

1. CORPORATE INFORMATION

The principal place of business of Cheong Ming Investments Limited is located at 4th Floor, Mai Sik Industrial Building, 1-11 Kwai Ting Road, Kwai Chung, New Territories, Hong Kong.

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

- manufacture and sale of paper cartons, packaging boxes and children's novelty books
- manufacture and sale of hangtags, labels and shirt paper boards and plastic bags
- commercial printing

In the opinion of the directors, the ultimate holding company is Harmony Link Corporation, which is incorporated in the British Virgin Islands.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised) : "Presentation of financial statements"
- SSAP 11 (Revised) : "Foreign currency translation"
- SSAP 15 (Revised) : "Cash flow statements"
- SSAP 34 : "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and the financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (Continued)

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. The significant reclassifications resulting from the change in presentation are that interest and investment income received, interest paid, dividends paid, tax refunded and paid are now included in cash flows from operating activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout. In addition, cash flows from overseas subsidiaries arising during the year are now translated into Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Also, the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes are included in the accounting policies for “Cash and cash equivalents” and “Foreign currencies” in note 3 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company’s share option schemes as detailed in note 28 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets, investment properties and other investments as explained in the respective accounting policies below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries for the year ended 31 March 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly and indirectly, so as to obtain benefits from its activities.

The Company's investments in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not exceeding 20 years.

SSAP 30 "Business combinations" was adopted by the Group for its accounting period beginning 1 April 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisition subsequent to 1 April 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant consolidated reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation (Continued)

Changes in the values of fixed assets are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates for this purpose are as follows:

Medium term leasehold land and buildings outside Hong Kong	Over the lease terms
Medium term leasehold land in Hong Kong	Over the lease terms
Medium term leasehold buildings in Hong Kong	4%
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	25%

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

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Changes in the values of the investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Other investments

Investments in debt and equity securities which are not intended to be held for an identified long term purpose are stated in the balance sheet at fair values. Fair values are determined on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair values of such investments are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Trade receivables

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at financial institutions, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditure expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when the relevant services are rendered;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (d) rental income, on a time proportion basis over the lease terms; and
- (e) dividend income, when the shareholders' right to receive payment has been established.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “Hong Kong Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the Hong Kong Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Hong Kong Scheme. The assets of the Hong Kong Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the Hong Kong 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 Hong Kong Scheme.

Pursuant to the relevant regulations of the government of the People’s Republic of China, excluding Hong Kong (the “PRC”), a subsidiary of the Company operating in the PRC participates in a local municipal government retirement benefits scheme (the “PRC Scheme”), whereby the subsidiary is required to make contributions, as calculated under the rules specified by the relevant PRC local government authorities, to the PRC Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary. The only obligation of the Group with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme mentioned above. Contributions under the PRC Scheme are charged to the profit and loss account as incurred. There are no provisions under the PRC Scheme whereby forfeited contributions may be used to reduce future contributions.

Share option schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The financial impact of share options granted under the share option schemes is not recorded in the Company’s or the Group’s balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date, or which have lapsed, are deleted from the register of outstanding share options.

Employment Ordinance long service payments

Provisions have been made in the financial statements in respect of long service payments which may become payable in the future under the Hong Kong Employment Ordinance to employees in proportion to their periods of service with the Group up to the balance sheet date. The Group is only liable to make such payments where the termination meets the required circumstances specified in the Hong Kong Employment Ordinance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's by-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 has had no material effect on the amounts of the previously-reported cash flows of the prior year.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the manufacture and sale of paper cartons, packaging boxes and children's novelty books segment produces paper cartons, packaging boxes and children's novelty books for sale principally to manufacturers and publishers of consumer products;
- (b) the manufacture and sale of hangtags, labels, shirt paper boards and plastic bags segment produces hangtags, labels, shirt paper boards and plastic bags products for sale principally to manufacturers of consumer products; and
- (c) the commercial printing segment provides financial printing, digital printing and other related services.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO FINANCIAL STATEMENTS

Cheong Ming Investments Limited – Annual Report 2003

31 March 2003

4. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Manufacture and sale of paper cartons, packaging boxes and children's novelty books		Manufacture and sale of hangtags, labels, shirt paper boards and plastic bags		Commercial printing		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	291,666	214,085	22,345	16,363	56,981	52,822	-	-	370,992	283,270
Intersegment sales	2,215	2,534	361	300	707	458	(3,283)	(3,292)	-	-
Total	293,881	216,619	22,706	16,663	57,688	53,280	(3,283)	(3,292)	370,992	283,270
Segment results	13,808	11,362	1,146	109	5,241	2,855	-	-	20,195	14,326
Interest income									1,917	3,081
Unallocated gains									-	1,112
Unallocated expenses									(24,955)	(768)
Profit/(loss) from operating activities									(2,843)	17,751
Finance costs									(259)	(625)
Profit/(loss) before tax									(3,102)	17,126
Tax									(2,855)	(2,294)
Profit/(loss) before minority interests									(5,957)	14,832
Minority interests									-	344
Net profit/(loss) from ordinary activities attributable to shareholders									(5,957)	15,176

