



31 March 2003

## 1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

### (a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of leasehold land and buildings and investment properties, as further explained below.

### (b) Adoption of new and revised Statements of Standard Accounting Practice

The accounting policies used in the preparation of the financial statements are consistent with the previous year except that the Group has adopted the following new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") which became effective for the current financial year.

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

The changes to the Group's accounting policies and the effects 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 of this SSAP is that a consolidated statement of changes in equity is now presented on page 30 of the financial statements 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 financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the income statement of overseas subsidiaries, jointly-controlled entities and associates 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.

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. In addition, cash flows from overseas subsidiaries arising during the year are now translated to 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.

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 material change to the previously adopted accounting treatments for employee benefit as at the balance sheet date. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed on note 28 to the financial statements.

## 2. PRINCIPAL ACCOUNTING POLICIES

### (a) Basis of consolidation

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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 represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement and any related exchange fluctuation reserve.

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

### (b) Subsidiary

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (c) Joint venture company

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the activities of the joint venture company, the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (i) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;
- (ii) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, with other joint venture parties over the joint venture company;



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## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (c) Joint venture company (continued)

- (iii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (iv) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

### (d) Jointly-controlled entity

A jointly-controlled entity is a joint venture company which is subject to joint control by the Group and other joint venture parties, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's interests in jointly-controlled entities.

### (e) Associate

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

### (f) 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.

### (g) Foreign currencies

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

On consolidation, the income statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average 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.

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (h) Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities 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 5 to 15 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, 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 reserves, as appropriate.

The carrying amount of goodwill 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.

### (i) Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated income statement when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated income statement is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted negative goodwill arising from acquisitions prior to 1 January 2001 to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.



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## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (i) Negative goodwill (continued)

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated income statement and any relevant reserves, as appropriate.

### (j) 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.

Changes in the values of investment properties are dealt with as movements in the properties 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 income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the properties revaluation reserve realised in respect of previous valuations is released to the income statement.

### (k) Fixed assets

Fixed assets, other than investment properties and construction in progress, 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 income statement in the year 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.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the fixed 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 income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On the disposal or retirement of a revalued asset, the attributable revaluation surplus realised is transferred directly to retained profits as a movement in reserves.

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (k) Fixed assets (continued)

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 used for this purpose are as follows:

|  |   |
|--|---|
| Medium term leasehold land and buildings | Over the lease terms                            |
| Leasehold improvements                   | Over the shorter of the lease terms and 5 years |
| Machinery and equipment                  | 3 to 4 years                                    |
| Furniture and fixtures                   | 5 years   |
| Motor vehicles                           | 4 years   |

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

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

### (l) Impairment of assets

An assessment is made at each balance sheet date to determine 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 income statement in the year 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 income statement in the year 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.



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## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (m) Leased assets

#### (i) Finance leases

Leases that transfer substantially all the risks and rewards of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases.

#### (ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

### (n) Investment securities

Investment securities are non-trading investments which are intended to be held on a continuing basis and are stated at cost less any impairment losses that are considered by the directors to be other than temporary, on an individual investment basis.

Investments other than investment securities are classified as other investments and are stated at their fair values on an individual investment basis. The gains or losses arising from changes in their respective values are credited or charged to the income statement in the year in which they arise.

### (o) Inventories

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

### (p) 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.

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (q) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Where the effect of the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

### (r) 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:

#### (i) *Sales of goods*

Revenue from the sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

#### (ii) *Rental income*

Rental income is recognised on a time proportion basis in accordance with the terms and conditions of the tenancy agreement.

#### (iii) *Interest income*

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

#### (iv) *Management fee income*

Management fee income is recognised when the services are rendered.





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## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (s) Employee benefits

#### (i) Retirement benefits scheme

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

Pursuant to the relevant regulations of the People’s Republic of China (the “PRC”) government, 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 contribute a certain sum of money as calculated under the relevant rules specified by the relevant PRC local government authorities to the PRC Scheme to fund the employees’ retirement benefits. The Group is required to pay the ongoing contributions under the PRC Scheme, which are charged to the income statement as incurred.

#### (ii) Share option scheme

The financial impact of share options granted under the share option scheme is not recorded in the Company’s or the Group’s balance sheet until such time when the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, equity is increased by the amount of the proceeds received. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

### (t) Deferred taxation

Deferred taxation is provided using the liability method on all material timing differences, other than those which are not expected to crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### (u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is based on similar terms as those available to other external parties.

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## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (u) Segment reporting (continued)

Segment revenue, expenses, results, assets and liabilities include item directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, results, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loan, borrowings, corporate and financing expenses and minority interests.

## 3. TURNOVER, REVENUE AND SEGMENT INFORMATION

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| <b>Turnover</b>  |                  |                  |
| Sale of goods  | 579,652          | 459,059          |
| <b>Other revenue</b>   |                  |                  |
| Gross rental income from investment properties   | 1,139            | 1,669            |
| Guaranteed profit received from a joint venture partner of a jointly-controlled entity | 1,193            | –                |
| Interest income  | 565              | 882              |
| Management fee income  | 658              | –                |
| Others   | 379              | 35               |
|  | <b>3,934</b>     | <b>2,586</b>     |
| <b>Total revenue</b>   | <b>583,586</b>   | <b>461,645</b>   |

### Segment information

Segment information is presented by way of two segment formats:

- on a primary segment reporting basis, by geographical segments; and
- on a secondary segment reporting basis, by business segments.



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### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

#### (a) Geographical segments

##### (i) Geographical segments based on the location of assets

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

The Group's geographical segments comprise Hong Kong and the PRC excluding Hong Kong.

The following tables present revenue, results and certain assets, liabilities and expenditures information for the Group's geographical segments, based on the location of assets.

|   | Hong Kong |          | The PRC excluding<br>Hong Kong |          | Elimination |          | 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             | 128,625   | 123,155  | 451,027                        | 335,904  | –           | –        | 579,652      | 459,059  |
| Intersegment sales                      | 104,085   | 56,186   | 44,485                         | –        | (148,570)   | (56,186) | –            | –        |
| Total revenue                           | 232,710   | 179,341  | 495,512                        | 335,904  | (148,570)   | (56,186) | 579,652      | 459,059  |
| Segment results                         | 7,581     | 3,393    | 32,781                         | 60,165   | –           | –        | 40,362       | 63,558   |
| Interest income                         |           |          |                                |          |             |          | 565          | 882      |
| Other unallocated revenue               |           |          |                                |          |             |          | 13,695       | 1,704    |
| Unallocated expenses                    |           |          |                                |          |             |          | (13,118)     | (10,304) |
| Profit from operating activities        |           |          |                                |          |             |          | 41,504       | 55,840   |
| Finance costs                           |           |          |                                |          |             |          | (9,958)      | (10,917) |
| Share of losses of:                     |           |          |                                |          |             |          |              |          |
| Jointly-controlled entities             |           |          |                                |          |             |          | (489)        | (529)    |
| Associates                              |           |          |                                |          |             |          | –            | (360)    |
| Amortisation of goodwill                |           |          |                                |          |             |          | (6,532)      | (420)    |
| Profit before taxation                  |           |          |                                |          |             |          | 24,525       | 43,614   |
| Taxation                                |           |          |                                |          |             |          | (2,793)      | (6,015)  |
| Minority interests                      |           |          |                                |          |             |          | 2,095        | –        |
| Net profit attributable to shareholders |           |          |                                |          |             |          | 23,827       | 37,599   |

