## 16. SHARE CAPITAL

	Nominal value per share	Number of shares	Amount
	HK\$		HK\$'000
Authorised:			
At 1 April 1999	0.10	4,000,000,000	400,000
On consolidation of shares (Note i)		<u>(3,600,000,000)</u>	<u>—</u>
At 1 April 2000	1.00	400,000,000	400,000
On capital reduction (Note iii)		<u>39,600,000,000</u>	<u>—</u>
<b>At 31 March 2001</b>	<b>0.01</b>	<b><u>40,000,000,000</u></b>	<b><u>400,000</u></b>
Issued and fully paid:			
At 1 April 1999	0.10	576,000,000	57,600
On consolidation of shares (Note i)		<u>(518,400,000)</u>	<u>—</u>
At 1 April 2000	1.00	57,600,000	57,600
Issue of new shares (Note ii)	1.00	<u>11,520,000</u>	<u>11,520</u>
	1.00	69,120,000	69,120
Cancellation of issued share capital upon capital reduction (Note iii)		—	(68,429)
Bonus issue of shares by capitalisation of the share premium account (Note iv)	0.01	<u>207,360,000</u>	<u>2,074</u>
<b>At 31 March 2001</b>	<b>0.01</b>	<b><u>276,480,000</u></b>	<b><u>2,765</u></b>

Notes:

- (i) At the special general meeting of the Company held on 8 November 1999, an ordinary resolution for the approval of consolidation of every ten shares of HK\$0.10 each in the capital of the Company into one share of HK\$1.00 each was duly passed.
- (ii) Pursuant to a placing agreement dated 4 September 2000, an aggregate of 11,520,000 ordinary shares of HK\$1.00 each in the Company were placed by Pearl Garden Pacific Limited and Madian Star Limited, two controlling shareholders of the Company, to independent investors at the price of HK\$1.00 per share. On completion of placing, Pearl Garden Pacific Limited and Madian Star Limited together subscribed for an aggregate of 11,520,000 new shares in the Company at the price of HK\$1.00 each so as to raise further working capital for the Company and broaden its shareholder and capital base. These shares ranked pari passu with the then existing shares in all respects. The net proceeds from the subscription of approximately HK\$11.5 million, were used by the Group for general working capital purposes. Details of the placement and subscription have been disclosed in the announcement issued by the Company on 4 September 2000.





## NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2001

### 16. SHARE CAPITAL (Continued)

Notes: (Continued)

- (iii) At the special general meeting of the Company held on 16 January 2001, ordinary resolutions for the approval of capital reduction and share subdivision to reduce the issued share capital from HK\$1.00 each to HK\$0.01 each by cancelling the issued capital to the extent of HK\$0.99 paid up on each of the issued shares and to subdivide every unissued shares into 100 unissued adjusted shares of HK\$0.01 each were duly passed. The existing amount of paid-up share capital of the Company was reduced from HK\$69,120,000 to approximately HK\$691,000 upon the capital reduction. The credit of approximately HK\$68,429,000 arising from the capital reduction was transferred to the contributed surplus account of the Company.
- (iv) At the special general meeting of the Company held on 16 January 2001, an ordinary resolution was duly passed to approve the bonus issue to the shareholders on the basis of three bonus shares for every adjusted shares at HK\$0.01 each by way of capitalisation of an amount of approximately HK\$2,074,000 of the share premium account of the Company. 207,360,000 bonus shares were accordingly allotted and issued.

#### Share options

Pursuant to a share option scheme which was adopted at a special general meeting of the Company held on 22 April 1996, the board of directors of the Company may, at its discretion, grant options to employees of the Company or its subsidiaries, including executive directors of any of such companies, to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options. The maximum number of shares in respect of which options may be granted under the share option scheme shall not exceed 10% of the issued share capital of the Company from time to time.

Up to the date of this report, no option has been granted under this scheme.

