



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Singapore Exchange Securities Trading Limited.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sourcing and export of cotton based knitted garments for women, children and infants, property investments, garment bleaching and dyeing, and provision of wireless communication services.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. The new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the previous year have been restated in order to achieve a consistent presentation. The adoption of these new and revised SSAPs has no material effect on the results for the current or prior accounting periods.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or jointly controlled entity at the date of acquisition.

Goodwill will be charged to the income statement at the time of disposal of the relevant subsidiary or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

Investments in subsidiaries

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



3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the premium paid/less any discount on acquisition in so far as it has not already been written off/amortised/released to income, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has been passed.

Telecommunications revenue for services provided for fixed periods is recognised on a straight line basis over the respective periods. Other telecommunications revenue is recognised when products are delivered or services are rendered.

Other service income is recognised when services are rendered.

The gain on disposal of permanent or temporary textile quota entitlements is recognised upon execution of a legally binding, unconditional and irrevocable transfer form to the transferee.

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight line basis over the lease terms.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable, except in the case of loans which are deemed to be doubtful at which stage interest accrual ceases.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Property, plant and equipment

Property, plant and equipment, other than properties under development, are stated at cost or valuation less depreciation and any accumulated impairment losses.

Advantage has been taken of the transitional relief provided by paragraph 80 of SSAP No. 17 "Property, plant and equipment" ("SSAP 17") from the requirement to make revaluation on a regular basis of the Group's leasehold land and buildings, certain of which had been carried at revalued amount prior to the effective date of SSAP 17 and accordingly, no further valuation of these properties is carried out.

Any further decrease in value of the revalued assets is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Costs relating to the development of properties are capitalised and included as properties under development, as appropriate, in the balance sheet until such time as they are identified for transfer to specific categories of property, plant and equipment or properties held for sale. Development costs exclude administrative and operating expenses which are charged to the income statement in the period in which they are incurred.

Properties under development are not depreciated until completion of construction.

Depreciation is provided to write off the cost or valuation of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the unexpired term of lease
Buildings	Over the duration of the leases or fifty years, whichever is the shorter
Others	5% - 20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Leases

Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Capitalisation of borrowing costs

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

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

Investment properties

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

Investment properties are stated at their open market values based on independent professional valuations at 31 March each year. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, any balance on the investment property revaluation reserve which is attributable to that property will be credited to the income statement and included in the determination of the gain or loss on disposal.

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

Textile quota entitlements

Permanent textile quota entitlements purchased from outside parties are stated at cost less accumulated amortisation and any identified impairment losses. The cost of permanent textile quota entitlements is amortised on a straight line basis over a period of five years by equal monthly instalments.

Temporary textile quota entitlements purchased from outside parties are charged to the income statement at the time of utilisation, or in the absence of such utilisation upon the expiry of the relevant utilisation period.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Club debentures

Club debentures, which are held for long-term investment purposes, are stated at cost less any identified impairment losses.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group intends to hold to maturity, which are held-to-maturity debt securities, are measured at amortised cost less any identified impairment losses. Any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments, as appropriate.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost less any identified impairment losses.

Other investments are measured at fair value, with unrealised gains and losses included in the profit or loss for the year.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.



3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefits costs

The amount of the Group's contributions payable under the Group's retirement benefits schemes is charged to the income statement as and when incurred.

4. TURNOVER

Turnover represents the aggregate of the amounts received and receivable for goods sold, net of returns, and services rendered by the Group, the total amount of quota income received and receivable from temporary transfer of permanent textile quota entitlements, and rental income received and receivable during the year. An analysis of the Group's turnover is as follows:

	2003 HK\$'000	2002 HK\$'000
Sales of goods	579,202	619,012
Bleaching and dyeing services	29,789	7,817
Quota income	56,941	49,568
Rental income	19,056	17,865
Telecommunications services	2,664	—
	<u>687,652</u>	<u>694,262</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into six main operating divisions - garment sourcing and export, property investment, investment in securities, garment bleaching and dyeing, telecommunications services and related investments, and loan financing. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Year 2003

(i) Income statement

	Garment sourcing and export	Property investment	Investment in securities	Garment bleaching and dyeing	Tele- communications services and related investments	Loan financing	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER								
External	636,143	19,056	—	29,789	2,664	—	—	687,652
Inter-segment	—	3,144	—	—	—	—	(3,144)	—
Total	<u>636,143</u>	<u>22,200</u>	<u>—</u>	<u>29,789</u>	<u>2,664</u>	<u>—</u>	<u>(3,144)</u>	<u>687,652</u>
RESULT								
Segment result and profit								
from operations	<u>50,522</u>	<u>27,142</u>	<u>(705)</u>	<u>(485)</u>	<u>(17,898)</u>	<u>1,589</u>	<u>(675)</u>	59,490
Unrealised loss on investment in 21CN (see note 7)								(11,000)
Loss on disposal of investment in 21CN								(50,456)
Income on release of guarantee								5,000
Finance costs								(10,128)
Loss before taxation								(7,094)
Taxation								(21,131)
Loss before minority interests								(28,225)
Minority interests								3,267
Net loss for the year								<u>(24,958)</u>

Notes:

- Inter-segment transactions are charged at prevailing market prices.
- Turnover from garment sourcing and export includes income from temporary transfer of permanent textile quota entitlements of HK\$50,286,000.



