

*The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the auditors and reporting accountants of the Company, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.*



Chartered Accountants  
Certified Public Accountants

6th Floor, Wheelock House  
20 Pedder Street  
Central  
Hong Kong

30th October, 2002

The Directors  
Grandtop International Holdings Limited  
CSC Asia Limited  
First Asia Finance Group Limited

Dear Sirs,

We set out below our report on the financial information regarding Grandtop International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31st March, 2002 (the “Relevant Periods”) prepared on the basis set out in Section 1 below, for inclusion in the prospectus of the Company dated 30th October, 2002 (the “Prospectus”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 21st June, 2002 under the Companies Law, (Cap. 22 (Law 3 of 1961, as consolidated and revised)) of the Cayman Islands for the purpose of acting as a holding company of the subsidiaries set out below. The Company has not carried out any business since the date of its incorporation save for the acquisition on 22nd October, 2002 of the entire issued share capital of Sun Ace Group Limited, a company incorporated in the British Virgin Islands, which is, at the date of this report, the intermediate holding company of the other subsidiaries set out in Section 1 below.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name of Company	Place and date of incorporation	Issued and fully paid-up share capital	Percentage of equity attributable to the Company equity interest		Principal activities
			Direct	Indirect	
Subsidiaries:					
Sun Ace Group Limited (“Sun Ace”)	The British Virgin Islands 18th January, 2002	Ordinary US\$1	100%	–	Investment holding
Sun Tai Hing Garment Making Company Limited (“Sun Tai Hing”)	Hong Kong 10th March, 1966	Ordinary HK\$115,000	–	100%	Provision of sales support services

Name of Company	Place and date of incorporation	Issued and fully paid-up share capital	Percentage of equity attributable to the Company equity interest		Principal activities
			Direct	Indirect	
Dragon City Limited ("Dragon City")	Samoa 31st August, 1998	Ordinary US\$1	-	100%	Provision of marketing and compliance monitoring services

All companies comprising the Group have adopted 31st March as their financial year end date.

We have acted as auditors of all of the companies now comprising the Group for the Relevant Periods except for the statutory accounts of Sun Tai Hing and Dragon City for the two years ended 31st March, 2001 which were audited by Messrs. K.S. Liu & Company, C.P.A. Limited, Certified Public Accountants, Hong Kong.

We have examined the audited financial statements or, where appropriate, management accounts of all the companies now comprising the Group for each of the Relevant Periods, or from its respective date of their incorporation where this is a shorter period and have carried out such additional procedures as we considered necessary, in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

At the date of this report, no audited financial statements have been prepared for the Company since its date of incorporation. We have, however, performed our own independent review of all relevant transactions of the Company since its date of incorporation and carried out such procedures as we considered necessary for inclusion of financial information relating to the Company in this report.

The summaries of the combined results, movements in equity and cash flows of the Group for each of the Relevant Periods referred to in this report and of the combined balance sheets of the Group as at 31st March, 2000, 2001 and 2002 (the "Summaries") set out in this report have been prepared from the audited financial statements or, where appropriate, management accounts of the companies now comprising the Group and are presented on the basis set out in Section 1 below.

The directors of the respective companies now comprising the Group are responsible for preparing financial statements of the respective companies which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of the Company are also responsible for preparing the Summaries which give a true and fair view. In preparing such financial information, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Summaries.

In our opinion, the Summaries together with the notes thereon give, for the purpose of this report and on the basis of presentation set out in section 1 below, a true and fair view of the combined results, movement in equity and cash flows of the Group for each of the Relevant Periods referred to in this report and of the combined financial position of the Group as at 31st March, 2000, 2001 and 2002.

## 1. BASIS OF PRESENTATION

The Summaries, which are based on the audited financial statements or, where appropriate, management accounts of the companies now comprising the Group, include the combined results, balance sheets, movements in equity and cash flows of the companies now comprising the Group as if the current group structure has been in existence throughout the entire Relevant Periods, or since their respective dates of incorporation, where there is a shorter period.