NOTES TO FINANCIAL STATEMENTS

31 March 2003

Cheong Ming Investments Limited – Annual Report 2003

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group	Manufacture and sale of paper cartons, packaging boxes and children's novelty books		Manufacture and sale of hangtags, labels, shirt paper boards and plastic bags		Commercial printing		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	336,926	335,539	19,059	21,867	15,015	18,856	-	-	371,000	376,262
Segment liabilities	65,008	55,463	3,646	3,793	6,947	8,442	-	-	75,601	67,698
Other segment information:										
Depreciation	19,956	20,053	2,136	2,021	1,982	1,985	-	-	24,074	24,059
Amortisation of goodwill	106	-	-	-	-	-	-	-	106	-
Capital expenditure	12,852	9,693	1,425	1,756	2,108	1,360	-	-	16,385	12,809
Revaluation deficit of leasehold land and buildings recognised in the profit and loss account	2,417	2,275	-	-	-	-	-	-	2,417	2,275
Revaluation deficit of investment properties recognised in the profit and loss account	3,760	2,720	-	-	-	-	-	-	3,760	2,720
Revaluation deficit of leasehold land and buildings recognised in the asset revaluation reserve	360	1,658	-	-	-	-	-	-	360	1,658
Other non-cash expenses	751	531	58	-	705	124	-	-	1,514	655

NOTES TO FINANCIAL STATEMENTS

Cheong Ming Investments Limited – Annual Report 2003

31 March 2003

4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following table presents revenue, certain asset and expenditure information for the Group's geographical segments.

Group	Hong Kong		Elsewhere in the PRC		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	366,575	278,718	4,417	4,552	-	-	370,992	283,270
Other segment information:								
Segment assets	214,071	219,292	156,929	156,970	-	-	371,000	376,262
Capital expenditure	4,362	5,579	12,023	7,230	-	-	16,385	12,809

5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the invoiced value of goods sold, after allowances for returns and trade discounts, and services rendered during the year after eliminations of all significant intra-group transactions.

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

	2003	2002
	HK\$'000	HK\$'000
Turnover – sale of goods and services rendered	370,992	283,270
Other revenue and gains:		
Sale of scrap paper materials	6,522	4,528
Interest income	1,917	3,081
Gross rental income from investment properties	1,754	1,962
Dividend income from listed investments	25	16
Gain on disposal of listed investments	11	-
Gain on disposal of unlisted investments	178	139
Gain on disposal of fixed assets	37	-
Others	260	560
	10,704	10,286
Total revenue	381,696	293,556

NOTES TO FINANCIAL STATEMENTS

31 March 2003

Cheong Ming Investments Limited – Annual Report 2003

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	<i>Notes</i>	2003 HK\$'000	2002 HK\$'000
Cost of inventories sold		244,532	168,411
Cost of services rendered		32,481	34,111
Depreciation	14	24,074	24,059
Amortisation of goodwill	16	106	–
Minimum lease payments under operating leases:			
Land and buildings		3,298	2,677
Auditors' remuneration		750	750
Staff costs (excluding directors' remuneration – note 8):			
Wages and salaries		49,469	42,896
Provision for long service payments	25	216	908
Gross pension scheme contributions		1,697	1,167
Less: Forfeited contributions		–	(351)
Pension scheme contributions, net		1,697	816
Provision for doubtful debts		558	655
Provision against note receivable		24,717	–
Net unrealised loss on other investments		956	–
Revaluation deficit on leasehold land and buildings	14	2,417	2,275
Revaluation deficit on investment properties	15	3,760	2,720
Gross rental income from investment properties		(1,754)	(1,962)
Less: Outgoings		508	315
Net rental income from investment properties		(1,246)	(1,647)
Dividend income from listed investments		(25)	(16)
Gain on disposal of listed investments		(11)	–
Gain on disposal of unlisted investments		(178)	(139)
Gain on disposal of fixed assets		(37)	–
Gain on disposal of subsidiaries – net		–	(2,284)

NOTES TO FINANCIAL STATEMENTS

Cheong Ming Investments Limited – Annual Report 2003

31 March 2003

7. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	259	625

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Appendix 16 of the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	240	240
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	9,625	9,930
Pension scheme contributions	493	514
	10,358	10,684

The number of directors whose remuneration fell within the bands set out below is as follows:

	Group	
	2003	2002
	Number of directors	Number of directors
Nil – HK\$1,000,000	3	5
HK\$1,000,001 – HK\$1,500,000	3	1
HK\$1,500,001 – HK\$2,000,000	2	4
HK\$2,000,001 – HK\$2,500,000	1	1

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

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

NOTES TO FINANCIAL STATEMENTS

31 March 2003

Cheong Ming Investments Limited – Annual Report 2003

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five directors (2002: five), further details of whose remuneration are disclosed in note 8 to the financial statements.