5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Year 2003 - *continued*

(ii) Balance sheet

	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Garment bleaching and dyeing HK\$'000	Tele- communications services and related investments HK\$'000	Loan financing HK\$'000	Consolidated HK\$'000
ASSETS							
Segment assets	202,303	543,571	20,000	32,403	10,493	72,738	881,508
Unallocated corporate assets							78,255
Consolidated total assets							<u>959,763</u>
LIABILITIES							
Segment liabilities	34,722	14,423	10	16,990	8,284	62	74,491
Unallocated corporate liabilities							359,698
Consolidated total liabilities							<u>434,189</u>

(iii) Other information

	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Garment bleaching and dyeing HK\$'000	Tele- communications services and related investments HK\$'000	Loan financing HK\$'000	Consolidated HK\$'000
Capital additions	21	102,364	—	5,565	288	—	108,238
Depreciation and amortisation	2,549	1,186	—	897	1,070	—	5,702
Other non-cash (income) expenses	4,951	(8,713)	56,456	744	7,194	—	60,632



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Year 2002

(i) Income statement

	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Garment bleaching and dyeing HK\$'000	Loan financing HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER							
External	668,580	17,865	—	7,817	—	—	694,262
Inter-segment	—	3,773	—	—	—	(3,773)	—
Total	<u>668,580</u>	<u>21,638</u>	<u>—</u>	<u>7,817</u>	<u>—</u>	<u>(3,773)</u>	<u>694,262</u>
RESULT							
Segment result and profit from operations	<u>47,059</u>	<u>(3,342)</u>	<u>(1,952)</u>	<u>(1,021)</u>	<u>976</u>	<u>(291)</u>	41,429
Unrealised loss on investment in 21CN							(28,418)
Finance costs							<u>(18,329)</u>
Loss before taxation							(5,318)
Taxation							<u>(5,254)</u>
Loss before minority interests							(10,572)
Minority interests							<u>1,173</u>
Net loss for the year							<u><u>(9,399)</u></u>

Notes:

- (a) Inter-segment transactions are charged at prevailing market prices.
- (b) Turnover from garment sourcing and export includes income from temporary transfer of permanent textile quota entitlements of HK\$40,157,000.



5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Year 2002 - *continued*

(ii) Balance sheet

	Garment sourcing and export	Property investment	Investment in securities	Garment bleaching and dyeing	Loan financing	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS						
Segment assets	218,165	401,707	125,849	15,716	11,115	772,552
Unallocated corporate assets						73,292
Consolidated total assets						<u>845,844</u>
LIABILITIES						
Segment liabilities	57,441	9,552	5,010	7,207	29	79,239
Unallocated corporate liabilities						295,163
Consolidated total liabilities						<u>374,402</u>

(iii) Other information

	Garment sourcing and export	Property investment	Investment in securities	Garment bleaching and dyeing	Loan financing	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital additions	1,220	4,763	—	7,163	—	13,146
Depreciation and amortisation	4,766	1,279	—	425	—	6,470
Impairment losses	—	7,223	—	—	—	7,223
Other non-cash expenses	—	10,270	28,418	—	—	38,688



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

Geographical segments

An analysis of the Group's turnover by geographical market is as follows:

	Turnover		Contribution to profit from operations	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	21,720	17,865	7,273	(8,106)
People's Republic of China, excluding Hong Kong ("PRC")	29,789	7,817	(689)	(1,021)
United States of America ("USA")	576,453	633,616	52,632	49,784
Canada	23,327	15,869	241	611
Europe	21,064	19,095	46	161
Mexico	14,951	—	(13)	—
Others	348	—	—	—
	687,652	694,262	59,490	41,429

An analysis of the carrying amount of segment assets, and additions to property, plant and equipment and permanent textile quota entitlements, analysed by the geographical area in which the assets are located is as follows:

	Carrying amount of segment assets		Additions to property, plant and equipment and permanent textile quota entitlements	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	901,624	813,390	102,673	5,125
PRC	34,484	15,702	5,565	7,163
USA	23,655	16,752	—	858
	959,763	845,844	108,238	13,146

6. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (<i>note 11(a)</i>)	7,018	7,400
Other staff costs, including retirement benefits costs	21,771	15,583
Total staff costs	<u>28,789</u>	<u>22,983</u>
Allowance for doubtful debts	6,353	—
Auditors' remuneration:		
- current year	635	565
- underprovision in prior years	109	44
Cost of inventories consumed	525,477	553,707
Depreciation and amortisation on:		
- owned assets	4,131	2,849
- assets held under finance leases	20	20
- permanent textile quota entitlements (<i>note a</i>)	1,551	3,601
Loss on disposal of other investments	—	588
Purchased temporary textile quota entitlements utilised	3,276	3,671
Write-off of goodwill on acquisition of additional interest in subsidiaries (<i>note b</i>)	364	—
and after crediting:		
Gain on disposal of other investments	84	—
Interest income	2,216	2,804
Write back of allowance for doubtful debts	—	1,233
	<u> </u>	<u> </u>

Notes:

(a) The amount is included in distribution costs.

(b) The amount is included in administrative expenses.

7. UNREALISED LOSS ON INVESTMENT IN 21CN CYBERNET CORPORATION LIMITED

The amount represents the unrealised loss on revaluation of the Group's investments in shares of 21CN CyberNet Corporation Limited ("21CN") to fair value at the balance sheet date (see also note 21(d)).

8. LOSS ON DISPOSAL OF INVESTMENT IN 21CN

The amount represents loss on disposal of other investments, being shares of 21CN, to an outside party during the year (see also note 21(d)).

E NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

9. INCOME ON RELEASE OF GUARANTEE

The amount represents income on release of a guarantee, details of which are set out in note 21(c).

10. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on:		
- bank borrowings wholly repayable within five years	10,190	18,211
- bank borrowings not wholly repayable within five years	184	—
- other borrowings wholly repayable within five years	30	112
- obligations under finance leases	4	6
	<hr/>	<hr/>
Total borrowing costs	10,408	18,329
Less: Amount capitalised	(280)	—
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	10,128	18,329
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Borrowing costs capitalised during the year arose on specific borrowing at an average interest rate of 3.6% per annum.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Information regarding directors' emoluments

	2003 HK\$'000	2002 HK\$'000
Directors' fees:		
Executive	—	—
Independent non-executive	200	200
	<hr/>	<hr/>
	200	200
	<hr/>	<hr/>
Other emoluments paid to executive directors:		
Salaries and other benefits (including benefits in kind of HK\$1,238,000; 2002: nil)	6,578	4,800
Performance related incentive payments	—	2,160
Retirement benefits costs	240	240
	<hr/>	<hr/>
	6,818	7,200
	<hr/>	<hr/>
Total directors' emoluments	7,018	7,400
	<hr/> <hr/>	<hr/> <hr/>

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS - *continued***(a) Information regarding directors' emoluments** - *continued*

The emoluments of the directors fall within the following bands:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	—	1
HK\$1,500,001 to HK\$2,000,000	2	—
HK\$2,500,001 to HK\$3,000,000	—	1
HK\$3,000,001 to HK\$3,500,000	1	1
	<u>5</u>	<u>5</u>

(b) Information regarding employees' emoluments

The five highest paid individuals of the Group in both years included three executive directors. The emoluments of the remaining two highest paid individuals, not being directors, are as follows:

	2003	2002
	HK\$'000	HK\$'000
Salaries and other benefits	1,327	1,125
Retirement benefits costs	45	52
	<u>1,372</u>	<u>1,177</u>

The aggregate emoluments of each of these two employees fall within HK\$1,000,000.

During both years, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss in office. In addition, during both years, no director waived any emoluments.



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For the year ended 31 March 2003

12. TAXATION

	2003 HK\$'000	2002 HK\$'000
The amount comprises:		
Hong Kong Profits Tax calculated at 16% (2002: 16%) on the estimated assessable profit of the year	5,938	5,439
Under(over)provision in prior years	<u>15,193</u>	<u>(185)</u>
	<u><u>21,131</u></u>	<u><u>5,254</u></u>

Details of the potential deferred taxation not provided for are set out in note 32.

13. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	2003 HK\$'000	2002 HK\$'000
Loss for the purposes of basic loss per share	<u>(24,958)</u>	<u>(9,399)</u>
Number of shares		
Weighted average number of shares for the purposes of basic loss per share	<u><u>603,578,288</u></u>	<u><u>110,325,287</u></u>

The denominators for the purposes of calculating basic loss per share of 2002 have been adjusted to reflect the consolidation of shares in August 2002 on the basis that ten shares were consolidated into one share and the rights issue of shares in September 2002.

The calculation of diluted loss per share has not been disclosed as the exercise of the Company's outstanding share options would reduce the loss per share for both years.

14. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

- (a) During the year, the Group had the following transactions carried out at prices determined by reference to market prices for similar transactions with related parties/persons deemed to be “connected persons” by the Stock Exchange, being entities controlled by certain relatives of Koon Wing Yee and his spouse Lui Yuk Chu, both of whom are directors of the Company:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Sales of garments	2,398	4,689
Bleaching and dyeing charges received	16,969	5,060
Purchases of garments	255,617	229,711

At the balance sheet date, amounts due from these entities comprise:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Trade receivables	17,450	4,997
Deposits paid	71,933	52,737
Trade and other receivables	89,383	57,734
Loans and interest receivable	3,119	—
	92,502	57,734

The loans bear interest at 2% per annum and are repayable within one year.

The Group, its principal shareholders and directors of the Company neither control these entities, nor, other than having significant business transactions with these entities, exercise significant influence over these entities in making financial and operating decisions.

- (b) During the year, the Group provided administrative services to Easyknit Properties Management Limited, a company in which Koon Wing Yee and Tsang Yiu Kai, both of whom are directors of the Company, have beneficial interests and received service income of HK\$149,000 (2002: HK\$149,000) from that company. The service income is determined based on mutually agreed terms.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Properties under development	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP						
COST OR VALUATION						
At 1 April 2002	41,384	74,784	4,687	16,587	2,411	139,853
On acquisition of subsidiaries	—	—	—	4,588	359	4,947
Additions	—	102,364	5,046	738	90	108,238
Reclassification	—	—	1,168	(1,168)	—	—
Transferred to properties held for sale	—	(95,580)	—	—	—	(95,580)
Transferred to investment properties	—	(81,568)	—	—	—	(81,568)
Disposals	—	—	(18)	—	—	(18)
At 31 March 2003	41,384	—	10,883	20,745	2,860	75,872
Comprising:						
At cost	12,384	—	10,883	20,745	2,860	46,872
At valuation - 1995	29,000	—	—	—	—	29,000
	41,384	—	10,883	20,745	2,860	75,872
DEPRECIATION AND IMPAIRMENT LOSS						
At 1 April 2002	17,384	2,784	180	11,469	1,930	33,747
Provided for the year	820	—	715	2,336	280	4,151
Transferred to investment properties	—	(2,784)	—	—	—	(2,784)
Eliminated on disposals	—	—	(2)	—	—	(2)
At 31 March 2003	18,204	—	893	13,805	2,210	35,112
NET BOOK VALUE						
At 31 March 2003	23,180	—	9,990	6,940	650	40,760
At 31 March 2002	24,000	72,000	4,507	5,118	481	106,106

The Group's leasehold land and buildings and properties under development are situated in Hong Kong and are held under medium-term leases.

The valuation of certain leasehold land and buildings was carried out by Jones Lang Wootton Ltd., a firm of independent professional property valuers, at 31 October 1994 on an open market value vacant possession basis. Had all leasehold land and buildings been carried at cost less accumulated depreciation, their carrying value would have been stated at HK\$28,686,000 (2002: HK\$29,368,000).