All significant intercompany transactions and balances have been eliminated on combination.

## 2. PRINCIPAL ACCOUNTING POLICIES

The financial information has 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, and under the historical cost convention. The principal accounting policies adopted by the Group in arriving at the financial information set out in this report are as follows:

### a. Basis of Preparation

The measurement basis used in the preparation of the Summaries is historical cost.

### b. Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of the issued share capital or controls more than half of the voting power or controls the composition of its board of directors or has the power to govern its financial and operating activities so as to obtain benefits from its activities. Subsidiaries are incorporated in the Summaries so long as the controls are not intended to be temporary because the subsidiaries were acquired and held exclusively with a view to its subsequent disposal in the near futures.

### c. Fixed Assets and Depreciation

#### i. Valuation

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 operations, such as repairs and maintenance, is normally charged to the combined 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 fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

*ii. Depreciation*

Depreciation is provided on the straight-line basis to write off the cost of fixed assets over their estimated useful lives. The principal annual rates used for this purpose are as follows:

Office equipment	:	20%
Furniture and fixtures	:	20%
Motor vehicles	:	20%

*iii. Disposition*

Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the combined income statement on the date of retirement or disposal.

**d. Leased Assets**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. The rentals applicable to such operating leases are charged to the combined income statement on the straight-line basis over the lease terms.

**e. Current Assets and Liabilities**

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

**f. 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:

- Revenue derived from the provision of marketing and compliance monitoring services is recognised when services are performed and upon each shipment made by the Group's Hong Kong garment and fashion manufacturing clients to the US Buyers;
- Revenue derived from the provision of sales support services is recognised when services are performed and upon each shipment made by the Group's Hong Kong garment and fashion manufacturing clients to the US;
- Interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

**g. Translation of Foreign Currencies**

Transactions in foreign currencies during the Relevant Periods are translated into Hong Kong dollars at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Hong Kong dollars at rates of exchange ruling at the balance sheet date. All gains and losses on translation of foreign currencies are dealt with in the combined income statement.

**h. Impairment of Assets**

Tangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised to reduce the asset to its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or has decreased. A reversal of an impairment loss is recognised as income immediately.

**i. Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligations.

**j. Contingencies**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

**k. Deferred Taxation**

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 unless its realisation is assured beyond reasonable doubt.

**l. Cash Equivalents**

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amount of cash without notice and which were within three months of maturity when acquired, less advances from bank repayable within three months from the date of the advance.

**m. Retirement Benefits Scheme**

The Group has a defined contribution retirement benefits scheme (the “Scheme”) for its qualified employees, which was registered under the Occupational Retirement Scheme Ordinance (Chapter 426 of Laws of Hong Kong) and exempted from registration requirements of Section 5 of the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). Contributions are made based on a percentage of the employees’ basic salaries and are charged to the combined income statement as they become payable in accordance with rules of the Scheme. The assets of the 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 Scheme except for the Group’s employer 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 Scheme.

**n. Investment Securities**

Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are recognised on a trade-date basis and are stated in the combined balance sheet at costs less any provision for diminution in value which is expected to be other than temporary. The amount of provision or any profit or loss arising from sale of investment securities are accounted for in the combined income statement.

**o. Textile Quota Entitlements**

Permanent textile quota entitlements allocated by the Trade and Industry Department of Hong Kong are not capitalised in the combined balance sheet. Purchased textile quota entitlements are recognised at costs and are amortised on straight-line basis over three years.