10. TAX

	Group	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong:		
Current year provision	1,182	477
Under/(over) provision in the prior year	139	(98)
Overseas:		
Current year provision	1,213	2,204
Overprovision in the prior year	–	(449)
Deferred tax charge	321	160
Tax charge for the year	2,855	2,294

Hong Kong profits tax has been provided at the rate of 16% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable outside Hong Kong have been calculated at the rates of tax prevailing in the countries in which the Group operated during the year based on existing legislation, interpretations and practices in respect thereof.

Deferred tax is provided under the liability method at the rate of 17.5% (2002: 16%) on timing differences between taxable profits and profits reported in the financial statements.

NOTES TO FINANCIAL STATEMENTS

Cheong Ming Investments Limited – Annual Report 2003

31 March 2003

10. TAX (Continued)

Movements in the deferred tax provision of the Group are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
At beginning of year	896	736
Charged for the year	321	160
	<hr/>	<hr/>
At balance sheet date	1,217	896

The principal components of the Group's provision for deferred tax and the net deferred tax asset position not recognised in the financial statements are as follows:

	Group			
	Provided		Not provided	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Accelerated depreciation allowances	1,217	896	567	1,715
Tax losses carried forward	–	–	(2,700)	(1,879)
	<hr/>	<hr/>	<hr/>	<hr/>
	1,217	896	(2,133)	(164)

The net deferred tax asset has not been recognised as at the balance sheet date because the directors consider it appropriate not to recognise the benefit of any future tax relief until it is assured beyond reasonable doubt.

The revaluation of the Group's land and buildings and investment properties does not constitute timing differences and, consequently, the amount of potential deferred tax thereon has not been quantified.

There are no significant potential deferred tax liabilities for which provision has not been made.

The Company had no unprovided deferred tax as at the balance sheet date (2002: Nil).

NOTES TO FINANCIAL STATEMENTS

31 March 2003

Cheong Ming Investments Limited – Annual Report 2003

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2003 dealt with in the financial statements of the Company was HK\$14,285,000 (2002: HK\$13,449,000).

12. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim dividend of HK1 cent (2002: HK0.5 cent) per ordinary share with a scrip dividend option	4,179	2,089
Proposed final: HK2 cents (2002: HK1.5 cents) per ordinary share	8,646	6,268
	<hr/> 12,825	<hr/> 8,357

The interim dividend for the year was paid in the form of scrip dividend and cash amounting to HK\$2,479,000 (2002: Nil) and HK\$1,700,000 (2002: HK\$2,089,000), respectively.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic loss per share is based on the Group's net loss from ordinary activities attributable to shareholders for the year of HK\$5,957,000 (2002: net profit from ordinary activities attributable to shareholders of HK\$15,176,000) and the weighted average of 419,748,674 (2002: 440,176,370) ordinary shares in issue during the year.

A diluted loss per share amount for the year has not been disclosed, as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

The calculation of diluted earnings per share for the year ended 31 March 2002 was based on the Group's net profit from ordinary activities attributable to shareholders of HK\$15,176,000. The weighted average number of ordinary shares used in the calculation was 440,176,370 ordinary shares in issue during that year, as used in the basic earnings per share calculation, and the weighted average of 1,680,811 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during that year.

NOTES TO FINANCIAL STATEMENTS

Cheong Ming Investments Limited – Annual Report 2003

31 March 2003

14. FIXED ASSETS

Group

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of year	79,960	169,462	20,969	11,943	5,892	288,226
Additions	2,475	9,654	2,531	754	971	16,385
Revaluation deficit	(4,715)	–	–	–	–	(4,715)
Disposals	–	(9)	(1,541)	(6)	(773)	(2,329)
At 31 March 2003	77,720	179,107	21,959	12,691	6,090	297,567
Analysis of cost or valuation:						
At cost	–	179,107	21,959	12,691	6,090	219,847
At valuation	77,720	–	–	–	–	77,720
	77,720	179,107	21,959	12,691	6,090	297,567
Accumulated depreciation and impairment:						
At beginning of year	–	81,739	15,786	4,105	4,735	106,365
Provided during the year	1,938	17,218	2,629	1,689	600	24,074
Write back on revaluation	(1,938)	–	–	–	–	(1,938)
Disposals	–	(9)	(1,541)	(2)	(773)	(2,325)
At 31 March 2003	–	98,948	16,874	5,792	4,562	126,176
Net book value:						
At 31 March 2003	77,720	80,159	5,085	6,899	1,528	171,391
At 31 March 2002	79,960	87,723	5,183	7,838	1,157	181,861