The net book value of property, plant and equipment of the Group included an amount of HK\$58,000 (2002: HK\$78,000) in respect of assets held under finance leases.



16. INVESTMENT PROPERTIES

	THE GROUP
	HK\$'000
VALUATION	
At 1 April 2002	328,230
On acquisition of subsidiaries	29,951
Transferred from properties under development	78,784
Surplus arising on revaluation	15,815
	<hr/>
At 31 March 2003	<u>452,780</u>

The investment properties are held for rental purposes under operating leases. They were revalued at 31 March 2003 by Knight Frank (Services) Limited, a firm of independent professional property valuers, on an open market existing use basis. This revaluation gives rise to a revaluation surplus of HK\$15,815,000 which had been credited to the consolidated income statement to reverse deficit previously charged.

The Group's investment properties comprise properties situated in Hong Kong held under:

	2003	2002
	HK\$'000	HK\$'000
Long leases	158,000	126,500
Medium-term leases	294,780	201,730
	<hr/>	<hr/>
	452,780	328,230
	<hr/> <hr/>	<hr/> <hr/>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

17. PERMANENT TEXTILE QUOTA ENTITLEMENTS

	THE GROUP HK\$'000
COST	
At 1 April 2002	240,677
Disposals	(7,951)
	<hr/>
At 31 March 2003	232,726
	<hr/>
AMORTISATION	
At 1 April 2002	236,915
Provided for the year	1,551
Eliminated on disposals	(7,951)
	<hr/>
At 31 March 2003	230,515
	<hr/>
CARRYING AMOUNT	
At 31 March 2003	2,211
	<hr/> <hr/>
At 31 March 2002	3,762
	<hr/> <hr/>

The permanent textile quota entitlements held by the Group are for shipments principally to USA.

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	1,231	—
Loan to a jointly controlled entity	22	—
	<hr/>	<hr/>
	1,253	—
	<hr/> <hr/>	<hr/> <hr/>
Amount due to a jointly controlled entity	(1,234)	—
	<hr/> <hr/>	<hr/> <hr/>

The balances with jointly controlled entities are unsecured and non-interest bearing.

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES - continued

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

Name of entity	Form of business structure	Place of incorporation/ operations	Class of shares held	Percentage of			Principal activities
				Ownership interest	Voting power	Profit sharing	
iSTT100 Limited	Corporate	Cayman Islands/ Singapore	Ordinary	45%	45%	45%	Provision of financial, technical, operational, marketing and strategic support to Internet, media and technology businesses
Vector Entertainment Corporation	Corporate	British Virgin Islands	Ordinary	45%	50%	45%	Entertainment business

19. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	48,726	48,577
Amounts due from subsidiaries	2,235,488	2,179,653
	2,284,214	2,228,230
Less: Allowance	(1,905,017)	(1,905,017)
	379,197	323,213
Amounts due to subsidiaries	(56,627)	(41,874)

The amounts due from subsidiaries are unsecured and have no fixed repayment terms. An amount due from subsidiaries of HK\$96,681,000 (2002: HK\$17,370,000) bear interest at the prevailing market rates of interest and the remaining amounts are non-interest bearing. In the opinion of the directors, repayment of the amounts due from subsidiaries will not be demanded by the Company within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current assets in the balance sheet.

The amounts due to subsidiaries are unsecured, non-interest bearing and repayable on demand.

Particulars of the Company's principal subsidiaries at 31 March 2003 are set out in note 38.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

20. PROPERTIES HELD FOR SALE

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Transferred from properties under development (<i>note 15</i>)	95,580	—
Less: Allowance	(6,080)	—
	<u>89,500</u>	<u>—</u>

The properties were stated at net realisable value.

21. OTHER INVESTMENTS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Equity securities listed in Hong Kong - 21CN, at market value	<u>20,000</u>	<u>125,849</u>

Notes:

- (a) 21CN is a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange. 21CN and its subsidiaries (collectively "21CN Group") is principally engaged in telecommunications, media and Internet business activities. At 31 March 2003, the Group holds 100,000,000 shares (2002: 405,965,700 shares) of 21CN, representing approximately 3.22% (2002: 13.27%) of the issued ordinary shares of HK\$0.01 each in the capital of 21CN.
- (b) As announced by the Company on 15 May 2001, the Company entered into an agreement (the "Sale Shares Agreement") on that day with Best Quarter Investments Limited ("Best Quarter") and Chan Chin Yuen ("Mr. Chan") to dispose of 211,579,420 shares of HK\$0.01 each in the issued share capital of 21CN (the "Sale Shares") held by a wholly-owned subsidiary of the Company for a consideration of HK\$88,863,356.40 of which HK\$5,000,000 was paid before the date of completion and the balance of HK\$83,863,356.40 shall be paid on 15 May 2002. Best Quarter is a company incorporated in the British Virgin Islands and Mr. Chan was the registered and beneficial owner of the entire issued share capital of Best Quarter. Best Quarter was and Mr. Chan is independent third party not connected with the directors, chief executive or substantial shareholders of the Company or any of their respective associates as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The consideration was determined with reference to the then market value of shares of 21CN. As at the closing of trading on 15 May 2001, the closing market price of shares of 21CN as quoted on the Stock Exchange was HK\$0.42 per share, which is equivalent to the purchase price per share of the Sale Shares. Best Quarter agreed that within twelve months from the date of completion of the Sale Shares Agreement, it shall not dispose of any of the Sale Shares or any interest or charge or create or allow to exist any interest in or encumbrance over the interests of Best Quarter and of the Company under the Sale Shares save for mortgage on the Sale Shares as mentioned below. Mr. Chan agreed to guarantee the performance of Best Quarter's obligations in the Sale Shares Agreement. Completion of the Sale Shares Agreement took place on 1 June 2001.