**p. 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 influences.

**q. Related Party Transactions**

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

**3. COMBINED RESULTS**

The following is a summary of the combined results of the Group for each of the Relevant Periods, prepared on the basis set out in Section 1 above:

	<i>Notes</i>	<b>Year ended 31st March,</b>		
		<b>2000</b>	<b>2001</b>	<b>2002</b>
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Turnover	(a)	23,933	26,449	27,671
Other revenue	(b)	127	187	67
Selling expenses		(1,797)	(2,675)	(2,765)
Administrative expenses		(3,097)	(3,175)	(3,528)
Profit from operating activities	(c)	<u>19,166</u>	<u>20,786</u>	<u>21,445</u>
Finance costs	(d)	<u>(2)</u>	<u>(2)</u>	<u>(2)</u>
Profit before tax		19,164	20,784	21,443
Tax	(g)	<u>(246)</u>	<u>(243)</u>	<u>(76)</u>
Net profit from ordinary activities attributable to shareholders		<u>18,918</u>	<u>20,541</u>	<u>21,367</u>
Dividends	(h)	<u>14,000</u>	<u>18,000</u>	<u>18,000</u>
Earnings per share – Basic	(i)	<u>9.3 cents</u>	<u>10.1 cents</u>	<u>10.5 cents</u>

*Notes:*

**(a) Turnover**

Turnover comprised of the following:

	<b>Year ended 31st March,</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Provision of sales support services	5,795	6,010	4,282
Provision of marketing and compliance monitoring services	<u>18,138</u>	<u>20,439</u>	<u>23,389</u>
	<u>23,933</u>	<u>26,449</u>	<u>27,671</u>

The net profit analysis is set out as follow:

	<b>Marketing and compliance monitoring services</b>	<b>Sales support service</b>	<b>Total</b>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
<b>For the year ended 31st March, 2000</b>			
Sales	18,138	5,795	23,933
Net profit	<u>15,894</u>	<u>3,024</u>	<u>18,918</u>
<b>For the year ended 31st March, 2001</b>			
Sales	20,439	6,010	26,449
Net profit	<u>17,338</u>	<u>3,203</u>	<u>20,541</u>
<b>For the year ended 31st March, 2002</b>			
Sales	23,389	4,282	27,671
Net profit	<u>20,175</u>	<u>1,192</u>	<u>21,367</u>

Throughout the Relevant Periods, the Group provides (i) marketing and compliance monitoring services and (ii) sales support services to Hong Kong garment and fashion manufacturers.

Analysis of contribution to operating results and assets and liabilities by geographical market, and assets and liabilities by activity have not been prepared as most of the Group's costs and expenses and assets and liabilities were unallocated. Accordingly, the directors consider that such information is not meaningful or representative for the purposes of this report.

**(b) Other Revenue**

	<b>Year ended 31st March,</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Interest income	<u>127</u>	<u>187</u>	<u>67</u>

**(c) Profit from operating activities**

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

	<b>Year ended 31st March,</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Directors' remuneration – fees	–	–	–
– other emoluments	1,214	1,318	1,444
Auditors' remuneration	29	31	200
Depreciation of owned fixed assets	130	130	134
Total staff costs, excluding directors' remuneration and including provident fund contribution	434	471	476
Provident fund contribution	72	70	70
Mandatory provident fund contribution	–	2	–
Operating leases in respect of land and building	501	500	497
Loss on disposal of fixed assets	<u>11</u>	<u>–</u>	<u>–</u>



## (d) Finance costs

	Year ended 31st March,		
	2000 \$'000	2001 \$'000	2002 \$'000
Bank charges	2	2	2
	<u>2</u>	<u>2</u>	<u>2</u>

## (e) Directors' and Senior Executives' Emoluments

Details of directors' remuneration are as follows:

	Year ended 31st March,		
	2000 \$'000	2001 \$'000	2002 \$'000
Executive directors:			
Basic salaries, housing benefits, other allowances and benefits in kind	1,214	1,318	1,444
Provident fund contributions	10	10	10
	<u>1,224</u>	<u>1,328</u>	<u>1,454</u>

No emoluments were paid to any non-executive directors of the Company during the Relevant Periods.