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### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

#### (a) Geographical segments (continued)

##### (i) Geographical segments based on the location of assets (continued)

|   | Hong Kong |          | The PRC excluding<br>Hong Kong |          | Elimination |          | 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 assets  | 87,850    | 124,241  | 427,098                        | 196,185  | -           | -        | 514,948      | 320,426  |
| Interests in<br>jointly-controlled<br>entities                |           |          |                                |          |             |          | 86,058       | 19,921   |
| Interests in associates                                       |           |          |                                |          |             |          | -            | 32,719   |
| Minority interests  |           |          |                                |          |             |          | 2,383        | -        |
| Unallocated assets  |           |          |                                |          |             |          | 14,542       | 37,457   |
| Total assets  |           |          |                                |          |             |          | 617,931      | 410,523  |
| Segment liabilities   | 191,600   | 108,067  | 72,513                         | 58,865   | -           | -        | 264,113      | 166,932  |
| Other segment information:                                    |           |          |                                |          |             |          |              |          |
| Capital expenditure   | 15,192    | 10,424   | 40,207                         | 18,473   | -           | -        | 55,399       | 28,897   |
| Bad debts written off   | -         | 213      | -                              | -        | -           | -        | -            | 213      |
| Depreciation  | 8,163     | 5,724    | 12,108                         | 7,247    | -           | -        | 20,271       | 12,971   |
| Deficits on revaluation<br>of leasehold land<br>and buildings | 536       | 157      | 40                             | -        | -           | -        | 576          | 157      |
| Deficits on revaluation<br>of investment<br>properties        | 240       | 70       | -                              | -        | -           | -        | 240          | 70       |
| Write off of fixed assets                                     | -         | 1,289    | -                              | -        | -           | -        | -            | 1,289    |
| Unrealised loss on<br>other investments                       | 71        | 35       | -                              | -        | -           | -        | 71           | 35       |

##### (ii) Geographical segments based on the location of customers

Additional information in respect of segment revenue from external customers by geographical segments, based on the location of customers, is as follows:

|                             | Hong Kong |          | The PRC excluding<br>Hong Kong |          | Elsewhere |          | 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 |
| Sales to external customers | 100,329   | 119,935  | 451,027                        | 335,904  | 28,296    | 3,220    | 579,652      | 459,059  |



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### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

#### (b) Business segments

The Group's business segments comprise manufacturing and sale of fashion garments business and the Swedish Texcote Technology business. The Swedish Texcote Technology is a material processing technology based on the principles of nanotechnology.

The following table presents revenue, assets and capital expenditure information for the Group's business segments.

|                             | Manufacturing<br>and sale of<br>fashion garments |          | Swedish Texcote<br>Technology |          | Elimination |          | 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 | 564,049  | 459,059  | 15,603                        | -        | -           | -        | 579,652      | 459,059  |
| Intersegment sales          | -  | -        | 6,463                         | -        | (6,463)     | -        | -            | -        |
| Total revenue               | 564,049  | 459,059  | 22,066                        | -        | (6,463)     | -        | 579,652      | 459,059  |
| Segment assets              | 481,723  | 320,426  | 33,225                        | -        |             |          | 514,948      | 320,426  |
| Capital expenditure         | 28,999   | 28,897   | 26,400                        | -        |             |          | 55,399       | 28,897   |

#### 4. PROFIT FROM OPERATING ACTIVITIES

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

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| <b>Charging</b>  |                  |                  |
| Auditors' remuneration – Current year  | 680              | 880              |
| – Under-provision in prior year  | 500              | 120              |
| Bad debts written off  | –                | 213              |
| Cost of inventories sold   | 413,314          | 283,422          |
| Deficits on revaluation of leasehold land and buildings (note 11)              | 576              | 157              |
| Deficits on revaluation of investment properties (note 12)                     | 240              | 70               |
| Depreciation   |                  |                  |
| Owned fixed assets   | 14,060           | 9,296            |
| Leased fixed assets  | 6,211            | 3,675            |
|  | <b>20,271</b>    | 12,971           |
| Impairment loss on interest in a jointly-controlled entity                     | 1,921            | –                |
| Minimum lease payments under operating leases in respect of land and buildings | 26,938           | 25,731           |
| Staff costs (excluding directors' remuneration – note 5)                       |                  |                  |
| Wages and salaries   | 36,757           | 31,065           |
| Retirement benefits scheme contributions                                       | 1,552            | 1,207            |
|  | <b>38,309</b>    | 32,272           |
| Unrealised loss on other investments   | 71               | 35               |
| Write off of fixed assets  | –                | 1,289            |
| <b>Crediting</b>   |                  |                  |
| Bad debt recoveries  | –                | (951)            |
| Gain on disposals of fixed assets  | –                | (22)             |
| Net rental income from investment properties                                   | <b>(1,139)</b>   | (1,657)          |



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## 5. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

### Directors' remuneration

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

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Fees for independent non-executive directors                      | 266              | 260              |
| Salaries, allowances and benefits in kind for executive directors | 3,960            | 3,960            |
| Retirement benefits scheme contributions for executive directors  | 48               | 48               |
|   | <b>4,274</b>     | <b>4,268</b>     |

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

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

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

|                               | Number of directors |          |
|-------------------------------|---------------------|----------|
|                               | 2003                | 2002     |
| HK\$Nil – HK\$1,000,000       | 5                   | 4        |
| HK\$1,000,001 – HK\$1,500,000 | 2                   | 2        |
|                               | <b>7</b>            | <b>6</b> |

During the year, 40,000,000 share options were granted to the directors in respect of their services to the Group, details of which are set out in note 28 to the financial statements. No value in respect of the share options granted during the year has been charged to the income statement, or is otherwise included in the above directors' remuneration disclosures.

### Five highest paid individuals' remuneration

The five highest paid individuals during the year included four (2002: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining one (2002: one) highest paid individual are as follows:

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Salaries, allowances and benefits in kind | 1,244            | 520              |
| Retirement benefits scheme contributions  | 9                | 12               |
|   | <b>1,253</b>     | <b>532</b>       |

During the year, no remuneration was paid by the Group to this highest paid individual as an inducement to join, or upon joining the Group, or as compensation for loss of office.

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## 5. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (continued)

During the year, 10,000,000 share options were granted to this highest paid individual in respect of his service to the Group, details of which are included under the category of other employees in note 28 to the financial statements. No value in respect of the share options granted during the year has been charged to the income statement, or is otherwise included in the above highest paid individual's remuneration disclosures.