NOTES TO FINANCIAL STATEMENTS

31 March 2003

Cheong Ming Investments Limited – Annual Report 2003

14. FIXED ASSETS (Continued)

Land and buildings comprised:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Medium term leasehold land and buildings in Hong Kong	8,020	10,760
Medium term leasehold land and buildings outside Hong Kong	69,700	69,200
Total valuation	77,720	79,960

At the balance sheet date, the Group's leasehold land and buildings in Hong Kong were carried at their valuations as at 31 March 2003 performed by DTZ Debenham Tie Leung Limited ("DTZ"), an independent firm of professional valuers, using the open market, existing use basis, at HK\$8,020,000. The resulting revaluation deficit amounting to HK\$2,417,000 has been charged to the profit and loss account.

At the balance sheet date, the Group's leasehold land and buildings outside Hong Kong were carried at their valuations as at 31 March 2003 performed by DTZ, using the open market, existing use basis, at HK\$69,700,000. The resulting revaluation deficit amounting to HK\$360,000 is recognised in the asset revaluation reserve.

Had the Group's land and buildings in Hong Kong been valued at cost less accumulated depreciation, their carrying amounts would have been restated at HK\$13,580,729 (2002: HK\$14,245,270).

Had the Group's land and buildings outside Hong Kong been valued at cost less accumulated depreciation, their carrying amounts would have been restated at HK\$49,499,064 (2002: HK\$48,286,642).

At the balance sheet date, certain of the Group's land and buildings amounting to HK\$5,770,000 (2002: HK\$7,960,000) were pledged to secure general banking facilities granted to the Group as further detailed in note 26 to the financial statements.

15. INVESTMENT PROPERTIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
At valuation:		
At beginning of the year	13,740	11,800
Transfer from leasehold land and buildings	–	4,660
Revaluation deficit	(3,760)	(2,720)
<hr/>		
At 31 March	9,980	13,740
<hr/>		

The Group's investment properties were revalued on the open market, income capitalisation basis by DTZ at HK\$9,980,000 as at 31 March 2003. The resulting revaluation deficit amounting to HK\$3,760,000 has been charged to the profit and loss account.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 33 to the financial statements.

All of the Group's investment properties are situated in Hong Kong under medium term leases. Investment properties with a valuation of HK\$4,500,000 (2002: HK\$6,230,000) were pledged to secure general banking facilities granted to the Group as further detailed in note 26 to the financial statements.

Further particulars of the Group's investment properties are included on pages 67 and 68.

NOTES TO FINANCIAL STATEMENTS

31 March 2003

Cheong Ming Investments Limited – Annual Report 2003

16. GOODWILL

The amount of goodwill capitalised as an asset as at 31 March 2003, arising from the acquisition of an additional equity interest in a subsidiary, is as follows:

	Group HK\$'000
Cost:	
At beginning of year and at 31 March 2003	527
Accumulated amortisation and impairment:	
At beginning of year	–
Amortisation provided during the year	106
At 31 March 2003	106
Net book value:	
At 31 March 2003	421
At 31 March 2002	527

At 31 March 2003, the amount of goodwill, arising from the acquisition of subsidiaries which occurred prior to the Group's accounting period beginning 1 April 2001, remaining in consolidated reserves amounted to HK\$1,408,000 (2002: HK\$1,408,000).

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	116,995	116,995

The balances with subsidiaries, which have been classified as current assets and liabilities, are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

Cheong Ming Investments Limited – Annual Report 2003

31 March 2003

17. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ establishment and operations	Nominal value of paid-up capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Cheong Ming (BVI) Enterprises Limited	British Virgin Islands	Ordinary HK\$10,000	100	–	Investment holding
CM Investment Enterprises Limited	British Virgin Islands	Ordinary US\$1	100	–	Investment holding
Capital Assets Management Limited (formerly Cheong Ming Properties Limited)	Hong Kong	Ordinary HK\$2	–	100	Property and investment holding
Cheong Ming Press Factory Limited	Hong Kong	Ordinary HK\$1,000 *Non-voting deferred HK\$1,000,000	–	100	Manufacture and sale of paper cartons, children's novelty books and commercial printing
Chun Ming Printing Factory Company Limited	Hong Kong	Ordinary HK\$150,000	–	100	Manufacture and sale of hangtags, labels and shirt paper boards
Cheong Ming Paper, Poly. Press & Printing Factory Limited	Hong Kong	Ordinary HK\$1,000 *Non-voting deferred HK\$1,000,000	–	100	Sub-contracting of the manufacture of paper cartons