### 17. RESERVES

	Share premium	Capital reserve	Translation reserve	Properties revaluation reserve	Goodwill reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>							
At 1 April 1999	115,752	7,800	1,327	322	(1,452)	107,755	231,504
Reversal of surplus on 1996 valuation	—	—	—	(322)	—	—	(322)
Net profit for the year	—	—	—	—	—	23,528	23,528
At 1 April 2000	115,752	7,800	1,327	—	(1,452)	131,283	254,710
Cancellation of issued share capital upon capital reduction	—	68,429	—	—	—	—	68,429
Bonus issue of shares by capitalisation of share premium account	(2,074)	—	—	—	—	—	(2,074)
Bonus issue expenses	(711)	—	—	—	—	—	(711)
Net profit for the year	—	—	—	—	—	23,872	23,872
<b>At 31 March 2001</b>	<b>112,967</b>	<b>76,229</b>	<b>1,327</b>	<b>—</b>	<b>(1,452)</b>	<b>155,155</b>	<b>344,226</b>



# NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2001



## 17. RESERVES (Continued)

	<b>Share premium</b>	<b>Contributed surplus</b>	<b>Accumulated profits</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>THE COMPANY</b>				
At 1 April 1999	115,752	85,785	743	202,280
Net profit for the year	—	—	27	27
At 1 April 2000	115,752	85,785	770	202,307
Cancellation of issued share capital upon capital reduction	—	68,429	—	68,429
Bonus issue of shares by capitalisation of the share premium account	(2,074)	—	—	(2,074)
Bonus issue expenses	(711)	—	—	(711)
Net profit for the year	—	—	26	26
<b>At 31 March 2001</b>	<b><u>112,967</u></b>	<b><u>154,214</u></b>	<b><u>796</u></b>	<b><u>267,977</u></b>

The capital reserve of the Group represents the difference between the nominal value of shares issued by the Company and the aggregate nominal value of the issued share capital of subsidiaries acquired pursuant to the group reorganisation which became effective on 22 April 1996, together with an amount of approximately HK\$68,429,000 arising from the capital reduction in January 2001.

The contributed surplus of the Company represents the difference between the book values of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company under the group reorganisation which became effective on 22 April 1996, net of HK\$100,000 subsequently applied in paying up in full at par the 1,000,000 nil paid shares, together with a credit of approximately HK\$68,429,000 arising from the capital reduction in January 2001.

In addition to accumulated profits, under the company laws in Bermuda, the contributed surplus account of a company is also available for distribution. However, the company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

The Company's reserves available for distribution to shareholders as at 31 March 2001 are represented by its accumulated profits and contributed surplus, totalling approximately HK\$155,010,000 (2000: HK\$86,555,000).





## NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2001

### 18. RECONCILIATION OF PROFIT BEFORE TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001	2000
	<u>HK\$'000</u>	<u>HK\$'000</u>
Profit before tax	24,576	23,746
Deficit arising on revaluation of investment properties	313	40
Depreciation and amortisation	24,648	21,377
Interest income	(353)	(87)
Interest on bank borrowings	7,708	6,016
Interest on obligations under finance leases and hire purchase contracts	3,659	3,464
Gain on disposal of property, plant and equipment	(138)	—
Decrease (increase) in inventories	5,035	(58,532)
(Increase) decrease in trade receivables	(45,714)	15,660
Decrease (increase) in deposits, prepayments and other receivables	3,060	(5,725)
(Decrease) increase in trade payables	(1,953)	30,453
Increase in other payables	938	17,761
Net cash inflow from operating activities	<u>21,779</u>	<u>54,173</u>

### 19. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium	Obligations under finance leases and hire purchase contracts	Bank loans	Mortgage loans	Import loans and trust receipts
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Balance at 1 April 1999	173,352	42,628	7,123	7,852	38,130
New finance leases and hire purchase contracts raised (note 20)	—	8,678	—	—	—
New bank loans raised	—	—	9,621	—	—
Repayments during the year	—	(12,344)	—	(1,100)	(192,820)
New import loans and trust receipts raised	—	—	—	—	200,758
Balance at 1 April 2000	173,352	38,962	16,744	6,752	46,068
Issue of new shares	11,520	—	—	—	—
Cost of issuing bonus shares	(711)	—	—	—	—
Cancellation of issued share capital upon capital reduction	(68,429)	—	—	—	—
New finance leases and hire purchase contracts raised (note 20)	—	10,008	—	—	—
New bank loans raised	—	—	43,018	—	—
Repayments during the year	—	(19,728)	(14,514)	(1,092)	(225,402)
New import loans and trust receipts raised	—	—	—	—	231,575
<b>Balance at 31 March 2001</b>	<u>115,732</u>	<u>29,242</u>	<u>45,248</u>	<u>5,660</u>	<u>52,241</u>



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2001



### 20. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance leases and hire purchase arrangements in respect of assets with a capital value of HK\$10,008,000 (2000: HK\$8,678,000) at the inception of the finance leases and hire purchase contracts.