## 6. FINANCE COSTS

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Interest expenses on:  |                  |                  |
| Bank loans and overdrafts wholly repayable within five years | 9,242            | 9,842            |
| Bank loans wholly repayable after five years                 | -                | 706              |
| Other loans  | -                | 56               |
| Finance leases   | 716              | 313              |
|  | <b>9,958</b>     | <b>10,917</b>    |

## 7. TAXATION

|                         | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|-------------------------|------------------|------------------|
| Current year provision: |                  |                  |
| Hong Kong               | 1,791            | 3,015            |
| Elsewhere               | 1,002            | 3,000            |
| Tax charge for the year | <b>2,793</b>     | <b>6,015</b>     |

Hong Kong profits tax is provided at the rate of 16% (2002: 16%) on the estimated assessable profits arising in Hong Kong for the year. Taxes on profits assessable elsewhere are calculated at the rates of tax prevailing in the respective jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.





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## 7. TAXATION (continued)

In accordance with the applicable corporate income tax law of the PRC, Shunde U-Right Garment Co., Limited ("Shunde U-Right"), a subsidiary of the Company operating in the PRC, was exempt from enterprise income tax for the first two profitable calendar years of operation from 1 January 1999 to 31 December 2000, and is entitled to a 50% relief on the enterprise income tax for the following three years from 1 January 2001 to 31 December 2003. Accordingly, Shunde U-Right is subject to a reduced tax rate of 12% for the years from 1 January 2001 to 31 December 2003. Upon expiry of the tax relief period, the standard PRC enterprise income tax rate applicable to Shunde U-Right will be 24%.

Deferred tax has not been provided as there were no significant timing differences to the Group.

The revaluation of the Group's leasehold land and buildings in Hong Kong does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified. No provision for deferred tax has been made on the revaluation surplus of the Group's properties situated in the PRC as the Group presently does not have any intention to dispose of such properties.

## 8. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in net profit attributable to shareholders for the year ended 31 March 2003 is a net loss of HK\$2,715,000 (2002: net loss of HK\$3,033,000) dealt with in the financial statements of the Company.

## 9. DIVIDEND

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Proposed final dividend HK0.6 cents (2002: HK nil cents) per ordinary share | 7,113            | –                |

The final dividend for the year was proposed by the directors on 30 July 2003. The proposed final dividend is not recognised as a liability at 31 March 2003 as it is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 10. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on:

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| <b>Earnings</b>  |                  |                  |
| Net profit attributable to shareholders, used in the basic and diluted earnings per share calculation            | 23,827           | 37,599           |
|  |                  |                  |
| <b>Shares</b>  |                  |                  |
|  |                  |                  |
| Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation | 1,073,251,910    | 831,644,029      |
| Effect of dilutive potential ordinary shares in respect of share options   | 16,029,479       | –                |
| Weighted average number of ordinary shares used in diluted earnings per share calculation                        | 1,089,281,389    | 831,644,029      |

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**11. FIXED ASSETS**

| Group   | Medium term<br>leasehold<br>land and<br>buildings<br>HK\$'000 | Construction<br>in progress<br>HK\$'000 | Leasehold<br>improvements<br>HK\$'000 | Machinery<br>and<br>equipment<br>HK\$'000 | Furniture,<br>fixtures<br>and motor<br>vehicles<br>HK\$'000 | Total<br>HK\$'000 |
|---|---|---|---------------------------------------|---|---|-------------------|
| <b>Cost or valuation</b>  |   |   |                                       |   |   |                   |
| At 1 April 2002   | 58,460  | 2,816                                   | 14,893                                | 23,975                                    | 17,346  | 117,490           |
| Acquisition of subsidiaries   | -   | -                                       | 1,046                                 | -   | 206   | 1,252             |
| Additions   | -   | 11,813                                  | 14,363                                | 25,791                                    | 2,180   | 54,147            |
| Transfer  | 388   | (388)                                   | -                                     | -   | -   | -                 |
| Disposals of subsidiaries   | -   | -                                       | (80)                                  | (240)                                     | (2,065)   | (2,385)           |
| Revaluation deficits  | (1,900)   | -                                       | -                                     | -   | -   | (1,900)           |
| At 31 March 2003  | 56,948  | 14,241                                  | 30,222                                | 49,526                                    | 17,667  | 168,604           |
| <b>Accumulated depreciation</b>   |   |   |                                       |   |   |                   |
| At 1 April 2002   | -   | -                                       | 6,456                                 | 10,221                                    | 8,842   | 25,519            |
| Acquisition of subsidiaries   | -   | -                                       | 4                                     | -   | 66  | 70                |
| Charge for the year   | 1,224   | -                                       | 6,188                                 | 9,453                                     | 3,406   | 20,271            |
| Disposals of subsidiaries   | -   | -                                       | (15)                                  | (55)                                      | (1,192)   | (1,262)           |
| Reversal upon revaluation   | (1,224)   | -                                       | -                                     | -   | -   | (1,224)           |
| At 31 March 2003  | -   | -                                       | 12,633                                | 19,619                                    | 11,122  | 43,374            |
| <b>Net book value</b>   |   |   |                                       |   |   |                   |
| At 31 March 2003  | 56,948  | 14,241                                  | 17,589                                | 29,907                                    | 6,545   | 125,230           |
| At 31 March 2002  | 58,460  | 2,816                                   | 8,437                                 | 13,754                                    | 8,504   | 91,971            |
| The analysis of the cost or valuation at 31 March 2003 of the above assets is as follows: |   |   |                                       |   |   |                   |
| At cost   | -   | 14,241                                  | 30,222                                | 49,526                                    | 17,667  | 111,656           |
| At valuation  | 56,948  | -                                       | -                                     | -   | -   | 56,948            |
|   | 56,948  | 14,241                                  | 30,222                                | 49,526                                    | 17,667  | 168,604           |



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## 11. FIXED ASSETS (continued)

An analysis of the valuation of the leasehold land and buildings of the Group at the balance sheet date was as follows:

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Held under medium term leases in Hong Kong | 14,400           | 15,260           |
| Held under medium term leases in the PRC   | 42,548           | 43,200           |
|  | <b>56,948</b>    | <b>58,460</b>    |

The Group's medium term leasehold land and buildings situated in Hong Kong were revalued as at 31 March 2003 by Castores Magi Surveyors Limited ("Castores"), an independent firm of professional valuers, at HK\$14,400,000 on an open market, existing use basis.

The Group's medium term leasehold land and buildings situated in the PRC were revalued as at 31 March 2003 by Castores at HK\$42,548,000 on a depreciated replacement cost basis.

Revaluation deficits of HK\$100,000 and HK\$576,000 have been charged to the properties revaluation reserve and the income statement respectively.

Had the Group's leasehold land and buildings been stated at cost less accumulated depreciation, their carrying amounts as at 31 March 2003 would have been HK\$36,909,000 (2002: HK\$38,238,000).

At 31 March 2003, the Group's leasehold land and buildings situated in the PRC with an aggregate carrying value of HK\$42,200,000 were pledged to a bank to secure banking facilities granted to the Group (note 24(a)(iii)).

The net book value of the fixed assets of the Group held under finance leases included in leasehold improvements, machinery and equipment and furniture, fixtures and motor vehicles at 31 March 2003 amounted to HK\$10,569,000 (2002: HK\$7,096,000), HK\$6,197,000 (2002: HK\$1,646,000) and HK\$2,697,000 (2002: HK\$1,397,000), respectively.

