

**1 Principal activities**

The principal activity of the Company is investment holding. The activities of its principal subsidiary companies are shown on pages 43 to 46.

**2 Principal accounting policies**

The principal accounting policies adopted in the preparation of the accounts are as follows:

**(a) Basis of preparation**

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). The accounts are prepared under the historical cost convention as modified by the revaluation of investment properties and short term investments.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translations
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

The adoption of these new and revised SSAPs has no material effect on the Group's results other than presentational changes in respect of the presentation of consolidated statement of changes in equity and consolidated cash flow statement. Certain comparative figures have been reclassified to conform with the current year's presentation.

**(b) Consolidation**

The consolidated accounts include the accounts of the Company and its subsidiary companies made up to 31st March. The results of subsidiary companies acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

The gain or loss on the disposal of a subsidiary company represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill/negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiary companies.

**(c) Goodwill/negative goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions occurring on or after 1st April 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

**2 Principal accounting policies** *(Continued)*

**(c) Goodwill/negative goodwill** *(Continued)*

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

The carrying amount of goodwill is reviewed annually and provision is made where, in the opinion of directors, there is a long term impairment in value.

**(d) Subsidiary companies**

A company is a subsidiary if the Group, directly or indirectly, controls more than half of the voting power, has the power to govern the financial and operating policies, appoint or remove the majority of the members of the board of directors or cast majority of votes at the meetings of the board of directors. In the Company's balance sheet, the investments in subsidiary companies are stated at costs less provision for impairment losses. Provision is made when, in the opinion of directors, there is a diminution in value other than temporary in nature.

The results of subsidiary companies are accounted for by the Company on the basis of dividend income received and receivable.

**(e) Fixed assets and depreciation**

Fixed assets other than investment properties (note 2(f)) are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided at rates calculated to write off their cost by equal annual instalments over their estimated useful lives or, if shorter, the relevant finance lease periods, as follows:

Leasehold land	over the unexpired period of the lease
Buildings	lesser of the unexpired lease term or 2 to 2½%
Plant and equipment	10 to 33⅓%
Furniture and fixtures	7 to 33⅓%
Motor vehicles	20 to 25%

Major costs incurred in restoring fixed assets to their normal working condition are charged to profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

**2 Principal accounting policies** *(Continued)***(f) Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential.

Investment properties are valued annually by independent professional valuers. Increases in valuations are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously debited.

No depreciation is provided on investment properties held on leases of more than twenty years and freehold land.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

**(g) Assets under leases***(i) Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets, other than legal title, are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated on the basis described in note 2(e).

*(ii) Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Payments made under the operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight line basis over the lease periods.

**(h) Investment securities**

Investment securities are held for non-trading purpose and long-term. Investment securities are stated at cost less provision for permanent diminution in value.

**(i) Trademarks and patents**

Watch brand trademarks are stated at cost less amortisation. Cost is amortised over the estimated useful economic lives of 20 years on a straight-line basis.

**2 Principal accounting policies** *(Continued)***(j) Stocks**

Stocks are stated at the lower of cost and net realisable value. The stock valuation includes the cost of direct labour, materials and an appropriate proportion of production overhead expenditure. Cost is calculated on the first in first out or weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

**(k) Short term investments**

Short term investments are stated at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in market value of short term investments are recognised in the profit and loss account. Profit or loss upon the disposals of short term investments representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

**(l) Accounts receivable**

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

**(m) Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

**(n) Deferred taxation**

Deferred taxation is accounted for at current tax rates in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

**(o) Translation of foreign currencies**

Transactions in foreign currencies are converted at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiary companies denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences arising are dealt with as a movement in reserves.

In prior years, the profit and loss of subsidiary companies denominated in foreign currencies were translated at closing rate. This is a change in accounting policy, however, the adoption of SSAP 11 (revised) has not been applied retrospectively to the prior years as the effect of this change is not material.

**2 Principal accounting policies** *(Continued)***(p) Employee benefit cost**

The Group operated a mandatory provident fund scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The Group's contributions to the scheme are expensed as incurred.

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

**(q) Related parties**

Related parties are individuals and companies, including subsidiary companies, where the individual, company or group 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.