The number of directors whose remuneration fell within the following bands is as follow:

	Year ended 31st March,		
	2000 \$'000	2001 \$'000	2002 \$'000
Nil to \$1,000,000	2	2	2
\$1,500,001 to \$2,000,000	–	–	–
\$2,500,001 to \$3,000,000	–	–	–
	<u>2</u>	<u>2</u>	<u>2</u>

The five individuals whose emoluments were the highest in the Group are as follows:

	Year ended 31st March,		
	2000 \$'000	2001 \$'000	2002 \$'000
Number of directors	2	2	2
Number of employees	3	3	3
	<u>5</u>	<u>5</u>	<u>5</u>

The five highest paid individuals in the Group during the Relevant Periods included two directors. Details of the emoluments of the remaining highest paid individuals in the Group during the Relevant Periods are as follows:

	Year ended 31st March,		
	2000 \$'000	2001 \$'000	2002 \$'000
Basic salaries, other allowances and benefits in kind	227	265	265
	<u>227</u>	<u>265</u>	<u>265</u>

The number of the five highest paid individuals whose emoluments fell within the following bands is as follows:

	Year ended 31st March,		
	2000	2001	2002
Nil – \$1,000,000	5	5	5
\$1,000,000 – \$1,500,000	–	–	–
	<u>5</u>	<u>5</u>	<u>5</u>

During the Relevant Periods, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No directors have waived or agreed to waive any emoluments during the Relevant Periods.

**(f) Staff Retirement Benefits**

The Group has a defined contribution retirement benefits scheme which is operated by an independent administrator for all qualified employees. Contributions to this scheme are made by both the employer and employees at rates of 5% to 10% and 5% respectively on the employees' salaries. There were neither forfeited contributions for each of the three years ended 31st March, 2002 nor any unutilised forfeited contributions as at 31st March, 2002.

**(g) Taxation**

Hong Kong profits tax has been provided at a rate of 16% on the estimated assessable profits arising in Hong Kong in respect of the Relevant Periods.

	Year ended 31st March,		
	2000 \$'000	2001 \$'000	2002 \$'000
Hong Kong profits tax			
– current	227	254	76
– deferred	19	(11)	–
	<u>246</u>	<u>243</u>	<u>76</u>

**(h) Dividends**

No dividends have been paid or declared by the Company since its date of incorporation. The dividends paid by the Company's subsidiaries to their then shareholders during the Relevant Periods were as follows:

	Year ended 31st March,		
	2000 \$'000	2001 \$'000	2002 \$'000
Dividends paid	<u>14,000</u>	<u>18,000</u>	<u>18,000</u>

The rates of dividend and the number of Shares ranking for dividends are not presented as such information is not meaningful having regard the purpose of this report.

**(i) Earnings per Share**

The calculation of the earnings per share for the Relevant Periods is based on the combined net profits attributable to shareholders for each of the Relevant Periods and on 204,000,000 shares in issue pursuant to the Capitalisation Issue, as disclosed more fully in the paragraph headed "Resolutions of the sole shareholder of the Company passed on 22nd October, 2002" in Appendix 6 to the Prospectus, being deemed to be in issue throughout the Relevant Periods.

There were no dilutive potential ordinary shares during the Relevant Periods and, therefore, diluted earnings per Share are not presented.

**(j) Related Party Transactions**

During the Relevant Periods, the following related party transactions took place:

		<b>At 31st March,</b>		
		<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>Note</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Operating lease payments in respect of land and building	<i>(i)</i>	<u>486</u>	<u>486</u>	<u>486</u>

*Notes;*

- (i) During the Relevant Periods, operating lease payments were made to Siu Ban & Sons Limited ("SBSL"), a company 100% beneficiary owned by Mr. Siu Ban, co-founder of the Group, and father of Mr. Garry Siu. The directors consider that the rental was calculated with reference to open market rentals. Details of the operating lease commitments are disclosed in section 5(h)(ii). On 27th May, 2002, the Group relocated its office and entered into a new operating lease agreement with an independent landlord and the lease with SBSL was terminated on the same date.
- (ii) On 25th May, 2002, the Group acquired leasehold land and building and a carparking space as staff quarters from SBSL and Mr. Garry Siu, a director of the Company, respectively for consideration of \$4.1 million and \$200,000 respectively. The directors consider the purchase considerations were with reference to open market values.