NOTES TO FINANCIAL STATEMENTS

31 March 2003

Cheong Ming Investments Limited – Annual Report 2003

17. INVESTMENTS IN SUBSIDIARIES (Continued)

Company	Place of incorporation/ establishment and operations	Nominal value of paid-up capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Dongguan Cheong Ming Printing Co., Ltd.	PRC	HK\$65,850,000	–	100	Sub-contracting of the manufacture of paper cartons and plastic bags
Capital Financial Press Limited	Hong Kong	Ordinary HK\$800,000	–	100	Commercial printing
Capital Translation Services Limited	Hong Kong	Ordinary HK\$500,000	–	100	Provision of translation services
32 Print.com Limited	Hong Kong	Ordinary HK\$3,750,000	–	100	Digital printing
Harvest King Limited	Hong Kong	Ordinary HK\$2	–	100	Trading of hangtags, labels and shirt paper boards
Aegina (B.V.I.) Limited (formerly Aegina Investments Company Limited)	British Virgin Islands	Ordinary US\$1	–	100	Investment holding

* The non-voting deferred shares carry no rights to dividends unless the profit available for distribution for the financial year exceeds HK\$100,000,000,000,000, no rights to attend or vote at general meetings except, at a general meeting convened for any resolution which directly affects the rights or privileges of the non-voting deferred shares, and no rights to receive any surplus in a return of capital in a winding-up (other than the amount paid up on those shares, provided that the holders of the ordinary shares of that company have received, by way of a distribution in such winding-up, a sum of HK\$500,000,000,000,000).

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of all subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. NOTE RECEIVABLE

On 10 July 2001, the Group entered into an agreement (the “Note Agreement”) with a private company incorporated in Hong Kong, an independent third party, (the “Borrower”) for the subscription of a convertible redeemable note (the “Note”) amounting to HK\$24,000,000. The Note bore interest at a rate of 8% per annum and is secured by a share mortgage over all the issued share capital and a debenture over all the assets of the Borrower and personal guarantees executed by two directors of the Borrower. The outstanding principal amount of the Note was convertible into ordinary shares of the Borrower in accordance with the conversion mechanism as stated in the Note Agreement prior to the maturity of the Note on 11 July 2003. In accordance with the Note Agreement, the Note would become immediately due and payable if there were events the occurrence of which would have an adverse impact on the Borrower’s financial position.

On 22 May 2002, the Group issued a demand letter to the Borrower for the repayment of the principal of HK\$24,000,000 together with accrued interest at the rate of 8% per annum from 1 April 2002 up to and including the date of repayment. The demand letter was issued on the basis that the directors of the Company became aware of certain events which they believed might have had an adverse impact on the Borrower’s financial position. Upon the failure to reach an immediate settlement agreement with the Borrower, the Group filed a petition for the winding-up of the Borrower in the High Court of Hong Kong SAR on 14 June 2002.

The Borrower’s principal activity is the undertaking of maintenance building works from the Hong Kong SAR Government as a subcontractor. The nature of the Borrower’s principal activity requires a substantial outflow of cash resources at the beginning of the maintenance contracts to settle labour costs and to purchase raw materials, while the replenishment of the Borrower’s cash resources in the billings for work completed and certified involves a time lag from the cash outflow required for the maintenance contracts noted above.

On 17 July 2002, the directors of the Company reached a settlement agreement with the Borrower for the full repayment of the Note and the winding-up petition was also withdrawn upon prompt settlement of the first instalment by the Borrower in accordance with the settlement agreement.

On 27 August 2002, the Group issued a demand letter again to the Borrower for the repayment of the outstanding principal of HK\$23,500,000 together with the accrued interest upon the Borrower’s failure to honour the second instalment due in August 2002. On 18 September 2002, the Group filed a petition for winding up against the Borrower in the High Court of Hong Kong SAR after no progress on the repayment of the principal of HK\$23,500,000 together with the related interest had been made. Pursuant to the winding-up order on 20 November 2002, the total amount of claim, including the outstanding principal of HK\$23,500,000 and the unpaid accrued interest of HK\$1,217,000, was approved by the High Court of Hong Kong SAR in favour of the Group.

Despite the above ruling, the Group had made full provision for the outstanding principal of HK\$23,500,000 plus the unpaid accrued interest of HK\$1,217,000 as at 31 March 2003. This was because the Borrower is currently under official receivership and in the opinion of the directors, the Group was unlikely to recover any substantial amount regarding the Note through the liquidation process in light of the Borrower’s deficiency in assets and the directors’ current assessment of the value of the personal guarantees given in connection with the issue of the Note.