**(r) Recognition of revenue**

Revenue is recognised when it is probable that the economic benefits will accrue to the Group and when the revenue can be measured reliably on the following bases:

- (i) invoiced value of goods net of discounts and allowances, when the goods are delivered to the customers;
- (ii) rental income, on an accruals basis in accordance with the lease agreements;
- (iii) sales of short term investments, when the significant risks and rewards of ownership have been transferred to the purchasers;
- (iv) dividend income, when the shareholder's right to receive payment is established;
- (v) interest income, in proportion to time, taking account of the principal outstanding and the effective interest rate applicable and;
- (vi) profits on disposals of completed properties, when the sale and purchase agreements are completed.

**(s) Segment reporting**

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated items represent net corporate expenses or income. Segment assets consist primarily of fixed assets, trademarks and patents, stocks, debtors and prepayments and exclude cash and bank balances. Segment liabilities consist mainly of creditors and accruals and exclude taxation payable, loans from shareholders, minority interests and corporate borrowings. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on location of its markets and customers. Total assets and capital expenditure are based on where the assets are located.

**2 Principal accounting policies** *(Continued)*

**(t) Contingent liabilities and contingent assets**

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 accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as 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 accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

**(u) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

**3 Turnover**

Turnover represents the following and comprises revenues from:

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Sales of goods	<b>1,154,340</b>	1,173,777
Gross rental income	<b>34,848</b>	34,654
Dividend income	<b>1,946</b>	1,456
Interest income	<b>6,988</b>	7,300
Sales of short term investments	–	376
	<b>1,198,122</b>	1,217,563

## NOTES TO THE ACCOUNTS

### 4 Segment information

Primary reporting format – business segments

	2003				Group HK\$'000
	Investment HK\$'000	Property HK\$'000	Retail and trading HK\$'000	Eliminations HK\$'000	
Turnover	2,042	50,623	1,156,480	(11,023)	1,198,122
Segment results	2,042	(16,247)	31,539		17,334
Net corporate expenses					(26,276)
Operating loss before financing					(8,942)
Finance costs					(29,040)
Loss before taxation					(37,982)
Taxation					(3,234)
Loss after taxation					(41,216)
Minority interests					–
Loss attributable to shareholders					(41,216)
Segment assets	12,053	832,797	669,349		1,514,199
Unallocated assets					36,775
Total assets					1,550,974
Segment liabilities	4,977	12,506	228,663		246,146
Minority interests	–	–	1,473		1,473
Unallocated liabilities					593,149
Total liabilities					840,768
Capital expenditure	935	–	45,009		45,944
Depreciation	4,330	3,125	43,905		51,360
Amortisation of trademarks and patents	–	–	1,850		1,850
Impairment charge	–	2,800	2,000		4,800
Loss on disposals of fixed assets	–	–	463		463
Provision for stocks obsolescence and stocks written off	–	–	13,261		13,261
Provision for doubtful debts and bad debts written off	34	4,753	4,257		9,044

## NOTES TO THE ACCOUNTS

### 4 Segment information (Continued)

Primary reporting format – business segments (Continued)

	2002				Group HK\$'000
	Investment HK\$'000	Property HK\$'000	Retail and trading HK\$'000	Eliminations HK\$'000	
Turnover	1,988	51,722	1,176,306	(12,453)	1,217,563
Segment results	1,971	17,842	43,293		63,106
Net corporate expenses					(28,527)
Operating profit before financing					34,579
Finance costs					(36,234)
Loss before taxation					(1,655)
Taxation					(8,079)
Loss after taxation					(9,734)
Minority interests					–
Loss attributable to shareholders					(9,734)
Segment assets	11,222	874,694	677,328		1,563,244
Unallocated assets					51,575
Total assets					1,614,819
Segment liabilities	5,839	52,659	230,374		288,872
Minority interests	–	–	1,461		1,461
Unallocated liabilities					578,587
Total liabilities					868,920
Capital expenditure	2,674	177	27,080		29,931
Depreciation	1,199	6,892	45,427		53,518
Amortisation of trademarks and patents	–	–	2,351		2,351
Impairment charge	–	12,154	–		12,154
Loss on disposals of fixed assets	–	–	1,721		1,721
Provision for stocks obsolescence and stocks written off	–	–	8,277		8,277
Provision for doubtful debts and bad debts written off	9	4,615	1,920		6,544