### Company

|                                   | Equipment<br>HK\$'000 |
|-----------------------------------|-----------------------|
| <b>Cost</b>                       |                       |
| At 1 April 2002 and 31 March 2003 | 922                   |
| <b>Accumulated depreciation</b>   |                       |
| At 1 April 2002                   | 501                   |
| Charge for the year               | 307                   |
| At 31 March 2003                  | 808                   |
| <b>Net book value</b>             |                       |
| At 31 March 2003                  | 114                   |
| At 31 March 2002                  | 421                   |

At 31 March 2003, the fixed assets of the Company were held under finance leases (2002: HK\$421,000).

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## 12. INVESTMENT PROPERTIES

|                      | <b>Group</b><br>HK'000 |
|----------------------|------------------------|
| <b>Valuation</b>     |                        |
| At 1 April 2002      | 12,980                 |
| Revaluation deficits | <u>(1,040)</u>         |
| At 31 March 2003     | <u>11,940</u>          |

The Group's investment properties are situated in Hong Kong and held under medium term leases.

At 31 March 2003, the investment properties were revalued by Castores on an open market, existing use basis at HK\$11,940,000. Revaluation deficits of HK\$800,000 and HK\$240,000 arising therefrom have been charged to the properties revaluation reserve and the income statement respectively.

## 13. GOODWILL

The amounts of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

|  | <b>Group</b><br>HK'000 |
|--|------------------------|
| <b>Cost</b>  |                        |
| Acquisition of subsidiaries during the year and at 31 March 2003 | 26,649                 |
| <b>Accumulated amortisation</b>                                  |                        |
| Amortisation for the year and at 31 March 2003                   | <u>6,651</u>           |
| <b>Net book value</b>  |                        |
| At 31 March 2003   | <u>19,998</u>          |

As detailed in note 2(i) to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted negative goodwill in respect of acquisitions which occurred prior to 1 January 2001 to remain credited to the capital reserve (note 29(d)).



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## 14. INVESTMENTS IN SUBSIDIARIES

|                               | Company          |                  |
|-------------------------------|------------------|------------------|
|                               | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Unlisted investments, at cost | 81,310           | 81,310           |

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's principal subsidiaries at 31 March 2003 are as follows:

| Company                                      | Place of<br>incorporation/<br>registration | Nominal value of<br>issued and paid-up<br>ordinary share/<br>registered capital | Percentage of<br>equity attributable<br>to the Company | Principal activities                     |
|--|--|---|--|--|
| <i>Directly held:</i>                        |  |   |  |  |
| Lucky Formosa International<br>Group Limited | British Virgin<br>Islands                  | US\$10,000  | 100%   | Investment holding                       |
| <i>Indirectly held:</i>                      |  |   |  |  |
| Best Talent Assets Limited                   | British Virgin<br>Islands                  | US\$1   | 100%   | Investment holding                       |
| Hing Yun Industries<br>Co. Limited           | Hong Kong                                  | HK\$2   | 95%  | Trading of fashion<br>garments           |
| Jumbo Lake International<br>Limited          | British Virgin<br>Islands                  | US\$100   | 95%  | Investment holding                       |
| King Bond Resources<br>Limited               | British Virgin<br>Islands                  | US\$200   | 100%   | Holding of<br>machinery and<br>equipment |

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**14. INVESTMENTS IN SUBSIDIARIES (continued)**

| <b>Company</b>                            | <b>Place of incorporation/<br/>registration</b> | <b>Nominal value of<br/>issued and paid-up<br/>ordinary share/<br/>registered capital</b> | <b>Percentage of<br/>equity attributable<br/>to the Company</b> | <b>Principal activities</b>                |
|---|---|---|---|--|
| <i>Indirectly held:</i>                   |   |   |   |  |
| Max Fortune Industrial Limited            | British Virgin Islands                          | US\$1   | 100%  | Investment holding                         |
| New Asia Associates Limited               | British Virgin Islands                          | US\$1   | 100%  | Investment holding                         |
| Outclass Associates Limited               | British Virgin Islands                          | US\$1,000   | 66%   | Investment holding                         |
| Radix Development Company Limited         | Hong Kong                                       | HK\$1,000   | 100%  | Property holding                           |
| Shunde U-Right Garment Co., Ltd           | The PRC   | US\$2,000,000   | 100%  | Manufacturing and sale of fashion garments |
| Sky Fox Investment Limited                | Hong Kong                                       | HK\$10,000,000  | 100%  | Property holding                           |
| U-Right Garments Limited                  | Hong Kong                                       | HK\$10,000,000  | 100%  | Retailing of fashion garments              |
| U-RIGHT (HK) Limited                      | Hong Kong                                       | HK\$1,000,000   | 100%  | Provision of management services           |
| U-RIGHT International Limited             | Hong Kong                                       | HK\$20  | 100%  | Provision of management services           |
| U-Right Macau Commercial Offshore Limited | Macau   | MOP25,000   | 100%  | Manufacturing and sale of fashion garments |
| U-Right Nano (BVI) Limited                | British Virgin Islands                          | US\$100   | 75%   | Investment holding                         |



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## 14. INVESTMENTS IN SUBSIDIARIES (continued)

| Company                                  | Place of<br>incorporation/<br>registration | Nominal value of<br>issued and paid-up<br>ordinary share/<br>registered capital | Percentage of<br>equity attributable<br>to the Company | Principal activities              |
|--|--|---|--|-----------------------------------|
| <i>Indirectly held:</i>                  |  |   |  |                                   |
| U-Right Nano Textile<br>(China) Limited  | Hong Kong                                  | HK\$1,000   | 66%  | Investment holding                |
| U-Right Nano Textile<br>(Shunde) Limited | The PRC                                    | US\$2,500,000   | 66%  | Processing of<br>textile products |
| U-Right Trading Limited                  | Hong Kong                                  | HK\$2   | 100%   | Sale of fashion<br>garments       |
| Vision Future Developments<br>Limited    | British Virgin<br>Islands                  | US\$1   | 100%   | Investment holding                |

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 other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The principal places of operations of the subsidiaries are the same as their places of incorporation/registration, except for King Bond Resources Limited which operates in the PRC.

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**15. INTERESTS IN JOINTLY-CONTROLLED ENTITIES**

|   | Group            |                  |
|---|------------------|------------------|
|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Share of net assets   | 15,111           | 17,521           |
| Goodwill on acquisition   | 70,947           | 2,400            |
|   | <b>86,058</b>    | <b>19,921</b>    |
| Goodwill:   |                  | HK\$'000         |
| At 1 April 2002   |                  | 2,400            |
| Arising from reclassification from interests in associates                      |                  | 33,079           |
| Arising from acquisition of additional interests in jointly-controlled entities |                  | 42,000           |
| Amortisation for the year   |                  | <u>(6,532)</u>   |
| At 31 March 2003  |                  | <u>70,947</u>    |

The amounts due from jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Group's principal jointly-controlled entities at 31 March 2003 are as follows:

| Company  | Business structure | Place of incorporation and operations | Percentage of ownership interest attributable to the Group | Principal activities  |
|--|--------------------|---------------------------------------|--|---|
| Texcote International Limited                            | Corporate          | British Virgin Islands                | 51%  | Holding of the proprietary rights over the Swedish Texcote Technology |
| Texcote Technology (International) Limited               | Corporate          | Hong Kong                             | 51%  | Investment holding  |
| Hong Kong Green Nature Environmental Engineering Limited | Corporate          | Hong Kong                             | 30%  | Treatment of waste water  |
| U-Right Evergrow Co., Ltd.                               | Corporate          | Thailand                              | 49%  | Retailing of fashion garments   |





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## 15. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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

Texcote International Limited ("TIL") was classified as an associate of the Group at 31 March 2002 in which the Group had 48% equity interest. During the year, the Group acquired an additional 3% equity interest in TIL. Pursuant to a shareholders' agreement dated 7 June 2002 entered into by the Group and the joint venture partner, the Group is unable to exercise unilateral control over TIL. Accordingly, TIL and its subsidiaries have been classified as jointly-controlled entities since 7 June 2002.