NOTES TO FINANCIAL STATEMENTS

31 March 2003

Cheong Ming Investments Limited – Annual Report 2003

19. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	24,063	18,058
Work in progress	3,623	1,490
Finished goods	3,885	1,226
	31,571	20,774

At the balance sheet date, no inventories were stated at net realisable value (2002: Nil).

20. TRADE AND BILLS RECEIVABLES

The Group's gross trade and bills receivables as at the balance sheet date, net of provisions, are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Bills receivable	1,159	–
Trade receivables	85,349	51,605
	86,508	51,605

An aged analysis of the Group's trade and bills receivables as at the balance sheet date, based on invoiced date and net of provisions, is as follows:

	Group			
	2003		2002	
	Balance	Percentage	Balance	Percentage
	HK\$'000		HK\$'000	
Current to 30 days	28,044	33	22,145	43
31 to 60 days	17,403	20	11,140	22
61 to 90 days	16,478	19	12,017	23
Over 90 days	24,583	28	6,303	12
	86,508	100	51,605	100

NOTES TO FINANCIAL STATEMENTS

Cheong Ming Investments Limited – Annual Report 2003

31 March 2003

21. OTHER INVESTMENTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong listed equity investments, at fair value	2,728	–
Overseas listed debt investments, at fair value	3,889	–
	6,617	–

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	24,788	59,298	970	265
Bank deposits	32,651	19,765	–	–
	57,439	79,063	970	265

At the balance sheet date, cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$1,170,000 (2002: HK\$940,000). The RMB is not freely convertible into other currencies, however, under PRC’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

23. TRADE PAYABLES

An aged analysis of the Group’s trade payables at the balance sheet date, based on invoiced date, is as follows:

	Group			
	2003		2002	
	Balance	Percentage	Balance	Percentage
	HK\$'000		HK\$'000	
Current to 30 days	22,964	48	14,017	42
31 to 60 days	11,124	24	8,074	24
61 to 90 days	7,070	15	5,468	17
Over 90 days	6,115	13	5,793	17
	47,273	100	33,352	100

NOTES TO FINANCIAL STATEMENTS

31 March 2003

Cheong Ming Investments Limited – Annual Report 2003

24. INTEREST-BEARING BORROWINGS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Bank overdrafts, secured	80	127
Bank loans, secured	–	4,868
Bank loans, unsecured	–	2,778
	80	7,773
Portion classified as current liabilities	(80)	(7,773)
Non-current portion	–	–

25. PROVISION FOR LONG SERVICE PAYMENTS

	Group Total HK\$'000
At beginning of year	1,952
Additional provision	216
Amount utilised during the year	(190)
At 31 March 2003	1,978

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading "Employee benefits" in note 3 to the financial statements. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group to the balance sheet date.

26. BANKING FACILITIES

At the balance sheet date, the Group's banking facilities were secured by the following:

- (a) legal charges on certain of the Group's leasehold land and buildings (note 14);
- (b) legal charges on certain of the Group's investment properties (note 15); and
- (c) corporate guarantees from the Company and certain of its subsidiaries (note 31).

NOTES TO FINANCIAL STATEMENTS

Cheong Ming Investments Limited – Annual Report 2003

31 March 2003

27. SHARE CAPITAL

Shares

	Company	
	2003 HK\$'000	2002 HK\$'000
Authorised:		
800,000,000 ordinary shares of HK\$0.10 each	80,000	80,000
Issued and fully paid:		
432,331,061 (2002: 417,875,000) ordinary shares of HK\$0.10 each	43,233	41,788

Details of the movements in the issued share capital of the Company during 2003 and the prior year were as follows:

	Notes	HK\$'000	Number of shares
At 1 April 2001		51,030	510,300,000
Repurchase of ordinary shares from Sega.com, Inc.		(17,600)	(176,000,000)
1 for 4 bonus issue		8,358	83,575,000
At 31 March 2002 and 1 April 2002		41,788	417,875,000
Exercise of share options	(a)	500	5,000,000
Scrip dividend	(b)	945	9,456,061
At 31 March 2003		43,233	432,331,061

Notes:

- (a) The subscription rights attaching to 5,000,000 share options were exercised at the subscription price of HK\$0.224 per share (note 28), resulting in the issue of 5,000,000 ordinary shares of HK\$0.10 each for a total cash consideration, before expenses of HK\$1,120,000.
- (b) 9,456,061 ordinary shares of HK\$0.10 each were allotted and issued at a price of HK\$0.262 per share as a scrip dividend to those shareholders who have elected to receive their interim dividend for 2003 in the form of new ordinary shares in the Company in lieu of cash.