## NOTES TO THE ACCOUNTS

### 4 Segment information (Continued)

Secondary reporting format – geographical segments

	2003			
	Turnover HK\$'000	Segment results HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
Hong Kong	702,719	(40,346)	1,210,859	14,670
South East and Far East Asia	278,482	19,245	240,856	29,447
Europe	197,911	37,364	73,224	1,199
North America	9,213	490	8,280	26
PRC Mainland	9,797	581	17,755	602
	<b>1,198,122</b>	<b>17,334</b>	<b>1,550,974</b>	<b>45,944</b>

	2002			
	Turnover HK\$'000	Segment results HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
Hong Kong	745,659	13,875	1,296,309	15,318
South East and Far East Asia	277,787	10,403	229,957	12,869
Europe	167,830	38,211	67,184	1,446
North America	14,118	(887)	9,669	20
PRC Mainland	12,169	1,504	11,700	278
	<b>1,217,563</b>	<b>63,106</b>	<b>1,614,819</b>	<b>29,931</b>

### 5 Other income

	2003 HK\$'000	2002 HK\$'000
Building management fee income	11,813	12,450
Sundries	8,573	12,937
	<b>20,386</b>	<b>25,387</b>

## NOTES TO THE ACCOUNTS

### 6 Operating (loss)/ profit before financing

	2003 HK\$'000	2002 HK\$'000
Operating (loss)/ profit before financing is stated after charging/(crediting):		
Depreciation		
Owned fixed assets	50,757	53,120
Leased fixed assets	603	398
Auditors' remuneration		
Current year	3,583	3,993
(Over)/under provision in respect of prior years	(245)	28
Operating leases		
Land and buildings	177,871	167,838
Plant and machinery	535	546
Amortisation of trademarks and patents	1,850	2,351
Outgoings in respect of investment properties	1,807	2,323
Loss on disposals of fixed assets	463	1,721
Loss on sales of short term investments	–	17
Provision for stock obsolescence and stocks written off	13,261	8,277
Provision for doubtful debts and bad debts written off	9,044	6,544
Legal expenses written off	10,842	–
Net exchange losses	977	1,881

### 7 Finance costs

	2003 HK\$'000	2002 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	25,817	31,643
Interest on bank loans not wholly repayable within five years	–	1,505
Interest on other loans wholly repayable within five years	3,084	2,920
Interest on finance leases	139	166
	<b>29,040</b>	<b>36,234</b>

### 8 Staff costs

The amount of staff costs (including directors' emoluments as disclosed in note 9) charged to the profit and loss account represents:

	2003 HK\$'000	2002 HK\$'000
Salaries and allowances	212,397	212,406
Pension contributions less forfeiture utilised	11,191	11,862
Unutilised annual leave	3,361	313
Social security costs	1,829	2,005
Other allowances	183	67
	<b>228,961</b>	<b>226,653</b>

**9 Emoluments of directors and senior management**

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees		
– executive directors	<b>400</b>	480
– non-executive directors	<b>340</b>	340
Salaries, allowances and benefits in kind	<b>8,900</b>	10,016
Pensions contributions	<b>274</b>	216
Executive Bonus Scheme	–	–
	<b>9,914</b>	11,052

Pursuant to an Executive Bonus Scheme approved under a board resolution passed on 7th January 1993 by Stelux Holdings Limited, Mr Wong Chong Po and Mr Joseph C. C. Wong were eligible to an annual bonus determinable under the terms of the Executive Bonus Scheme with respect to their management of the Group. No bonus is paid or payable to the eligible directors under the Executive Bonus Scheme for the year (2002: Nil).

Emoluments paid to independent non-executive directors for the year included directors' fees amounting to HK\$160,000 (2002: HK\$160,000). During the year, none of the directors has waived their directors' fees (2002: Nil).