**4. STATEMENT OF MOVEMENTS IN EQUITY**

Movements in the combined shareholder's equity of the Group for the Relevant Periods prepared on the basis set out in Section 1 above, are as follows:

	<b>Year ended 31st March,</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
At beginning of year	3,149	8,067	10,608
Net profit attributable to shareholders	18,918	20,541	21,367
Dividends	<u>(14,000)</u>	<u>(18,000)</u>	<u>(18,000)</u>
At end of year	<u>8,067</u>	<u>10,608</u>	<u>13,975</u>

## 5. COMBINED BALANCE SHEETS

The following is a summary of the combined balance sheets of the Group as at 31st March, 2000 and 2001 and 2002 on the basis set out in Section 1 above:

	<i>Notes</i>	Year ended 31st March,		
		2000 \$'000	2001 \$'000	2002 \$'000
<b>NON-CURRENT ASSETS</b>				
Fixed assets	(a)	619	527	431
Investment securities	(b)	—	—	5,520
		<u>619</u>	<u>527</u>	<u>5,951</u>
<b>CURRENT ASSETS</b>				
Trade receivables	(c)	503	1,451	1,699
Amount due from a director	(d)	5,469	6,073	34
Prepayments, deposits and other receivables	(e)	41	43	4,604
Tax refundable		—	—	178
Cash and bank balances	(f)	2,274	3,400	2,297
		<u>8,287</u>	<u>10,967</u>	<u>8,812</u>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	(g)	753	792	721
Taxation		8	27	—
		<u>761</u>	<u>819</u>	<u>721</u>
<b>NET CURRENT ASSETS</b>		<u>7,526</u>	<u>10,148</u>	<u>8,091</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>8,145</u>	<u>10,675</u>	<u>14,042</u>
<b>NON-CURRENT LIABILITIES</b>				
Deferred taxation	(j)	78	67	67
<b>NET ASSETS</b>		<u>8,067</u>	<u>10,608</u>	<u>13,975</u>
<b>CAPITAL AND RESERVES</b>				
Share capital	(i)	1	1	1
Contributed surplus	(i)	115	115	115
Retained profits	(i)	7,951	10,492	13,859
		<u>8,067</u>	<u>10,608</u>	<u>13,975</u>

Notes:

## (a) Fixed Assets

	Furniture & Fixtures \$'000	Office Equipment \$'000	Motor Vehicles \$'000	Total
<b>Cost</b>				
Balance at 1 April 1999	317	217	485	1,019
Additions	1	43	305	349
Disposals	–	–	(37)	(37)
	<u>318</u>	<u>260</u>	<u>753</u>	<u>1,331</u>
Balance at 31 March 2000	<u>318</u>	<u>260</u>	<u>753</u>	<u>1,331</u>
Balance at 1 April 2000	318	260	753	1,331
Additions	–	38	–	38
	<u>318</u>	<u>298</u>	<u>753</u>	<u>1,369</u>
Balance at 31 March 2001	<u>318</u>	<u>298</u>	<u>753</u>	<u>1,369</u>
Balance at 1 April 2001	318	298	753	1,369
Additions	–	38	–	38
	<u>318</u>	<u>336</u>	<u>753</u>	<u>1,407</u>
Balance at 31 March 2002	<u>318</u>	<u>336</u>	<u>753</u>	<u>1,407</u>
<b>Depreciation</b>				
Balance at 1 April 1999	229	129	250	608
Charge for the year	26	29	75	130
Written back on disposal	–	–	(26)	(26)
	<u>255</u>	<u>158</u>	<u>299</u>	<u>712</u>
Balance at 31 March 2000	<u>255</u>	<u>158</u>	<u>299</u>	<u>712</u>
Balance at 1 April 2000	255	158	299	712
Charge for the year	27	28	75	130
	<u>282</u>	<u>186</u>	<u>374</u>	<u>842</u>
Balance at 31 March 2001	<u>282</u>	<u>186</u>	<u>374</u>	<u>842</u>
Balance at 1 April 2001	282	186	374	842
Charge for the year	25	34	75	134
	<u>307</u>	<u>220</u>	<u>449</u>	<u>976</u>
Balance at 31 March 2002	<u>307</u>	<u>220</u>	<u>449</u>	<u>976</u>
<b>Carrying amount</b>				
At 31 March 2000	<u>63</u>	<u>102</u>	<u>454</u>	<u>619</u>
At 31 March 2001	<u>36</u>	<u>112</u>	<u>379</u>	<u>527</u>
At 31 March 2002	<u>11</u>	<u>116</u>	<u>304</u>	<u>431</u>