## 16. INTERESTS IN ASSOCIATES

|                          | Group            |                  |
|--------------------------|------------------|------------------|
|                          | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Share of net liabilities | -                | (360)            |
| Goodwill on acquisition  | -                | 33,079           |
|                          | -                | 32,719           |

The amounts due from associates were unsecured, interest-free and have no fixed terms of repayment.

During the year, the Group's associates were classified as subsidiaries and jointly-controlled entities. Detail are set out as follows:

- (a) The Group acquired an additional 30% equity interest in U-Right Nano (BVI) Limited during the year and the Group thereafter has 75% equity interest in U-Right Nano (BVI) Limited. Accordingly, U-Right Nano (BVI) Limited and its subsidiaries, Outclass Associates Limited and U-Right Nano Textile (China) Limited, became the subsidiaries of the Group.
- (b) Texcote International Limited and its subsidiaries have been classified as jointly-controlled entities since 7 June 2002 (note 15).

## 17. INVESTMENT SECURITIES

|                            | Group            |                  |
|----------------------------|------------------|------------------|
|                            | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Unlisted equities, at cost | -                | 71               |

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**18. DEPOSIT FOR ACQUISITION OF LONG TERM ASSETS**

|  | Group            |                  |
|--|------------------|------------------|
|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Deposit paid for establishment of a subsidiary | 37,336           | –                |
| Deposit paid for acquisition of a subsidiary   | –                | 12,000           |
|  | <b>37,336</b>    | <b>12,000</b>    |

**19. INVENTORIES**

|                | Group            |                  |
|----------------|------------------|------------------|
|                | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Raw materials  | 70,041           | 38,415           |
| Finished goods | 17,135           | 21,260           |
|                | <b>87,176</b>    | <b>59,675</b>    |

No inventories of the Group were carried at net realisable value (2002: HK\$Nil).



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## 20. TRADE RECEIVABLES

Other than cash and credit card sales, invoices are normally payable within 30 days of issuance, except for certain well-established customers where the terms are extended up to 90 days. Trade receivables are recognised and carried at their original invoiced amounts less provisions against doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice dates, is as follows:

|                                  | Group            |                  |
|----------------------------------|------------------|------------------|
|                                  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Within 30 days                   | 19,148           | 23,699           |
| Between 31 days to 60 days       | 19,669           | 12,704           |
| Between 61 days to 180 days      | 32,731           | 16,435           |
| Between 181 days to 360 days     | -                | 80               |
|                                  | <b>71,548</b>    | <b>52,918</b>    |
| Provision against doubtful debts | <b>(1,747)</b>   | <b>(1,747)</b>   |
|                                  | <b>69,801</b>    | <b>51,171</b>    |

## 21. OTHER INVESTMENTS

|  | Group            |                  |
|--|------------------|------------------|
|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Unlisted investment funds, at market value | 980              | 980              |

## 22. PLEDGED BANK DEPOSITS

As at 31 March 2003, no bank and cash balances of the Group were pledged. As at 31 March 2002, bank deposits of the Group in the amount of HK\$52,880,000 were pledged as security for bank overdrafts, trust receipt loans and other banking facilities granted to the Group.

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## 23. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on invoice dates, is as follows:

|                             | Group            |                  |
|-----------------------------|------------------|------------------|
|                             | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Within 30 days              | 4,733            | 11,793           |
| Between 31 days to 60 days  | 3,027            | 13,440           |
| Between 61 days to 180 days | 17,668           | 3,362            |
|                             | <b>25,428</b>    | <b>28,595</b>    |

## 24. INTEREST-BEARING BORROWINGS

|   | Group            |                  | Company          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Bank overdrafts (note a(i))                   | 3,079            | 2,089            | –                | –                |
| Bank loans (notes a(i),a(ii))                 | 10,032           | 53,873           | –                | –                |
| Trust receipt loans (note a(i))               | 47,955           | 32,619           | –                | –                |
| Syndicated loans (note b)                     | 130,000          | –                | 130,000          | –                |
| Other loans, unsecured                        | –                | 467              | –                | –                |
|   | <b>191,066</b>   | 89,048           | <b>130,000</b>   | –                |
| Bank overdrafts repayable on demand           | 3,079            | 2,089            | –                | –                |
| Bank loans repayable:                         |                  |                  |                  |                  |
| Within one year                               | 10,032           | 34,015           | –                | –                |
| In the second year                            | –                | 4,563            | –                | –                |
| In the third to fifth years, inclusive        | –                | 10,622           | –                | –                |
| Beyond five years                             | –                | 4,673            | –                | –                |
|   | <b>10,032</b>    | 53,873           | –                | –                |
| Syndicated loans repayable:                   |                  |                  |                  |                  |
| Within one year                               | 37,143           | –                | 37,143           | –                |
| In the second year                            | 74,286           | –                | 74,286           | –                |
| In the third to fifth years, inclusive        | 18,571           | –                | 18,571           | –                |
|   | <b>130,000</b>   | –                | <b>130,000</b>   | –                |
| Trust receipt loans repayable within one year | 47,955           | 32,619           | –                | –                |
| Other loans with no fixed terms of repayment  | –                | 467              | –                | –                |
|   | <b>191,066</b>   | 89,048           | <b>130,000</b>   | –                |
| Portion classified as current liabilities     | <b>(98,209)</b>  | (69,190)         | <b>(37,143)</b>  | –                |
| Non-current portion                           | <b>92,857</b>    | 19,858           | <b>92,857</b>    | –                |



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## 24. INTEREST-BEARING BORROWINGS (continued)

### (a) General banking facilities

At 31 March 2003 the Group had total general banking facilities of approximately HK\$279 million which comprised the following:

- (i) Banking facilities of approximately HK\$248 million which were guaranteed by the Company. At 31 March 2003, the Group's bank overdrafts, bank loans of HK\$2,098,000 and trust receipt loans were drawn under these facilities.
- (ii) Credit facilities of approximately HK\$0.5 million which were guaranteed by an unrelated party. At 31 March 2003, the Group's bank loan of approximately HK\$467,000 was fully drawn under these facilities.
- (iii) Banking facilities of approximately HK\$23 million which were secured by the Group's leasehold land and buildings situated in the PRC with an aggregate carrying value of HK\$42,200,000 (note 11). At 31 March 2003, no facilities were utilized under these facilities.
- (iv) The standby letter of credit facility of approximately HK\$7.5 million which was guaranteed by a financial institution. The standby letter of credit facility was in turn guaranteed by the Company. At 31 March 2003, the Group's bank loan of approximately HK\$7,467,000 was fully drawn under this facility.