The emoluments were paid to the directors as follows:

	<b>2003</b> <b>Number</b> <b>of directors</b>	2002 Number of directors
<b>Emolument bands</b>		
HK\$ Nil – HK\$500,000	<b>4</b>	4
HK\$500,001 – HK\$1,000,000	–	1
HK\$1,500,001 – HK\$2,000,000	<b>4</b>	4
HK\$2,500,001 – HK\$3,000,000	<b>1</b>	–
HK\$3,000,001 – HK\$3,500,000	–	1
	<b>9</b>	10

In addition to the above analysis for directors, there was one employee (2002: one) whose emoluments were among the five highest in the Group. Details of the emoluments paid to this employee were:

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	<b>1,573</b>	1,219
Pensions contributions	<b>89</b>	104
Bonuses	<b>1,151</b>	1,005
	<b>2,813</b>	2,328

**10 Taxation**

Hong Kong profits tax has been provided at the rate of 16% (2002: 16%) on the estimated assessable profit for the year less relief for available tax losses. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Company and subsidiary companies:		
Hong Kong profits tax		
Current	(62)	(29)
Under provision in respect of prior years	–	(4,325)
	<b>(62)</b>	(4,354)
-----		
Overseas profits tax		
Current	(3,249)	(4,794)
Over provision in respect of prior years	77	1,069
	<b>(3,172)</b>	(3,725)
	<b>(3,234)</b>	(8,079)

Deferred tax (charge)/credit for the year has not been provided in respect of the following:

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Accelerated depreciation allowances	(1,875)	(762)
Other timing differences	(5,041)	636
	<b>(6,916)</b>	(126)

Unprovided deferred taxation assets are analysed as follows:

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Accelerated depreciation allowances	736	2,611
Other timing differences	9,298	14,339
	<b>10,034</b>	16,950

Future tax benefits attributable to available tax losses have not been accounted for due to the uncertainty as to their future utilisation.

## NOTES TO THE ACCOUNTS

### 11 Loss attributable to shareholders

Loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$2,491,000 (2002: HK\$2,871,000).

### 12 Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$41,216,000 (2002: HK\$9,734,000) and on the weighted average number of 936,340,023 shares (2002: 936,340,023 shares) in issue during the year.

The exercise of the share options granted by the Group would have an anti-dilutive effect on the loss per share for both years.

### 13 Fixed assets

	Land and buildings <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Plant, equipment and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Group</b>				
Cost or valuation				
At 31st March 2002	357,520	565,750	295,600	1,218,870
Translation differences	2,017	–	4,727	6,744
Additions	11,392	–	34,552	45,944
Disposals	(3,819)	–	(32,241)	(36,060)
Revaluation deficit	–	(33,230)	–	(33,230)
<b>At 31st March 2003</b>	<b>367,110</b>	<b>532,520</b>	<b>302,638</b>	<b>1,202,268</b>
Accumulated depreciation and impairment				
At 31st March 2002	105,116	–	223,657	328,773
Translation differences	394	–	3,945	4,339
Charge for the year	10,144	–	41,216	51,360
Disposals	(1,061)	–	(31,331)	(32,392)
Impairment charge	4,800	–	–	4,800
<b>At 31st March 2003</b>	<b>119,393</b>	<b>–</b>	<b>237,487</b>	<b>356,880</b>
Net book value				
<b>At 31st March 2003</b>	<b>247,717</b>	<b>532,520</b>	<b>65,151</b>	<b>845,388</b>
At 31st March 2002	252,404	565,750	71,943	890,097

**13 Fixed assets (Continued)**

The analysis of cost or valuation of the above assets as at 31st March 2003 is as follows:

	Land and buildings <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Plant, equipment and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost	367,110	–	302,638	669,748
At 2003 professional valuation	–	532,520	–	532,520
	<b>367,110</b>	<b>532,520</b>	<b>302,638</b>	<b>1,202,268</b>

The analysis of cost or valuation of the above assets as at 31st March 2002 is as follows:

	Land and buildings <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Plant, equipment and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost	357,520	–	295,600	653,120
At 2002 professional valuation	–	565,750	–	565,750
	357,520	565,750	295,600	1,218,870

Investment properties of the Group were valued on the open market value basis at 31st March 2003 by DTZ Debenham Tie Leung Limited, independent property valuer. All other fixed assets are stated at cost less accumulated depreciation and impairment charge, if any.