On 1 June 2001, the Company and Best Quarter signed a deed of mortgage and assignment, pursuant to which the Sale Shares were held by the Company through a wholly-owned subsidiary as security for the payment by Best Quarter of the balance of the consideration for the Sale Shares.



21. OTHER INVESTMENTS - *continued*

Also on 1 June 2001, the Company and Mr. Chan signed a deed of mortgage and assignment, pursuant to which the entire issued capital of 1 share of US\$1.00 of Best Quarter was charged to the Company as security for the payment by Best Quarter of the balance of the consideration for the Sale Shares.

Also on 1 June 2001, the Company and Mr. Chan entered into a call option agreement, under which the Company was granted a call option to purchase all but not some of the issued share capital of Best Quarter. The exercise price of the option shall be HK\$95,210,739. This option was exercisable at any time from the date of the call option agreement to 15 May 2002.

The Company entered into the Sale Shares Agreement for the disposal of the Sale Shares for the purpose of complying with its obligations under a conditional agreement dated 7 February 2000, as amended by a supplemental agreement dated 14 February 2000, with 21CN and two outside parties (the "Subscribers") relating to the subscription by the subscribers for new shares in the capital of 21CN (the "Subscription Agreement"). Following completion of the Sale Shares Agreement on 1 June 2001, the Company has no further obligation under the Subscription Agreement to dispose of its remaining interest in shares of 21CN. The Sale Shares represented approximately 6.92% of the then issued share capital of 21CN. Disposal of the Sale Shares shall be recognised by the Group when the call option to acquire Best Quarter, purchaser of the Sale Shares, lapses on 15 May 2002 and the Group's interest in 21CN would then be reduced from approximately 13.27% at 31 March 2002 to 6.35% (based on 21CN's then capital structure). HK\$5,000,000, being a portion of the consideration for the Sale Shares, received by the Group was therefore shown as deposit received (included in trade and other payables) under current liabilities in the consolidated balance sheet at 31 March 2002.

Details of the above are set out, *inter alia*, in the circular of the Company dated 5 June 2001.

- (c) As announced by the Company on 7 June 2002, the Company was not paid the remaining consideration of HK\$83,863,356.40 referred to in (b) above on 15 May 2002 by Best Quarter. Pursuant to the Sale Shares Agreement, the Company, after considering the options available, entered into an agreement with Mr. Chan dated 22 May 2002 to acquire from Mr. Chan 1 share of US\$1.00 of Best Quarter, being the entire issued share capital of Best Quarter, and the shareholder loan of HK\$5,000,000 owing by Best Quarter to Mr. Chan. The aggregate consideration amounted to HK\$5,000,008 which shall not be paid in cash but shall instead be satisfied by the delivery to Mr. Chan of a letter under seal from the Company unconditionally releasing the guarantee formerly given by Mr. Chan under the Sale Shares Agreement, which was credited to the income statement (see note 9).

Completion of the above agreement took place on 14 June 2002 following which Best Quarter became a wholly-owned subsidiary of the Company. Disposal of the Sale Shares was therefore not recognised and the Group continued to hold 405,965,700 shares of 21CN.

Details of the above are set out, *inter alia*, in the circular of the Company dated 28 June 2002.

- (d) As announced by the Company on 12 September 2002, the Company entered into an agreement (the "2002 Sale Shares Agreement") on that day with an independent third party not connected with the directors, chief executive or substantial shareholders of the Company or any of their respective associates as defined in the Listing Rules to dispose of an aggregate of 305,965,700 shares of HK\$0.01 each in the issued capital of 21CN (the "2002 Sale Shares") for an aggregate cash consideration of HK\$45,894,855. At 31 March 2003, completion of the 2002 Sales Shares has taken place and a loss on disposal amounting to HK\$50,456,000 was recognised in the consolidated income statement in the current year (see note 8). An aggregate unrealised loss of HK\$11,000,000 was recognised in the consolidated income statement in the current year (see note 7). The Group's interest in 21CN was reduced to approximately 3.22% (based on 21CN's then capital structure).

The Company has undertaken with the purchaser not to dispose of (i) 30,000,000 remaining shares within six months from the date of the 2002 Sale Shares Agreement; and (ii) the balance of 70,000,000 remaining shares within twelve months from the date of the 2002 Sale Shares Agreement. The remaining shares are deposited with an escrow agent until the respective dates of release.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

22. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Raw materials	1,976	1,048
Work-in-progress	669	—
Finished goods	8,125	8,614
	<u>10,770</u>	<u>9,662</u>

Included above are finished goods of HK\$125,000 (2002: nil) which are carried at net realisable value.

23. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period ranged from 30 to 90 days to its trade customers. The aged analysis of trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 - 60 days	156,329	106,085
61 - 90 days	23,626	2,214
Over 90 days	8,311	46,135
	<u>188,266</u>	<u>154,434</u>

24. LOANS RECEIVABLE

The loans are repayable by instalments within one year. They comprised:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Amount secured by property interests or listed securities and bearing interest at rates ranging from 5% to 8% per annum	49,500	—
Unsecured amount		
- guaranteed by third parties and bearing interest at rates ranging from 2% to 9% (2002: 8.125% to 18%) per annum	17,692	8,064
- bearing interest at rates ranging from 5% to 10% (2002: 7.125% to 11%) per annum	4,500	2,536
- non-interest bearing	—	270
	<u>71,692</u>	<u>10,870</u>

25. TRADE AND OTHER PAYABLES

The aged analysis of trade payables at the balance sheet date is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 - 60 days	41,122	37,452
61 - 90 days	1,275	2,375
Over 90 days	3,450	3,075
	<u>45,847</u>	<u>42,902</u>

26. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable under finance leases:				
Within one year	26	26	19	19
Between one to two years	26	26	19	19
Between two to five years	25	49	19	39
	<u>77</u>	<u>101</u>	<u>57</u>	<u>77</u>
Less: Future finance charges	(20)	(24)	—	—
Present value of lease obligations	<u>57</u>	<u>77</u>	<u>57</u>	<u>77</u>
Less: Amount due within one year shown under current liabilities			(19)	(19)
Amount due after one year			<u>38</u>	<u>58</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

27. SECURED BORROWINGS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
The amounts represent:		
Bank loans	337,816	293,770
Other loan	4,000	—
	<u>341,816</u>	<u>293,770</u>
Less: Amount due within one year shown under current liabilities	(161,483)	(90,575)
	<u>180,333</u>	<u>203,195</u>
The borrowings bear interest at prevailing market rates and are repayable as follows:		
Within one year	161,483	90,575
Between one to two years	60,483	54,185
Between two to five years	117,529	149,010
After five years	2,321	—
	<u>341,816</u>	<u>293,770</u>

28. SHARE CAPITAL

	<i>Notes</i>	Nominal value per share HK\$	Number of shares	Amount HK\$'000
Authorised:				
At 1 April 2001		0.10	30,000,000,000	3,000,000
Effect of the Reorganisation referred to below	(a)		<u>270,000,000,000</u>	<u>—</u>
At 31 March 2002		0.01	300,000,000,000	3,000,000
On consolidation of shares	(b)		<u>(270,000,000,000)</u>	<u>—</u>
At 31 March 2003		0.10	<u><u>30,000,000,000</u></u>	<u><u>3,000,000</u></u>
Issued and fully paid:				
At 1 April 2001		0.10	735,374,106	73,537
Rights issue of shares at a price of HK\$0.15 per rights share	(c)	0.10	<u>367,687,053</u>	<u>36,769</u>
Reduction of share capital	(a)(i)	0.10	<u>1,103,061,159</u> <u>—</u>	<u>110,306</u> <u>(99,276)</u>
Rights issue of shares at a price of HK\$0.08 per rights share	(d)	0.01	<u>1,103,061,159</u> <u>1,103,061,159</u>	<u>11,030</u> <u>11,031</u>
At 31 March 2002		0.01	2,206,122,318	22,061
On consolidation of shares	(b)		<u>(1,985,510,087)</u>	<u>—</u>
Rights issue of shares at a price of HK\$0.12 per rights share	(e)	0.10	<u>220,612,231</u> <u>661,836,693</u>	<u>22,061</u> <u>66,184</u>
At 31 March 2003		0.10	<u><u>882,448,924</u></u>	<u><u>88,245</u></u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

28. SHARE CAPITAL - *continued*

Notes:

- (a) In 2002, the Company underwent a share capital reorganisation (the "Reorganisation"). Details of the Reorganisation are set out in the circular dated 24 January 2002 issued by the Company.

At the special general meeting of the Company held on 18 February 2002, special resolutions approving the Reorganisation were passed and the following capital reorganisation took effect:

- (i) nominal value of issued shares in the share capital of the Company was reduced from HK\$0.10 each to HK\$0.01 each; and
- (ii) unissued shares of HK\$0.10 each in the authorised share capital of the Company were subdivided into ten shares of HK\$0.01 each.
- (b) As announced by the Company on 17 July 2002, the Company proposed to effect the share consolidation pursuant to which every ten issued and unissued then existing shares were consolidated into one consolidated share. Details of the share consolidation are set out in the circular dated 31 July 2002 issued by the Company. Ordinary resolutions approving the share consolidation were passed at the special general meeting of the Company held on 22 August 2002.
- (c) Rights issue of 367,687,053 shares of HK\$0.10 each at a subscription price of HK\$0.15 per rights share were allotted on 12 September 2001 to the shareholders of the Company in the proportion of one rights share for every two existing shares then held.
- (d) Rights issue of 1,103,061,159 shares of HK\$0.01 each at a subscription price of HK\$0.08 per rights share were allotted on 8 March 2002 to the shareholders of the Company in the proportion of one rights share for every existing share then held.
- (e) Rights issue of 661,836,693 shares of HK\$0.10 each at a subscription price of HK\$0.12 per rights share were allotted on 9 September 2002 to the shareholders of the Company in the proportion of three rights shares for every existing share then held.

The net proceeds of the above rights issues were applied for repayment of part of the Group's bank loans, for financing the development of properties in Hong Kong and for general working capital purposes. All shares issued rank *pari passu* with the then existing shares in issue in all respects.



29. SHARE OPTION SCHEMES

(a) Share option schemes of the Company:

The Company has a share option scheme approved at the special general meeting of the Company held on 18 February 2002 (the "Scheme") which replaced the share option scheme adopted on 10 January 1995. Under the Scheme the directors may at their discretion grant options to executive directors and full time employees of the Company, its subsidiaries, associates, controlling shareholders, business partners, joint venture partners, contractors, agents, representatives, suppliers, customers, landlords, tenants, advisers or consultants to subscribe for shares in the Company.

The Scheme is for the primary purpose of attracting, retaining and motivating talented employees, providing participants of the Scheme with opportunity to acquire proprietary interests in the Company and encouraging participants as incentives to work towards enhancing the value of the Company and as rewards for the participants' contribution and potential contribution to the Group. The Scheme will expire on 17 February 2012.

The total number of shares in respect of which options may be granted under the Scheme can be increased by not exceeding 10% of the shares of the Company in issue as at the date of the shareholders' approval. The overall limit on the number of shares which may be issued upon exercise of all options granted and yet to be exercised under the Scheme and other share option schemes of the Company must not exceed 30% of the shares in issue from time to time.