### (b) Syndicated loans facility

During the year, a 3-year HK\$130 million syndicated loans facility agreement was entered into by the Company with several banks arranged by WestLB AG, Hong Kong Branch. The loans bear interest at Hong Kong Interbank Offered Rate plus 1.7% per annum and will be repayable by 7 equal successive quarterly instalments commencing on 23 October 2003.

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## 25. FINANCE LEASE PAYABLES

At 31 March 2003 the total future minimum lease payments under finance leases and their present values were as follows:

|   |   |   | Group   |   |
|---|---|---|---|---|
|   | Minimum<br>lease payments<br>2003<br>HK\$'000 | Minimum<br>lease payments<br>2002<br>HK\$'000 | Present value<br>of minimum<br>lease payments<br>2003<br>HK\$'000 | Present value<br>of minimum<br>lease payments<br>2002<br>HK\$'000 |
| Amounts payable:                          |   |   |   |   |
| Within one year                           | 8,876   | 5,039   | 8,054   | 4,581   |
| In the second year                        | 4,808   | 2,530   | 4,423   | 2,357   |
| In the third to fifth years, inclusive    | 2,943   | 625   | 2,857   | 574   |
| Total minimum finance lease payments      | <b>16,627</b>                                 | 8,194   | <b>15,334</b>   | 7,512   |
| Future finance charges                    | <b>(1,293)</b>                                | (682)   |   |   |
| Total net finance lease payables          | <b>15,334</b>                                 | 7,512   |   |   |
| Portion classified as current liabilities | <b>(8,054)</b>                                | (4,581)                                       |   |   |
| Non-current portion                       | <b>7,280</b>                                  | 2,931   |   |   |

As at 31 March 2003, the Group's finance lease payables of HK\$14,577,000 were secured by corporate guarantees executed by the Company.



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## 25. FINANCE LEASE PAYABLES (continued)

|   | Company                                       |   |   |   |
|---|---|---|---|---|
|   | Minimum<br>lease payments<br>2003<br>HK\$'000 | Minimum<br>lease payments<br>2002<br>HK\$'000 | Present value<br>of minimum<br>lease payments<br>2003<br>HK\$'000 | Present value<br>of minimum<br>lease payments<br>2002<br>HK\$'000 |
| Amounts payable:                          |   |   |   |   |
| Within one year                           | 136   | 366   | 114   | 321   |
| In the second year                        | -   | 136   | -   | 100   |
| Total minimum finance lease payments      | 136   | 502   | 114   | 421   |
| Future finance charges                    | (22)  | (81)  |   |   |
| Total net finance lease payables          | 114   | 421   |   |   |
| Portion classified as current liabilities | (114)   | (321)   |   |   |
| Non-current portion                       | -   | 100   |   |   |

## 26. MINORITY INTERESTS

|   | Group            |                  |
|---|------------------|------------------|
|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Share of net liabilities by minority shareholders | (2,707)          | -                |
| Share of net assets by minority shareholders      | 324              | -                |
|   | (2,383)          | -                |

The debit balance of minority interests of HK\$2,707,000 is a result of the share of net liabilities of certain non-wholly-owned subsidiaries of the Group by the minority shareholders who have confirmed their intention to provide continuing financial support to these subsidiaries and have agreed to share the losses of these subsidiaries in excess to the minority shareholders' capital contribution.

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**27. SHARE CAPITAL**

|  | Note | Number of shares     |               | Ordinary share capital |                  |
|--|------|----------------------|---------------|------------------------|------------------|
|  |      | 2003                 | 2002          | 2003<br>HK\$'000       | 2002<br>HK\$'000 |
| Ordinary shares of HK\$0.10 each         |      |                      |               |                        |                  |
| Authorised:                              |      | <b>2,000,000,000</b> | 2,000,000,000 | <b>200,000</b>         | 200,000          |
| Issued and fully paid:                   |      |                      |               |                        |                  |
| At beginning of year                     |      | <b>946,039,400</b>   | 275,000,000   | <b>94,604</b>          | 27,500           |
| Issue of bonus shares                    |      |                      | 550,000,000   | –                      | 55,000           |
| Shares issued on exercise<br>of warrants | (a)  | <b>115,541,300</b>   | 1,039,400     | <b>11,554</b>          | 104              |
| Issue of Subscribed Shares               | (b)  | <b>45,000,000</b>    | 120,000,000   | <b>4,500</b>           | 12,000           |
| At end of year                           |      | <b>1,106,580,700</b> | 946,039,400   | <b>110,658</b>         | 94,604           |

## Notes:

- (a) During the year, 115,541,300 ordinary shares of HK\$0.10 each in the Company were issued to certain warrant holders at a price of HK\$0.45 per share, following the exercise of the warrants. The excess of the consideration received over the nominal value of the shares issued, in the amount of HK\$40,440,000, was credited to the share premium account.
- (b) On 7 June 2002, 45,000,000 ordinary shares of HK\$0.10 each in the Company were placed by ACE Target Inc., a substantial shareholder of the Company, to independent third parties not connected with the directors, chief executives or substantial shareholders of the Company, or any of its subsidiaries, or any of their associates as defined in the Listing Rules, at a price of HK\$0.81 per share. ACE Target Inc. then subscribed for a total of 45,000,000 new shares of HK\$0.10 each in the Company (the "Subscribed Shares") at HK\$0.81 per share. The proceeds received of approximately HK\$35 million, net of expenses, were used to develop the Swedish Texcote Technology and other related products and as general working capital of the Group. The excess of the consideration received over the nominal value of the shares issued, in the amount of HK\$31,950,000, was credited to the share premium account.

**Share options**

Details of the Company's share option scheme are set out in note 28.





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## 27. SHARE CAPITAL (continued)

### Warrants

Pursuant to an ordinary resolution passed in the annual general meeting of the Company held on 31 August 2001, 165,000,000 bonus warrants were granted to the shareholders of the Company. Each warrant entitles the holder thereof to subscribe for one ordinary share at an initial subscription price of HK\$0.45 per share, subject to adjustment, from the date of issue to 12 September 2003 (both dates inclusive). Any shares falling to be issued upon the exercise of the subscription rights attaching to the bonus warrants will rank pari passu in all respects with the then fully paid shares in issue.

At 1 April 2002, the outstanding number of warrants was 163,960,600. During the year, 115,541,300 warrants were exercised for 115,541,300 shares of HK\$0.10 each at HK\$0.45 per share with proceeds of approximately HK\$51,994,000. At 31 March 2003, the Company had 48,419,300 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 48,419,300 additional ordinary shares of the Company, with proceeds of HK\$21,789,000 in aggregate before any related share issue expenses.

## 28. SHARE OPTION SCHEME

On 17 October 2000, the Company adopted a share option scheme (the "Previous Scheme") for the purpose of providing incentives and rewards to eligible participants including executive directors and any full-time employee of the Company or its subsidiaries. No share options have been granted by the Company under the Previous Scheme.