27. SHARE CAPITAL (Continued)

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 28 to the financial statements.

28. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option schemes are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company's share option scheme which was adopted on 27 December 1996 (the "Old Scheme") was terminated and replaced by a new share option scheme approved by the shareholders at the special general meeting of the Company held on 5 September 2002 (the "New Scheme"). Upon the termination of the Old Scheme, no further share options can be granted thereunder, but in all other respects, the provisions of the Old Scheme remained in force and all share options granted prior to such termination continued to be valid and exercisable in accordance therewith.

A summary of the Old Scheme and the New Scheme is set out below:

(a) Old Scheme

The Company operated a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Old Scheme included any director or employee of the Company and its subsidiaries. The Old Scheme was adopted by the Company on 27 December 1996 and became effective upon its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 January 1997 and, unless otherwise cancelled or amended, would have remained in force for 10 years from its date of adoption. As at 31 March 2003, there were 13,000,000 share options granted which remained outstanding under the Old Scheme.

28. SHARE OPTION SCHEMES (Continued)**(b) New Scheme**

The New Scheme became effective for a period of 10 years commencing on 5 September 2002. Under the New Scheme, the directors may, at their sole discretion, grant to any eligible participants options to subscribe for ordinary shares of the Company at the higher of (i) the closing price of shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant; or (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the share. The offer of a grant of options may be accepted within 21 days from the date of the offer. The exercise period of the options granted is determinable by the directors, and commences after a certain vesting period and ends in any event not later than 10 years from the date of the offer on which the offer for grant of the option is made, subject to the provisions for early termination thereof.

The maximum number of securities to be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the relevant class of securities of the Company in issue from time to time.

The total number of shares which may be allotted and issued upon exercise of all options to be granted under the New Scheme is an amount equivalent to 10% of the shares of the Company in issue as at the date of the annual general meeting held on 5 September 2002.

No share options were granted under the New Scheme during the year.

Share options do not confer rights to the holders to dividends or to vote at shareholders' meetings.

NOTES TO FINANCIAL STATEMENTS

31 March 2003

Cheong Ming Investments Limited – Annual Report 2003

28. SHARE OPTION SCHEMES (Continued)

The following share options were outstanding under the Old Scheme during the year:

Name or category of participant	Number of share options				Date of grant of share options	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares***	
	As at 1 April 2002	Cancelled during the year	Exercised during the year	As at 31 March 2003				At grant date of options HK\$	At exercise date of options HK\$
Directors									
Lui Chi	1,250,000	-	-	1,250,000	30 October 1997	30 October 1997 to 26 December 2006	0.3507	0.5300	N/A
	1,875,000	-	-	1,875,000	31 December 1999	31 December 1999 to 26 December 2006	0.2240	0.2900	N/A
	<u>3,125,000</u>	-	-	<u>3,125,000</u>					
Lui Shing Ming, Brian	1,250,000	-	-	1,250,000	30 October 1997	30 October 1997 to 26 December 2006	0.3507	0.5300	N/A
	3,125,000	-	(3,125,000)	-	31 December 1999	31 December 1999 to 26 December 2006	0.2240	0.2900	0.2850
	<u>4,375,000</u>	-	<u>(3,125,000)</u>	<u>1,250,000</u>					
Lui Shing Chung, Victor	1,875,000	-	(1,875,000)	-	31 December 1999	31 December 1999 to 26 December 2006	0.2240	0.2900	0.2850
Brad Huang	7,500,000	-	-	7,500,000	6 March 2000	23 September 2000 to 26 December 2006	2.7744	5.600	N/A
	<u>16,875,000</u>	-	<u>(5,000,000)</u>	<u>11,875,000</u>					
Other employees									
In aggregate	625,000	-	-	625,000*	31 December 1999	31 December 1999 to 26 December 2006	0.2240	0.2900	N/A
	250,000	-	-	250,000	8 July 2000	8 January 2001 to 26 December 2006	1.0960	1.6500	N/A
	250,000	-	-	250,000	5 September 2000	5 September 2001 to 26 December 2006	1.4048	2.2000	N/A
	<u>1,125,000</u>	-	-	<u>1,125,000</u>					
	<u>18,000,000</u>	-	<u>(5,000,000)</u>	<u>13,000,000</u>					

28. SHARE OPTION SCHEMES (Continued)

Notes:

- * The share options to subscribe for 625,000 ordinary shares at a price of HK\$0.224 per share in the Company which were granted to the spouse of Mr. Lui Shing Chung, Victor have been included in the 'Other employees' category above and remained outstanding as at 31 March 2003.
- ** The exercise price of the share options was adjusted for the one for four bonus issue in the issued share capital of the Company as approved by the ordinary resolution passed at the general meeting held on 31 August 2001. The adjusted exercise price is subject to further adjustment in the case of any future rights or bonus issues, or other similar changes in the Company's share capital.
- *** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange's closing price of the Company as at the date of the grant of the share options.