- (a) The Group's interests in investment properties and other properties at their net book values, are analysed as follows:

	Group 2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong:		
Medium term leases (10 – 50 years)	<b>674,067</b>	714,450
Overseas:		
Freehold	<b>49,644</b>	51,724
Medium term leases (10 – 50 years)	<b>48,762</b>	51,256
Short term leases (under 10 years)	<b>7,764</b>	724
	<b>780,237</b>	818,154

- (b) At 31st March 2003, certain of the Group's land and buildings amounting to HK\$169,155,000 (2002: HK\$175,899,000) and investment properties amounting to HK\$531,500,000 (2002: HK\$564,550,000) were pledged to secure banking facilities granted to the Group.

**NOTES TO THE ACCOUNTS****13 Fixed assets** *(Continued)*

- (c) At 31st March 2003, the net book value of fixed assets held under finance leases amounted to HK\$1,632,000 (2002: HK\$1,523,000).

**14 Subsidiary companies**

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares at cost less provision	<b>495,150</b>	495,150
Amounts due from subsidiary companies	<b>116,155</b>	116,155
Amounts due to subsidiary companies	<b>(126,694)</b>	(123,383)
	<b>484,611</b>	487,922

The amounts receivable from and payable to subsidiary companies are unsecured, interest free and have no fixed terms of repayment.

Details of principal subsidiary companies are given on pages 43 to 46.

**15 Investment securities**

	<b>2003</b> <i>HK\$'000</i>	<b>Group</b> 2002 <i>HK\$'000</i>
Unlisted overseas shares, at cost	<b>4,299</b>	4,299

**16 Trademarks and patents**

	<b>2003</b> <i>HK\$'000</i>	<b>Group</b> 2002 <i>HK\$'000</i>
At 1st April	<b>23,134</b>	25,485
Less: Amortisation	<b>(1,850)</b>	(2,351)
At 31st March	<b>21,284</b>	23,134

**17 Stocks**

	2003 <i>HK\$'000</i>	Group 2002 <i>HK\$'000</i>
Raw materials	131,461	145,884
Work-in-progress	6,617	8,138
Finished goods	316,687	296,843
	454,765	450,865
Provision	(98,557)	(95,823)
	356,208	355,042

At 31st March 2003, finished goods that are carried at net realisable value amounted to HK\$4,531,000 (2002: HK\$3,500,624).

**18 Debtors and prepayments**

	2003 <i>HK\$'000</i>	Group 2002 <i>HK\$'000</i>
Trade debtors ( <i>note a</i> )		
Below 60 days	14,035	11,934
Over 60 days	18,984	19,511
	33,019	31,445
Deposits, prepayments and other debtors ( <i>note b</i> )	249,637	254,872
	282,656	286,317

Note:

- (a) The Group allows an average credit period of 60 days to its trade debtors.
- (b) Included in the balances are amounts due from related companies of HK\$174,356,000 (2002: HK\$170,885,000), of which a balance owing by Bangkok Land Public Company Limited (note 28(c)) is made up as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Property development consultancy fee receivable	147,294	147,294
Interest receivable	23,144	18,391
	170,438	165,685
Less: provision	(24,198)	(19,445)
	146,240	146,240

Of the gross amount receivable, HK\$163,191,000 (2002: HK\$158,438,000) carries interest at 3% per annum and is repayable on demand. In addition, HK\$50 million (2002: Nil) of the balance receivable was pledged to secure banking facilities granted to the Group.

All other balances due from related companies are unsecured, interest free and have no fixed terms of repayment.



## NOTES TO THE ACCOUNTS

### 19 Short term investments

	2003 HK\$'000	Group 2002 HK\$'000
Overseas listed shares, at market value	74	65
Quoted bonds, at market value	4,290	4,290
	<b>4,364</b>	4,355

### 20 Cash and bank balances

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Restricted balances	2,014	–	–	–
Unrestricted balances	34,761	51,575	4	4
	<b>36,775</b>	51,575	4	4

The restricted balances were pledged to secure banking facilities granted to the Group.