Each grant of options to any director, chief executive or substantial shareholder of the Company, or any of their respective associates, shall be subject to the approval of the independent non-executive directors of the Company. Where any grant of options to a substantial shareholder or an independent non-executive directors of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted or to be granted to such person in the 12-month period representing in aggregate over 0.1% of the shares in issue and having an aggregate value, based on the closing price of the shares, in excess of HK\$5,000,000, such further grant of options shall be subject to shareholders' approval with the connected persons of the Company abstaining from voting.

Subject to the aforesaid, the total number of shares issued and to be issued upon exercise of the options granted and to be granted to each grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue. Any further grant of options in excess of the limit shall be subject to shareholders' approval with such grantee abstaining from voting.

Options granted must be taken up within 30 days from the date of grant which must be a business day. Consideration for each grant of HK\$1 is payable to the Company. Options granted under the Scheme will entitle the holder to subscribe for shares within ten years from the date the option is granted. The subscription price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (ii) the average closing price of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares on the date of grant. Unless otherwise determined by the directors of the Company, there is no minimum period for which an option must be held before it can be exercised.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

29. SHARE OPTION SCHEMES - *continued*

(a) Share option schemes of the Company: - *continued*

A summary of the movements of share options granted during the year ended 31 March 2003 is as follows:

Grantee	Date of grant	Exercise period	Exercise price HK\$	At 1 April 2002	Number of share options (adjusted as appropriate)			At 31 March 2003	Share price at grant date of options (Note) HK\$
					Granted during the year	Adjustments*	Lapsed during the year		
Directors	19 June 2002	19 June 2002 to 18 October 2002	0.067	—	11,030,000	(11,030,000)	—	—	0.062
			0.670*	—	—	1,103,000 (1,103,000)	—	—	—
			0.336*	—	—	4,412,000	(4,412,000)	—	—
Employees	19 June 2002	19 June 2002 to 18 October 2002	0.067	—	99,270,000	(99,270,000)	—	—	0.062
			0.670*	—	—	9,927,000 (9,927,000)	—	—	—
			0.336*	—	—	39,708,000	(39,708,000)	—	—

* The number of share options and the corresponding exercise price have been adjusted as a result of consolidation and rights issue of shares of the Company during the year ended 31 March 2003.

A summary of the movements of share options granted during the year ended 31 March 2002 is as follows:

Grantee	Date of grant	Exercise price HK\$	At 1 April 2001	Number of share options (adjusted as appropriate)			At 31 March 2002	Share price at grant date of options (Note) HK\$
				Granted during the year	Adjustments**	Lapsed during the year		
Directors	10 April 2001	0.124	—	21,916,000	—	(21,916,000)	—	0.166
		0.135	—	10,958,000	(10,958,000)	—	—	0.149
		0.132**	—	—	11,207,045	(11,207,045)	—	—
Employees	10 April 2001	0.124	—	21,916,000	—	(21,916,000)	—	0.166
		0.135	—	32,874,000	(32,874,000)	—	—	0.149
		0.132**	—	—	33,621,135	(33,621,135)	—	—

** The number of share options and the corresponding exercise price have been adjusted as a result of rights issue of shares of the Company during the year ended 31 March 2002.

29. SHARE OPTION SCHEMES - continued**(a) Share option schemes of the Company: - continued**

No share options have been exercised during both years.

The Company received notional consideration for options granted during both years.

No charge is recognised in the income statement in respect of the value of options granted in both years.

Note: The share price at grant date of options shown in the above tables represents the closing price of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange on the trading day immediately preceding the date of grant of the options.

(b) Share option schemes of i100 Limited (“i100”):

i100 is a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange. i100 became a subsidiary of the Company with effect from 28 January 2003.

On 21 August 1991, i100 approved a share option scheme (the “1991 Share Option Scheme”) which was terminated by an ordinary resolution of its shareholders at the annual general meeting held on 22 May 2001 but the subsisting options granted thereunder prior to its termination remain valid and exercisable in accordance with the terms of the 1991 Share Option Scheme.

On 22 May 2001, i100 approved a share option scheme (the “2001 Share Option Scheme”) which was terminated by an ordinary resolution of its shareholders at the annual general meeting held on 6 June 2002 but the subsisting options granted thereunder prior to the termination remain valid and exercisable in accordance with the terms of the 2001 Share Option Scheme.

On 6 June 2002, a new share option scheme (the “2002 Share Option Scheme”) was approved by the shareholders of i100. Under the terms of the 2002 Share Option Scheme, the board of directors may, at their discretion, grant options to any employee (full-time and part-time), director, supplier, consultant or advisor of any member of i100 Group to subscribe for shares in i100 subject to the terms and conditions stipulated therein. No share options have been granted under 2002 Share Option Scheme since its adoption.

The 2002 Share Option Scheme is for the purpose of providing incentives and rewards to eligible participants who contribute to the success of i100 Group's operations.

The maximum number of shares subject to the 2002 Share Option Scheme must not (when aggregate with any shares subject to any other share option scheme of i100 including the 2001 Share Option Scheme) exceed 10% of the shares in issue from time to time, excluding for this purpose shares allotted and issued upon the exercise of options granted under the 2001 Share Option Scheme.

The maximum number of shares issuable under share options to each eligible participant in the 2002 Share Option Scheme within any 12-month period, is limited to 1% of the shares of i100 in issue at any time. Any further grant to share options in excess of this limit is subject to shareholders' approval in a general meeting of i100.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

29. SHARE OPTION SCHEMES - *continued*

(b) Share option schemes of i100 Limited ("i100"): - *continued*

The exercise period of the share options granted is determined by the board of directors of i100, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the option. The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.