**(b) Investment securities**

	<b>2000</b>	<b>At 31st March,</b>	
	<b>\$'000</b>	<b>2001</b>	<b>2002</b>
		<b>\$'000</b>	<b>\$'000</b>
Investments Securities:			
Listed Securities			
at cost	—	—	5,520
	<u>—</u>	<u>—</u>	<u>5,520</u>
at market value	—	—	5,520
	<u>—</u>	<u>—</u>	<u>5,520</u>

As the Group has surplus cash inflows generated from ordinary operating activities, the Group, advised by certain securities brokers and bankers, decided to invest in certain listed shares with the intention of seeking for long-term capital gains and returns. For the year ended 31st March, 2002, the Group acquired 15,900,000 shares of Info Communication Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited and is independent of and not connected with the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates, at \$0.345 per share. As at 22nd October 2002, the Group had not disposed of any of such shares and the closing price of Info Communication Holdings Limited was \$0.035. The market value of the investment in listed equity securities as at 22nd October 2002 was therefore \$556,500.

The directors are of the opinion that provision of permanent diminution in value is unnecessary as indicated by the following conditions:

- (1) The investee company has been listed for less than one year and it is pre-mature to conclude that permanent diminution is established;
- (2) There is no indication of severe losses by the investee in the current year and prior years;
- (3) There is no indication of continued losses by the investee company for a period of years;
- (4) There is no suspension of trading in the securities of the company; and
- (5) There is no indication of liquidity or going concern problems of the investee company.

Based on the above conditions, the auditors and reporting accountants have reviewed, substantiated and confirmed that the above assessment made by the directors is reasonable and no provision for permanent diminution is required.

**(c) Trade receivables**

General credit terms granted by the Group to its customers range from 1 month to 3 months. The ageing analysis of trade receivables at the end of each of the Relevant Periods are as follows:

	<b>Year ended 31st March,</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Current – 1 month	503	1,451	1,699
	<u>503</u>	<u>1,451</u>	<u>1,699</u>

**(d) Amount due from a director**

The amount due from a director is unsecured, interest-free and has no fixed terms of repayment.

Particulars of amount due from a director disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, Chapter 32 of the Laws of Hong Kong, are as follows:

Name of director: Mr. Siu Kwok Kin, Garry

	Year ended 31st March,		
	2000 \$'000	2001 \$'000	2002 \$'000
At the beginning of year	352	5,469	6,073
At end of year	5,469	6,073	34
Highest balance outstanding during the year	5,469	6,073	6,073

The amount due by a director was fully repaid after the year ended 31st March, 2002.

**(e) Prepayments, deposits and other receivables**

An amount of HK\$4,500,000 included in the balance as at 31st March, 2002 represents deposits paid for acquisition of land and building and a carparking space plus legal and professional fees. Details of the acquisition of land and building and the carparking space are set out in section headed "Subsequent Events" and section 3(j)(ii).