### 21. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	<u>2001</u>	<u>2000</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank balances and cash	11,207	13,337
Bank overdrafts	<u>(2,566)</u>	<u>(124)</u>
	<u><b>8,641</b></u>	<u><b>13,213</b></u>

### 22. PLEDGE OF ASSETS

At 31 March 2001, investment properties and certain property, plant and equipment of subsidiaries of the Company with aggregate net book value of approximately HK\$1,890,000 (2000: HK\$1,320,000) and approximately HK\$36,875,000 (2000: HK\$31,236,000) respectively were pledged to banks as security for the credit facilities granted to the Group.

### 23. CONTINGENT LIABILITIES

	<u>THE GROUP</u>		<u>THE COMPANY</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bills discounted with recourse	6,329	2,623	—	—
Factoring financing facilities with recourse	15,500	—	—	—
Corporate guarantee given to a financial institution to secure factoring financing facilities granted to a subsidiary	—	—	15,500	—
Corporate guarantees given to banks and other financial institutions to secure credit facilities granted to subsidiaries	<u>—</u>	<u>—</u>	<u>129,884</u>	<u>102,000</u>
	<u><b>21,829</b></u>	<u><b>2,623</b></u>	<u><b>145,384</b></u>	<u><b>102,000</b></u>





## NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2001

### 24. COMMITMENTS

#### (i) Payments to a PRC joint venture partner

At the balance sheet date, the Group was committed to pay an annual guaranteed distribution to a PRC joint venture partner in the coming year amounting to approximately HK\$3,624,000 (2000: HK\$3,624,000), which includes an amount of approximately HK\$728,000 (2000: HK\$728,000) in respect of operating lease commitments of rented premises.

#### (ii) Capital commitments

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Capital expenditure contracted for property, plant and equipment but not provided in the financial statements	<u>40,387</u>	<u>7,847</u>

The Company had no significant capital commitment at the balance sheet date.

#### (iii) Operating lease commitments

At the balance sheet date, the Group was committed to make payments under non-cancellable operating leases in respect of rented premises. The portion of these commitments, excluding the amount as set out in (i) above, which is payable in the following year is as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Operating leases which expire:		
Within one year	96	57
In the second to fifth year inclusive	1,176	1,963
Over five years	93	—
	<u>1,365</u>	<u>2,020</u>

The Company did not have any operating lease commitments at the balance sheet date.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2001



### 25. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties:

Name of company	Notes	Nature of transactions	2001	2000
			HK\$'000	HK\$'000
Denin Trading Company Limited	(i) & (iii)	Purchases of raw materials by the Group	2,528	2,122
Verdure Enterprises Limited	(ii) & (iv)	Operating lease rental paid by the Group	108	108

In addition, during the year, Pearl Garden Pacific Limited (note v) and Madian Star Limited (note vi), two controlling shareholders of the Company, together subscribed for an aggregate of 11,520,000 new shares in the Company at the price of HK\$1.00 each, details of which are disclosed in note 16 (ii).

Notes:

- (i) A company in which Mr. Chen Tien Tui, a director of the Company, has a 33 $\frac{1}{3}$ % beneficial interest.
- (ii) A company in which the wife and two sisters of Mr. Li Ming Hung, a director of the Company, jointly hold the entire beneficial interest.
- (iii) The transactions were carried out at prices determined by reference to market prices for similar transactions.
- (iv) The monthly rental was determined based on market rental.
- (v) The entire issued share capital of Pearl Garden Pacific Limited is owned by a discretionary trust, the object of which include Mr. Li Ming Hung and his family.
- (vi) The entire issued share capital of Madian Star Limited is owned by a discretionary trust, the object of which include Mr. Chen Tien Tui and his family.





## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

FOR THE YEAR ENDED 31 MARCH 2001

### 26. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 March 2001:

- (i) On 1 April 2001, the Group purchased 51% interest in a private limited company incorporated in Hong Kong and engaged in garment trading, at a consideration of approximately HK\$8,228,000, subject to adjustment, by reference to the net asset value of the company as at 31 March 2001 as shown in its audited financial statements.
  