The 5,000,000 share options exercised during the year resulted in the issue of 5,000,000 ordinary shares of the Company and new share capital of HK\$500,000 and share premium of HK\$620,000 (before issue expenses), as detailed in notes 27 and 29 to the financial statements.

As at 31 March 2003, the Company had 13,000,000 share options outstanding under the Old Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 13,000,000 additional ordinary shares and cash proceeds to the Company of approximately HK\$22,870,000 before the related share issue expenses.

29. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The contributed surplus of the Group arose as a result of the Group reorganisation carried out on 24 December 1996 and represents the difference between the nominal value of the share capital of the former holding company of the Group acquired pursuant to the Group reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor.

NOTES TO FINANCIAL STATEMENTS

31 March 2003

Cheong Ming Investments Limited – Annual Report 2003

29. RESERVES (Continued)

Company

	Notes	Reserves				Total HK\$'000
		Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	
At 1 April 2001		180,709	116,795	(1,220)	115,575	296,284
Repurchase of ordinary shares						
from Sega.com, Inc.		(121,450)	–	–	–	(121,450)
1 for 4 bonus issue		(8,358)	–	–	–	(8,358)
Net profit for the year		–	–	13,449	13,449	13,449
Interim dividend	12	–	–	(2,089)	(2,089)	(2,089)
Proposed final dividend	12	–	–	(6,268)	(6,268)	(6,268)
At 31 March 2002 and 1 April 2002		50,901	116,795	3,872	120,667	171,568
Exercise of share options	27	620	–	–	–	620
Net profit for the year		–	–	14,285	14,285	14,285
Interim dividend	12	1,534	–	(4,179)	(4,179)	(2,645)
Proposed final dividend	12	–	–	(8,646)	(8,646)	(8,646)
At 31 March 2003		53,055	116,795	5,332	122,127	175,182

The contributed surplus of the Company arose as a result of the same Group reorganisation scheme and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefor. In accordance with the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

	Group	
	2003	2002
	HK\$'000	HK\$'000
Net assets disposed of:		
Fixed assets	–	611
Inventories	–	903
Trade receivables	–	97
Prepayments, deposits and other receivables	–	1,060
Cash and cash equivalents	–	7
Trade payables	–	(72)
Accrued liabilities and other payables	–	(1,624)
	–	982
Costs incurred in respect of the disposal of subsidiaries	–	1,188
Gain on disposal of subsidiaries – net	–	2,284
	–	4,454
Represented by:		
Cash consideration	–	3,140
Other receivables	–	1,314
	–	4,454

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	HK\$'000	HK\$'000
Cash consideration received	–	3,140
Costs incurred in respect of the disposal of subsidiaries	–	(1,188)
Cash and cash equivalents of the disposed subsidiaries	–	(7)
	–	1,945

The subsidiaries disposed of in 2002 did not have any significant contribution to the Group in respect of net operating cash inflow and outflow, net returns on investments and servicing of finance, tax, investing activities and financing activities during that year.

NOTES TO FINANCIAL STATEMENTS

31 March 2003

Cheong Ming Investments Limited – Annual Report 2003

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Major non-cash transaction

During the year ended 31 March 2002, the Company repurchased 176,000,000 ordinary shares from Sega.com, Inc. as part of the consideration for the disposal of a former wholly-owned subsidiary and a long term investment. The 176,000,000 ordinary shares repurchased were subsequently cancelled.

31. CONTINGENT LIABILITIES

At the balance sheet date, the Company provided corporate guarantees to banks for the provision of general banking facilities to its subsidiaries to the extent of HK\$44,900,000 (2002: HK\$47,200,000).

The amount of banking facilities utilised by the subsidiaries amounted to HK\$3,533,000 as at 31 March 2003 (2002: HK\$7,773,000).

32. CAPITAL COMMITMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Acquisition of fixed assets:		
Contracted for	12,647	526
Authorised, but not contracted for	–	5,076
Investment in a subsidiary in the PRC	18,880	–
	<hr/>	
	31,527	5,602

The Company did not have any significant capital commitments at the balance sheet date.

33. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment properties (note 15 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	1,419	654
In the second to fifth years, inclusive	156	152
	1,575	806

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	2,000	1,375
In the second to fifth years, inclusive	3,563	97
	5,563	1,472

The Company did not have any significant commitments under non-cancellable operating leases at the balance sheet date.

34. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 July 2003.