### 21 Creditors and accruals

	2003 HK\$'000	Group 2002 HK\$'000
Trade creditors		
Below 60 days	61,307	63,478
Over 60 days	53,891	45,733
	<b>115,198</b>	109,211
Other creditors and accruals ( <i>note</i> )	130,948	179,661
	<b>246,146</b>	288,872

*Note:*

Included in other creditors and accruals are amounts due to related companies of HK\$27,544,000 (2002: HK\$25,372,000) which are unsecured, interest free and have no fixed terms of repayment.

**22 Share capital**

	Number of shares of HK\$0.1 each	Nominal value HK\$'000
Authorised:		
At 31st March 2003 and 2002	1,600,000,000	160,000
Issued and fully paid:		
At 31st March 2003 and 2002	936,340,023	93,634

On 25th June 1997, a share option scheme for the executive directors and employees of the Company and its subsidiary companies (the "Scheme") was approved and adopted by the shareholders pursuant to which the directors were authorised to grant options to executive directors and employees of the Company or its subsidiary companies to subscribe for shares of the Company for a period of ten years. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 5% of the total shares in issue. Movements in the number of share options outstanding during the year are as follows:

	Number of options	
	2003	2002
At the beginning of the year	<b>22,000,000</b>	23,000,000
Lapsed	<b>(6,000,000)</b>	(1,000,000)
At the end of the year (note (i))	<b>16,000,000</b>	22,000,000

(i) Share options outstanding at the end of the year have the following terms:

Expiry date	Exercise price HK\$	Number of options		Vested percentages	
		2003	2002	2003	2002
Directors					
5th August 2002	1.3632	-	6,000,000	-	100%
25th October 2003	0.15	<b>6,000,000</b>	6,000,000	<b>100%</b>	100%
16th January 2005	0.248	<b>8,000,000</b>	8,000,000	<b>100%</b>	100%
		<b>14,000,000</b>	20,000,000		
Other employees					
25th October 2003	0.15	<b>2,000,000</b>	2,000,000	<b>100%</b>	100%
		<b>16,000,000</b>	22,000,000		

**23 Reserves**

	Contributed surplus <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Accumulated loss <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>(a) Group</b>				
At 1st April 2001	2,848,462	443	(2,186,206)	662,699
Loss for the year	–	–	(9,734)	(9,734)
Exchange translation	–	–	(700)	(700)
At 31st March 2002	2,848,462	443	(2,196,640)	652,265
Loss for the year	–	–	(41,216)	(41,216)
Exchange translation	–	–	5,523	5,523
<b>At 31st March 2003</b>	<b>2,848,462</b>	<b>443</b>	<b>(2,232,333)</b>	<b>616,572</b>

All reserves of the Group are retained by the Company and its subsidiary companies.

	Contributed surplus <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Accumulated loss <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>(b) Company</b>				
At 1st April 2001	4,085,186	443	(3,694,749)	390,880
Loss for the year	–	–	(2,871)	(2,871)
At 31st March 2002	4,085,186	443	(3,697,620)	388,009
Loss for the year	–	–	(2,491)	(2,491)
<b>At 31st March 2003</b>	<b>4,085,186</b>	<b>443</b>	<b>(3,700,111)</b>	<b>385,518</b>

Under the laws of Bermuda and the Bye-laws of the Company, the contributed surplus is distributable. At 31st March 2003, the distributable reserves of the Company available for distribution as dividends to shareholders amounted to HK\$385,075,000 (2002: HK\$387,566,000).

**24 Loans from shareholders**

The loans were provided by Mr Wong Chue Meng (deceased) and Madam Chuang Yuan Hsien (deceased) and are unsecured, interest free and have no fixed terms of repayment.

**25 Long term liabilities**

		<b>Group</b>	
	<i>Note</i>	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Bank loans, unsecured	<i>(a)</i>	<b>157</b>	737
Bank loans, secured	<i>(a)</i>	<b>285,472</b>	295,327
Loan from a related company	<i>(b)</i>	<b>34,250</b>	33,000
Loan from a director	<i>(c)</i>	<b>13,444</b>	15,245
Obligations under finance leases	<i>(d)</i>	<b>1,133</b>	1,117
		<b>334,456</b>	345,426
Amount payable within one year included under current liabilities		<b>26,049</b>	26,330
		<b>308,407</b>	319,096

(a) The bank loans are repayable as follows:

Not exceeding one year	<b>21,248</b>	19,824
More than one year, but not exceeding two years	<b>16,109</b>	254,799
More than two years, but not exceeding five years	<b>248,272</b>	20,600
More than five years	–	841
	<b>285,629</b>	296,064

Of the gross amounts shown above for the Group, there are no bank loans which are not wholly repayable within five years (2002: HK\$23,571,000).