- (ii) Pursuant to a placing agreement dated 24 May 2001, an aggregate of 55,296,000 ordinary shares of HK\$0.01 each in the Company were placed by Pearl Garden Pacific Limited and Madian Star Limited, two controlling shareholders of the Company, to independent investors at the price of HK\$0.25 per share. On completion of placing, Pearl Garden Pacific Limited and Madian Star Limited subscribed together for an aggregate of 55,296,000 new shares in the Company at the price of HK\$0.25 each so as to raise further working capital for the Company and broaden its shareholder and capital base. These shares will rank pari passu with the then existing shares in all respects. The net proceeds from the subscription of approximately HK\$13.5 million will be used by the Group for general working capital purposes. Details of the placement and subscription have been disclosed in an announcement issued by the Company on 24 May 2001.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2001



### 27. PARTICULARS OF SUBSIDIARIES

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group	Principal activities
Best Color Development Limited	Hong Kong	Ordinary HK\$10	100%	Inactive
Grace Link Enterprises Limited	Hong Kong	Ordinary HK\$10	100%	Provision of management services
Tectfield Industrial Limited	Hong Kong	Ordinary HK\$10,000 Deferred (Note(ii)) HK\$10,000	77.78%	Manufacture of and trading in labels and hang-tags
Victory City (China) Holdings Limited	British Virgin Islands	Ordinary US\$2	100%	Investment holding
Victory City Company Limited	Hong Kong	Ordinary HK\$10 Deferred (Note (ii)) HK\$8,000,000	100%	Trading of knitted fabric
Victory City Holdings Limited (Note (i))	British Virgin Islands	Ordinary US\$6	100%	Investment holding
Victory City Overseas Limited ("VCOL")	British Virgin Islands	Ordinary US\$2 Preference (Note (iii)) US\$2,600	100%	Investment holding
Winning Zone Inc.	United States of America	Ordinary US\$100,000	100%	Importing and selling fabric and wearing apparel
新會市冠華針織廠有限公司 ("Xinhui Victory City") (Note (iv))	PRC	US\$16,819,300	100%	Knitting, dyeing and finishing of fabric
新會市揚名針織廠有限公司	PRC	(Note (v))	90%	Knitting, dyeing and finishing of fabric





## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

FOR THE YEAR ENDED 31 MARCH 2001

### 27. PARTICULARS OF SUBSIDIARIES *(Continued)*

*Notes:*

- (i) The investment in Victory City Holdings Limited is directly held by the Company. Other subsidiaries are indirectly held.
- (ii) The deferred shares, which are not held by the Group, practically carry no rights to dividend or to receive notice of or to attend or vote at any general meeting of respective subsidiaries or to participate in any distribution on a winding-up.
- (iii) The redeemable non-voting preference shares of VCOL, which are equally held by Messrs. Li Ming Hung and Chen Tien Tui, carry minimal right to receive notice of or to attend or vote at any general meeting of VCOL. The holders of the redeemable non-voting preference shares shall only be entitled to a fixed dividend per annum when the profit before tax of VCOL available for dividend exceeds a pre-determined figure. On a winding-up, the holders of the redeemable non-voting preference shares shall be entitled to receive a return of the capital paid up on the redeemable non-voting preference shares held by them respectively.
- (iv) Pursuant to the co-operative joint venture contract and various supplemental agreements, other than an annual guaranteed distribution payable to the joint venture partner in the PRC, the Group is to bear the entire risk and liabilities and share the entire profit and loss of Xinhui Victory City during the term of the co-operative joint venture commencing from 6 May 1988 (date of establishment of Xinhui Victory City) to 31 August 2007. Upon dissolution of Xinhui Victory City, the PRC joint venture partner will re-possess the assets it had contributed or the residual value of the assets, which should be determined by both parties. The Group has accordingly treated the annual guaranteed distribution payable to the PRC joint venture partner as an operating expense for the use of plant and machinery and factory premises contributed and other facilities provided by the PRC joint venture partner, and Xinhui Victory City is treated by the Group as a wholly-owned subsidiary for accounting purposes. All assets contributed by the PRC joint venture partner have been treated as assets under operating leases and are therefore not included as assets of the Group.
- (v) The verified paid up registered capital of 新會市場名針織廠有限公司 was approximately US\$1,709,000 as at 31 March 2001, which was wholly contributed by the Group. Additional capital contribution by the Group during the year ended 31 March 1999, which amounted to approximately US\$394,000, has not yet been verified as at 31 March 2001.

None of the subsidiaries had any loan capital subsisting at 31 March 2001 or at any time during the year.