In compliance with the amendments to the Listing Rules, the directors consider that it is in the interest of the Company to terminate the Previous Scheme and to adopt a new share option scheme (the "New Scheme"). An ordinary resolution was passed at the shareholders' meeting of the Company held on 9 July 2002 for the approval of the said adoption of the New Scheme and termination of the Previous Scheme.

The New Scheme is adopted for the purpose of providing incentives or rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest (the "Invested Entity"). Eligible participants of the New Scheme include the directors and employees of the Company, its subsidiaries or any Invested Entity, suppliers and customers of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity, and any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity. The New Scheme should, unless otherwise terminated or amended, remain in force for ten years from 17 July 2002.

## 28. SHARE OPTION SCHEME (continued)

The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time. The total number of shares which may be issued upon exercise of all share options to be granted under the New Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue on 9 July 2002. Share options lapsed in accordance with the terms of the New Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating the 10% limit. The Company may seek approval of the shareholders in general meeting for refreshing the 10% limit under the New Scheme save that the total number of shares which may be issued upon exercise of all share options to be granted under the New Scheme and any other share option schemes of the Company under the limit as refreshed shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit as refreshed. Share options previously granted under the New Scheme or any other share option schemes of the Company (including share options outstanding, cancelled, lapsed or exercised in accordance with the terms of the New Scheme or any other share option scheme of the Company) will not be counted for the purpose of calculating the limit as refreshed. The total number of shares issued and to be issued upon exercise of the share options granted to each eligible participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

Each grant of the share options to a director, chief executive or substantial shareholder of the Company, or to any of their associates, under the New Scheme must comply with the requirements of Rule 17.04 of the Listing Rules and must be subject to approval by the independent non-executive directors to whom share options have not been granted. In addition, any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant in excess of 0.1% of the total number of shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of each grant) in excess of HK\$5 million, are subject to prior approval from shareholders in a general meeting.

The offer of a grant of share options shall be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, save that such period shall not be more than ten years from the date of the offer of the share options subject to the provisions for early termination set out in the New Scheme. There is no minimum period for which an option must be held before the exercise of the subscription right attaching thereto except otherwise imposed by the board of directors.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of the share options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.



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## 28. SHARE OPTION SCHEME (continued)

The total number of the Company's shares currently available for issue under the New Scheme is 30,658,070 shares, being 2.59% of the issued share capital of the Company as at the date of this report.

A summary of the movement of share options granted under the New Scheme during the year is as follows:

| Name or category of participants | Date of share options granted | Number of share options granted during the year | Exercisable period                 | Exercise price per share<br>HK\$ | Closing price before the date of grant<br>HK\$ | Number of share options lapsed/ cancelled during the year | Number of share options outstanding at 31 March 2003 |
|----------------------------------|-------------------------------|---|------------------------------------|----------------------------------|--|---|--|
| <b>Directors</b>                 |                               |   |                                    |                                  |  |   |  |
| Mr. Leung Ngok                   | 23 August 2002                | 10,000,000                                      | 7 August 2002–<br>6 August 2012    | 0.2778                           | 0.385  | –   | 10,000,000   |
| Mr. Leung Shing                  | 23 August 2002                | 10,000,000                                      | 7 August 2002–<br>6 August 2012    | 0.2778                           | 0.385  | –   | 10,000,000   |
| Mr. Li Chung Hing                | 23 August 2002                | 10,000,000                                      | 7 August 2002–<br>6 August 2012    | 0.2778                           | 0.385  | –   | 10,000,000   |
| Mr. Lee Ka Yiu, Andy             | 23 August 2002                | 10,000,000                                      | 7 August 2002–<br>6 August 2012    | 0.2778                           | 0.385  | –   | 10,000,000   |
| <b>Other employees</b>           |                               |   |                                    |                                  |  |   |  |
| In aggregate                     | 23 August 2002                | 30,000,000                                      | 7 August 2002–<br>6 August 2012    | 0.2778                           | 0.385  | –   | 30,000,000   |
| <b>A supplier</b>                | 17 October 2002               | 10,000,000                                      | 10 October 2002–<br>9 October 2012 | 0.360                            | 0.380  | –   | 10,000,000   |
|                                  |                               | 80,000,000                                      |                                    |                                  |  |   | 80,000,000   |

No share options were exercised during the year.

At 31 March 2003, the Company had 80,000,000 share options outstanding under the New Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 80,000,000 additional ordinary shares of the Company and additional share capital of HK\$8,000,000 and share premium of HK\$15,046,000 (before issued expenses).

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**29. RESERVES****(a) The Company**

|                       | Share premium<br>account<br>HK\$'000 | Contributed<br>surplus<br>HK\$'000<br>(Note b) | Retained<br>profits/<br>(Accumulated<br>losses)<br>HK\$'000 | Total<br>HK\$'000 |
|-----------------------|--------------------------------------|--|---|-------------------|
| At 1 April 2001       | 14,248                               | 81,110   | 43  | 95,401            |
| Issue of bonus shares | (14,248)                             | (40,752)                                       | –   | (55,000)          |
| Issue of new shares   | 71,164                               | –  | –   | 71,164            |
| Shares issue expenses | (2,425)                              | –  | –   | (2,425)           |
| Net loss for the year | –                                    | –  | (3,033)   | (3,033)           |
| At 31 March 2002      | 68,739                               | 40,358   | (2,990)   | 106,107           |
| Issue of new shares   | 72,390                               | –  | –   | 72,390            |
| Shares issue expenses | (1,144)                              | –  | –   | (1,144)           |
| Net loss for the year | –                                    | –  | (2,715)   | (2,715)           |
| At 31 March 2003      | 139,985                              | 40,358   | (5,705)   | 174,638           |

- (b) The contributed surplus of the Group represents the difference between the aggregate of the nominal value of the share capital of the subsidiaries acquired pursuant to the Group Reorganisation in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited completed on 16 October 2000 over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company arose as a result of the same Group Reorganisation 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's contributed surplus is available for cash distribution and/or distribution in specie in certain circumstances.

- (c) In accordance with the relevant PRC regulations, the subsidiaries of the Company established in the PRC are required to transfer a certain percentage of its profit after tax, if any, to a statutory reserve. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset the accumulated losses, if any, of the subsidiary.
- (d) The Group has adopted the transitional provision of SSAP 30 that permits negative goodwill on acquisitions which occurred prior to 1 January 2001 to remain credited to the Group's capital reserve. The amount of the negative goodwill remaining credited to the Group's capital reserve arising from the acquisition of a subsidiary prior to 1 January 2001 was HK\$585,000 as at 1 April 2002 and 31 March 2003.