**(f) Cash and bank balances**

	Year ended 31st March,		
	2000 \$'000	2001 \$'000	2002 \$'000
Cash at bank and in hand	2,274	3,400	2,297

**(g) Trade and other payables**

	Year ended 31st March,		
	2000 \$'000	2001 \$'000	2002 \$'000
Accrued expenses due within 30 days or on demand	753	792	721

**(h) Commitments and Contingent Liabilities***(i) Contingent liabilities*

The Group did not have any significant contingent liabilities at the end of each of the Relevant Periods.

*(ii) Operating lease commitments*

At 31st March, 2000, 2001, 2002, the total future minimum lease payments under operating leases in respect of land and building are payable as follows:

	At 31st March,		
	2000 \$'000	2001 \$'000	2002 \$'000
Within 1 year	486	486	81
After 1 year but within 5 years	942	456	–
	1,428	942	81

During the Relevant Periods, an operating lease was entered with SBSL, a company 100% beneficiary owned by Mr. Siu Ban, co-founder of the Group and father of Mr. Garry Siu. On 27th May, 2002, the Group relocated its office and entered into a new non-cancellable, operating lease agreement with an independent landlord for a period of two years and the lease with SBSL was terminated on the same date. The operating lease commitments in respect of the new operating lease entered into on 6th May, 2002 are \$486,000, payable within the year ending 31st March, 2003 and \$340,010 payable for the years ending 31st March, 2004 and 2005.

(i) **Reserves and Retained Profits**

Movements in reserves of the Group during the Relevant Periods were as follows:

	Share Capital \$'000	Contributed Surplus \$'000	Retained Profit \$'000	Total Shareholder equity \$'000
As at 1st April, 1999	1	115	3,033	3,149
Profit for the year	–	–	18,918	18,918
Dividends	–	–	(14,000)	(14,000)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
As at 31st March, 2000 and at 1st April, 2000	1	115	7,951	8,067
Profit for the year	–	–	20,541	20,541
Dividends	–	–	(18,000)	(18,000)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
As at 31st March, 2001 and at 1st April, 2001	1	115	10,492	10,608
Profit for the year	–	–	21,367	21,367
Dividends	–	–	(18,000)	(18,000)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
As at 31st March, 2002	<u>          </u> <u>          </u>	<u>          </u> <u>          </u>	<u>          </u> <u>          </u>	<u>          </u> <u>          </u>

The contributed surplus of the Group represents the difference between the nominal value of share capital of the subsidiaries acquired pursuant to Group Reorganisation over the nominal value of the shares of Sun Ace, a wholly-owned subsidiary of the Company issued in exchange therefor.

(j) **Deferred taxation**

	2000 HK\$'000	As at 31st March, 2001 HK\$'000	2002 HK\$'000
At the beginning of year	59	78	67
Transfer from/(to) profit and loss account	19	(11)	–
	<u>          </u>	<u>          </u>	<u>          </u>
At the end of the year	<u>          </u> <u>          </u>	<u>          </u> <u>          </u>	<u>          </u> <u>          </u>
Timing differences in respect of:			
Accelerated depreciation allowances	78	67	67
	<u>          </u>	<u>          </u>	<u>          </u>

The Group had no material unprovided deferred tax as at 31st March, 2000, 2001, and 2002.

(k) **Combined Net Tangible Assets of the Company**

The Company was incorporated on 21st June, 2002. On the basis of presentation set out in Section 1 above, the combined net tangible assets of the Group as at 31st March, 2002 amounted to approximately \$13,975,000 representing its investment in subsidiaries.

(l) **Distributable reserves**

In accordance with the Companies Law, Cap. 22 (Laws 3 of 1961, as consolidated and revised) of the Cayman Islands, the contributed surplus and retained profits are distributable to the shareholders of the Company subject to the Company's articles of association and provided that immediately following the distribution of dividends, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.



The Company was incorporated on 21st June, 2002. Accordingly, as at 31st March, 2002, there were no reserves available for distribution to shareholders of the Company.