(b) The loan payable is unsecured, carries interest at prime rate. Except for the loan amount of HK\$30,000,000 (2002: HK\$27,000,000) which is not repayable on or before 1st April 2004, the balance is repayable within one year.

(c) The loan balance is wholly repayable on 30th April 2004, unsecured, carried interest at 2.875% per annum above the prevailing Swiss interbank cost of funds for the period from 30th March 2001 to 26th March 2003. On 27th March 2003, the interest rate was revised to 1.5% per annum above US Dollar best lending rate.

## NOTES TO THE ACCOUNTS

### 25 Long term liabilities (Continued)

(d) The obligations under finance leases are repayable as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Not exceeding one year	610	582
More than one year, but not exceeding two years	229	489
More than two years, but not exceeding five years	367	221
More than five years	104	–
	<b>1,310</b>	1,292
Future finance charges on finance leases	(177)	(175)
	<b>1,133</b>	1,117
The present value of finance lease liabilities is as follows:		
Not exceeding one year	551	506
More than one year, but not exceeding two years	199	436
More than two years, but not exceeding five years	301	175
More than five years	82	–
	<b>1,133</b>	1,117

### 26 Contingent liabilities

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
(a) Guarantees to secure banking facilities for subsidiary companies	–	–	1,169,637	1,035,696
Other guarantees				
Subsidiary companies	–	–	2,246	4,659
(b) Bills discounted	7,262	6,396	–	–
(c) Liability not provided for in respect of employees who have completed the required number of years of service under the Employment Ordinance to be eligible for long service payments on termination of their employment	16,442	13,017	–	–

## NOTES TO THE ACCOUNTS

### 26 Contingent liabilities (Continued)

- (d) The contractor for Stelux House has submitted claims for extensions of time, loss and expense and variation orders. On the other hand, the Group is entitled to counter-claim liquidated damages and other costs or losses from the contractor. The arbitration hearing for these claims took place in the fourth quarter of 2002. However, the arbitration award has not been handed down up to the date of Board approval of these accounts. In the opinion of the directors, the Group is not required to make any provisions for the claims by the contractor.

### 27 Commitments

	<b>2003</b> <i>HK\$'000</i>	<b>Group</b> 2002 <i>HK\$'000</i>
(a) Commitments in respect of expenditure on leasehold improvements		
Contracted but not provided for	–	557

#### (b) Commitments under operating leases

At 31st March 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>2003</b> <i>HK\$'000</i>	<b>Group</b> 2002 <i>HK\$'000</i>
Land and buildings		
Not later than one year	152,488	165,240
Later than one year but not later than five years	126,706	96,695
Later than five years	–	3,239
	<b>279,194</b>	265,174
Plant and machinery		
Not later than one year	17	14
	<b>279,211</b>	265,188

#### (c) Future minimum rental receivables

At 31st March 2003, the Group had future aggregate minimum lease receivables under non-cancellable operating leases as follows:

	<b>2003</b> <i>HK\$'000</i>	<b>Group</b> 2002 <i>HK\$'000</i>
Land and buildings		
Not later than one year	29,400	30,662
Later than one year but not later than five years	13,459	24,700
	<b>42,859</b>	55,362

**28 Related party transactions**

The following is a summary of significant transactions between the Group and related parties, which were undertaken in the normal course of business during the year:

		<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Purchases of goods from related companies	(a)	<b>34,886</b>	32,069
Rental income received and receivable from related companies	(b)	<b>1,811</b>	1,863
Interest income receivable from a related company	(c)	<b>4,753</b>	4,615
Interest expense paid to a related company	(d)	<b>1,774</b>	2,034
Interest expense paid to director	(e)	<b>746</b>	886