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### 30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Acquisition of subsidiaries

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Net assets acquired:                        |                  |                  |
| Fixed assets                                | 1,182            | 1,350            |
| Interest in a jointly-controlled entity     | –                | 18,000           |
| Inventories                                 | –                | 5,777            |
| Trade receivables                           | 134              | 1,622            |
| Prepayments, deposits and other receivables | 175              | 1,215            |
| Bank and cash balances                      | 101              | –                |
| Trade payables                              | (2,881)          | (964)            |
| Accruals and other payables                 | (120)            | (5,000)          |
| Provision for taxation                      | (188)            | –                |
|   | <b>(1,597)</b>   | 22,000           |
| Minority interests                          | (52)             | –                |
| Goodwill                                    | 26,649           | –                |
|   | <b>25,000</b>    | 22,000           |
| Satisfied by:                               |                  |                  |
| Cash consideration                          | 13,000           | 22,000           |
| Deposit paid in previous year               | 12,000           | –                |
|   | <b>25,000</b>    | 22,000           |

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Bank and cash balances acquired  | 101              | –                |
| Cash consideration   | (13,000)         | (22,000)         |
| Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries | <b>(12,899)</b>  | (22,000)         |

The subsidiaries acquired during the year made no significant contribution to the Group's cash flows, turnover or net profit attributable to shareholders for the year ended 31 March 2003.

**30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)****(b) Disposals of subsidiaries**

|                                   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|-----------------------------------|------------------|------------------|
| Net assets disposed of:           |                  |                  |
| Fixed assets                      | 1,123            | –                |
| Prepayments and other receivables | 12,539           | –                |
| Provision for taxation            | (11,988)         | –                |
|                                   | 1,674            | –                |
| Gain on disposals of subsidiaries | 10,326           | –                |
|                                   | 12,000           | –                |
| Satisfied by:                     |                  |                  |
| Cash consideration                | 12,000           | –                |

Analysis of the net inflow of cash and cash equivalents in respect of the disposals of subsidiaries is as follows:

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Cash consideration   | 12,000           | –                |
| Bank and cash balances disposed of   | –                | –                |
| Net inflow of cash and cash equivalents in<br>respect of the disposals of subsidiaries | 12,000           | –                |

The subsidiaries disposed of during the year made no significant contribution to the Group's cash flow, turnover or net profit attributable to shareholders for the year ended 31 March 2003.

**(c) Major non-cash transactions**

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$14,269,000 (2002: HK\$10,125,000).



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## 31. RELATED PARTY TRANSACTIONS

- (a) During the year, the Group paid rental expenses of HK\$910,000 (2002: HK\$910,000) to Mr. Leung Ngok and Mr. Leung Shing for properties jointly owned by them. In addition, the Group paid rental expenses of HK\$720,000 (2002: HK\$Nil) and HK\$600,000 (2002: HK\$Nil) to Mr. Leung Shing and the wife of Mr. Leung Ngok respectively. Mr. Leung Ngok and Mr. Leung Shing are executive directors of the Company. The properties leased were occupied by the Group as retail outlets and directors' quarters.
- (b) During the year, the Group had the following transactions with Texcote Technology (International) Limited, a jointly-controlled entity of the Company:

|                         | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|-------------------------|------------------|------------------|
| Purchases               | 777              | –                |
| Sales                   | 8                | –                |
| Management fee received | 658              | –                |
| Interest income         | 26               | –                |

In addition, the Group and Texcote International Limited, a jointly-controlled entity of the Company, entered into a license agreement during the year, details of which are set out in note 34(c).

- (c) At 31 March 2003, certain wholly-owned subsidiaries of the Company provided advances totalling approximately HK\$54,318,000 to U-Right Nano Textile (China) Limited, a non-wholly-owned subsidiary of the Company, at 7% per annum. The advances are unsecured and have no fixed terms of repayment. The principal purpose of these advances is to finance the non-wholly-owned subsidiary's operations.

## 32. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 31 March 2003.

As at 31 March 2003, the Company had provided unlimited corporate guarantees for banking facilities granted to certain of its subsidiaries, which were utilised to the extent of HK\$52,360,000 as at that date, and corporate guarantees for finance lease payables of the subsidiaries of HK\$14,577,000.

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**33. OPERATING LEASE ARRANGEMENTS****(a) As lessor**

At 31 March 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

|                 | <b>2003</b><br><b>HK\$'000</b> | 2002<br>HK\$'000 |
|-----------------|--------------------------------|------------------|
| Within one year | <b>419</b>                     | 440              |

**(b) As lessee**

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

|   | <b>2003</b><br><b>HK\$'000</b> | 2002<br>HK\$'000 |
|---|--------------------------------|------------------|
| Within one year                         | <b>28,571</b>                  | 22,773           |
| In the second to fifth years, inclusive | <b>13,913</b>                  | 21,088           |
|   | <b>42,484</b>                  | 43,861           |

The Company has not entered into any operating lease arrangements as at the balance sheet date (2002: HK\$Nil).





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## 34. COMMITMENTS

### (a) Capital commitments

The Group had the following capital commitments at the balance sheet date:

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Contracted but not provided for         |                  |                  |
| (i) investment in subsidiaries          | –                | 9,281            |
| (ii) purchases of plant and machineries | 8,714            | –                |
| (iii) construction of factory buildings | 14,178           | –                |
|   | <b>22,892</b>    | 9,281            |

The Company did not have any significant commitments at the balance sheet date (2002: HK\$Nil).

### (b) Operating lease commitments

Detail of the operating lease commitments of the Group and of the Company are set out in note 33(b) above.

### (c) Commitment arising from a license agreement

Pursuant to the license agreement dated 2 April 2002 and the supplementary letter of amendment dated 28 October 2002 (collectively referred to as the "License Agreement") entered into between Outclass Associates Limited ("Outclass"), a subsidiary of the Company, and Texcote International Limited ("TIL"), a jointly-controlled entity of the Company (note 15), Outclass has been granted exclusive rights over the Swedish Texcote Technology for the use in the textile and clothing industry in Mainland China, Hong Kong and Macau for a term of 28 years commencing on 2 April 2002. In addition, Outclass has the rights to sub-license the whole or part of its right to other parties during the term of the License Agreement.

In consideration of the rights granted, Outclass is required to pay an aggregate sum of HK\$28,000,000 to TIL in the following manner:

- (i) an annual fee of HK\$2,000,000 for each of the years ended/ending 31 March 2003, 2004, 2005 and 2006; and
- (ii) an amount equal to 10% of the annual profit after tax of Outclass commencing from the year ending 31 March 2006 until an aggregate total of HK\$20,000,000 has been paid.

## 35. POST BALANCE SHEET EVENTS

- (a) On 17 July 2003, 49,000,000 ordinary shares of HK\$0.10 each in the Company were placed by Mr. Leung Ngok to independent third parties not connected with the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries, or any of their associates as defined in the Listing Rules, at a price of HK\$0.33 per share. Mr. Leung Ngok then subscribed for a total of 49,000,000 new shares of HK\$0.10 each in the Company at HK\$0.33 per share. The proceeds received of approximately HK\$16 million, net of expenses, are intended to be used as general working capital of the Group.
- (b) On 30 July 2003, the directors proposed a final dividend for the year ended 31 March 2003, details of which are set out in note 9.
- (c) During the period from 1 April 2003 to 30 July 2003, an aggregate of 30,000,000 share options were exercised, resulting in the issue of 30,000,000 shares of HK\$0.1 each for a total cash consideration, before expenses, of HK\$9,156,000.

## 36. COMPARATIVE FIGURES

The comparative figures were audited by another firm of certified public accountants in Hong Kong.

## 37. APPROVALS OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 July 2003.