## 6. COMBINED CASH FLOW STATEMENTS

The combined cash flow statements of the Group for the Relevant Periods prepared on the basis set out in Section 1 above are as follows:

	<i>Notes</i>	Year ended 31st March,		
		2000 \$'000	2001 \$'000	2002 \$'000
<b>Net Cash Inflow from Operating Activities</b>	(a)	14,609	19,214	22,671
<b>Returns on Investments and Servicing of Finance</b>				
Interest received		127	188	67
Bank charges		(2)	(2)	(2)
Dividends paid		<u>(14,000)</u>	<u>(18,000)</u>	<u>(18,000)</u>
Net cash outflow from returns on investments and servicing of finance		<u>(13,875)</u>	<u>(17,814)</u>	<u>(17,935)</u>
<b>Taxation</b>				
Hong Kong profits tax paid		<u>(396)</u>	<u>(236)</u>	<u>(281)</u>
Net cash outflow from taxation		<u>(396)</u>	<u>(236)</u>	<u>(281)</u>
<b>Investing Activities</b>				
Payments to acquire fixed assets		(349)	(38)	(38)
Payments to acquire investment securities		<u>—</u>	<u>—</u>	<u>(5,520)</u>
Net cash outflow from investing activities		<u>(349)</u>	<u>(38)</u>	<u>(5,558)</u>
(Decrease)/Increase in cash and cash equivalents		(11)	1,126	(1,103)
<b>Cash and cash equivalents at the beginning of the year</b>		<u>2,285</u>	<u>2,274</u>	<u>3,400</u>
<b>Cash and cash equivalents at the end of the year</b>		<u><u>2,274</u></u>	<u><u>3,400</u></u>	<u><u>2,297</u></u>

Note:

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

	Year ended 31st March,		
	2000	2001	2002
	\$'000	\$'000	\$'000
Profit from operations	19,166	20,786	21,445
Depreciation of owned fixed assets	130	130	134
Interest income	(127)	(187)	(67)
Loss on disposal of fixed assets	11	–	–
Increase in trade receivables	(78)	(948)	(248)
(Increase)/decrease in amount due by a director	(5,116)	(604)	6,039
Decrease/(increase) in prepayments, deposits and other receivables	12	(2)	(4,561)
Increase/(decrease) in trade and other payables	611	39	(71)
	<u>14,609</u>	<u>19,214</u>	<u>22,671</u>

## 7. DIRECTORS' REMUNERATION

Save as disclosed in Note 3(e) of this accountants' report, no remuneration has been paid or is payable in respect of the Relevant Periods by the Company or its subsidiary now comprising the Group to the directors of the Company.

Under the arrangement presently in force, the aggregate amount of emoluments of the directors of the Company payable for the year ending 31st March, 2003, including performance bonuses, is estimated to be approximately \$2.04 million.

## 8. SUBSEQUENT EVENTS

- (a) On 25th May, 2002, the Group acquired leasehold land and building and a carparking space as staff quarters from SBSL and Mr. Garry Siu, a Director of the Company, respectively for consideration of \$4.1 million and \$200,000 respectively. SBSL is a Hong Kong incorporated company ultimately and beneficially 100% owned by Mr. Siu Ban, co-founder of the Group and father of Mr. Garry Siu. The Directors consider the purchase considerations were with reference to open market values.
- (b) On 31st July, 2002, the Group declared and paid special dividends of \$6 million to its then shareholders.
- (c) On 22nd October, 2002, the companies comprising the Group underwent a reorganisation in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited. Further details of the reorganisation are set out in the paragraph headed "Group reorganization" in the section headed "Further information about the Company" in Appendix 6 of the Prospectus.

Save as aforesaid, no other significant events took place subsequent to 31st March, 2002.

**9. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 31st March, 2002.

Yours faithfully,  
**HLB Hodgson Impey Cheng**  
*Chartered Accountants*  
*Certified Public Accountants*  
Hong Kong