- (a) Purchases of goods from related companies were conducted in the normal course of business at prices and terms no less favourable than those available to third party customers.
- (b) On 14th August 2001, Stelux Holdings Limited, a wholly owned subsidiary company of the Company, entered into lease agreements with Yee Hing Company Limited and International Optical Manufacturing Company Limited, a company in which Yee Hing Company Limited and Thong Sia Company Limited hold 60% and 40% respectively, for the lease of office premises at Stelux House for a period of up to three years expiring on 14th August 2004 at a monthly rental of HK\$95,040 and HK\$55,900 respectively. The leases were entered into on normal commercial terms as stated in the connected transactions press announcement dated 19th July 2001.
- (c) Interest income accrued on the overdue consultancy fee receivable from Bangkok Land Public Company Limited, a company in which Mr Wong Chue Meng (deceased) is a substantial shareholder, was calculated at 3% (2002: 3%) per annum.
- (d) Interest payable to Active Lights Company Limited, a subsidiary company of Yee Hing Company Limited, was calculated at prime rate.
- (e) Interest expense on loan from a director is calculated at 2.875% per annum above the prevailing Swiss interbank cost of funds for the period from 1st April 2002 to 26th March 2003. The interest rate was revised to 1.5% per annum above US Dollar prime rate from 27th March 2003 thereon.

**29 Notes to the consolidated cash flow statement**
**(a) Reconciliation of loss before taxation to cash generated from operations**

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	(37,982)	(1,655)
Depreciation	51,360	53,518
Loss on disposals of fixed assets	463	1,721
(Gain)/loss on disposals of land and buildings	(110)	5,621
Deficit on revaluation of investment properties	33,230	26,900
Provision for impairment in value of land and buildings	4,800	12,154
Amortisation of trademarks and patents	1,850	2,351
Interest income	(6,988)	(7,300)
Interest expenses	29,040	36,234
Dividend income	(1,946)	(1,456)
Forfeiture of deposit received on disposal of land and buildings	–	(14,133)
Write back provision for construction cost payable	–	(20,570)
Translation difference	977	1,881
<b>Operating profit before working capital changes</b>	<b>74,694</b>	<b>95,266</b>
Increase in stocks	(1,166)	(1,451)
Decrease in debtors and prepayments	3,244	7,226
Decrease in creditors and accruals	(43,798)	(30,349)
Increase in amounts due to related companies	2,172	–
<b>Net cash inflow generated from operations</b>	<b>35,146</b>	<b>70,692</b>

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

	Bank loans and long term liabilities HK\$'000	Obligation under finance lease HK\$'000	Restricted bank balances HK\$'000	Investment by minority interests HK\$'000	Loans from shareholders HK\$'000	Amounts due to related companies HK\$'000	Total HK\$'000
Balance at 31st March 2001	545,376	3,104	–	1,408	3,892	15,867	569,647
Net cash outflow from financing	(1,318)	(2,790)	–	–	–	(15,867)	(19,975)
Inception of finance lease	–	815	–	–	–	–	815
Exchange differences	525	(12)	–	53	–	–	566
Reclassification to current liabilities	(8,531)	–	–	–	–	–	(8,531)
<b>Balance at 31st March 2002</b>	<b>536,052</b>	<b>1,117</b>	<b>–</b>	<b>1,461</b>	<b>3,892</b>	<b>–</b>	<b>542,522</b>
Net cash inflow/(outflow) from financing	16,221	(789)	(2,014)	–	–	–	13,418
Inception of finance lease	–	759	–	–	–	–	759
Exchange differences	4,007	46	–	12	–	–	4,065
<b>Balance at 31st March 2003</b>	<b>556,280</b>	<b>1,133</b>	<b>(2,014)</b>	<b>1,473</b>	<b>3,892</b>	<b>–</b>	<b>560,764</b>



## **NOTES TO THE ACCOUNTS**

### **30 Ultimate holding company**

In the opinion of the directors, the ultimate holding company is Yee Hing Company Limited, incorporated in Hong Kong.

### **31 Approval of accounts**

The accounts set out on pages 13 to 46 were approved by the board of directors on 17th July 2003.