The exercise price in respect of any particular option of the 2002 Share Option Scheme may be determined by the board of directors of i100 in their absolute discretion and notified to each offeree but may not be less than the higher of (i) the closing price of i100's shares on the date of grant, which must be a business day, and (ii) the average closing price of i100's shares for the five business days immediately preceding the date of grant.

The 2002 Share Option Scheme is valid during the period of 10 years commencing 6 June 2002, unless otherwise cancelled or amended.

A summary of the movements of share options granted to employees of i100 during the year ended 31 March 2003 is as follows:

Date of grant	Exercise price HK\$	Exercise period	Number of share options			Share price of options HK\$
			At 1 April 2002	Lapsed during the year	At 31 March 2003	
2 August 2000	0.7500	2 August 2001 to 1 August 2010	3,475,000	(2,880,000)	595,000	0.800
6 October 2000	0.4700	6 October 2001 to 5 October 2010	1,540,000	(1,540,000)	—	0.560
26 March 2001	0.3850	26 March 2002 to 25 March 2011	6,875,000	(6,150,000)	725,000	0.390
31 August 2001	0.4032	31 August 2002 to 30 August 2011	37,736,000	(10,808,000)	26,928,000	0.500
			<u>49,626,000</u>	<u>(21,378,000)</u>	<u>28,248,000</u>	

The share price at grant date of options shown in the above table represents the closing price of i100's shares as stated in the daily quotations sheets issued by the Stock Exchange on the trading day immediately preceding the date of grant of the options. No share options have been granted or exercised during the year.

Details of the movements of share options granted during the year ended 31 March 2002 are not presented as the directors of the Company consider that such information is not meaningful.



30. RESERVES

	Share premium	Capital reserve	Contributed surplus	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY					
At 1 April 2001	1,008,300	796,656	48,369	(1,735,435)	117,890
Premium arising from issue of new shares during the year	95,594	—	—	—	95,594
Arising on reduction of share capital	—	99,276	—	—	99,276
Net loss for the year	—	—	—	(5,528)	(5,528)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2002	1,103,894	895,932	48,369	(1,740,963)	307,232
Premium arising from issue of new shares during the year	13,237	—	—	—	13,237
Net loss for the year	—	—	—	(58,343)	(58,343)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2003	<u>1,117,131</u>	<u>895,932</u>	<u>48,369</u>	<u>(1,799,306)</u>	<u>262,126</u>

The capital reserve of the Company represents the credit arising from the reduction of the share capital of the Company in 1999 and 2002.

The contributed surplus of the Company represents the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company under the group reorganisation in 1995.

Under the laws in Bermuda, the contributed surplus account of a company is also available for distribution. However, the company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

The Company has no distributable reserve at the balance sheet date of both years.

The special reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital and share premium of the companies now forming the Group pursuant to the group reorganisation prior to the listing of the Company's shares in 1995.



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For the year ended 31 March 2003

31. ACQUISITION OF SUBSIDIARIES

During the year ended 31 March 2003, the Group acquired 55.3% of the issued share capital of i100 and the entire equity interest of Victor Investment Limited for consideration of approximately HK\$6,100,000 and HK\$18,700,000 respectively. Acquisition of these subsidiaries was accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was charged to the consolidated income statement as the estimated recoverable amount from business operation of the subsidiaries acquired is less than the carrying amount. The recoverable amount from business operations is estimated based on cashflow forecast discounted at market borrowing rate.

	2003 HK\$'000	2002 HK\$'000
Net assets acquired		
Property, plant and equipment	4,947	—
Investment properties	29,951	—
Interests in jointly controlled entities	1,253	—
Inventories	137	—
Trade and other receivables	36,432	—
Bank balances and cash	1,732	—
Trade and other payables	(40,107)	—
Amount due to a jointly controlled entity	(1,234)	—
Bank loans	(10,779)	—
Minority interests	(1,579)	—
	<u>20,753</u>	—
Goodwill	7,194	—
	<u>27,947</u>	—
Total consideration	<u>27,947</u>	—
Satisfied by:		
Cash	24,758	—
Expenses incurred in connection with acquisitions	3,189	—
	<u>27,947</u>	—
Net cash outflow arising on acquisition:		
Cash consideration paid	(24,758)	—
Expenses incurred in connection with acquisitions	(3,189)	—
Bank balances and cash acquired	1,732	—
	<u>(26,215)</u>	—
Net cash outflow of cash and cash equivalents in respect of the purchase of subsidiaries	<u>(26,215)</u>	—

The subsidiaries acquired during the year contributed HK\$3,406,000 to the Group's turnover and incurred loss from operations of HK\$10,039,000.



32. DEFERRED TAXATION

At 31 March 2003, the Group had estimated tax losses carried forward available to relieve future assessable profits. The potential deferred tax asset of HK\$73,547,000 (2002: HK\$46,982,000) has not been recognised in the financial statements as it is not certain that the benefit will be utilised in the foreseeable future. There were no other significant timing differences arising during the year or at the balance sheet date.

The surplus or deficit arising on revaluation of the Group's properties does not constitute a timing difference for taxation purposes as any profits or losses realised on their future disposals would not be subject to taxation.

The Company did not have any significant unprovided deferred taxation arising during the year or at the balance sheet date.

33. PLEDGE OF ASSETS

At 31 March 2003, leasehold land and buildings, investment properties and properties held for sale with carrying amount of HK\$9,753,000, HK\$451,900,000 and HK\$89,500,000, respectively, have been pledged to banks to secure the bank borrowings granted to the Group. In addition, the entire issued capital of i100 Wireless Corporation, a non wholly-owned subsidiary of the Company, has been pledged to an outside party to secure the other loan granted to the Group.

The debentures executed by the Group in favour of its bankers charging, by way of fixed and floating charges, all of the undertakings, properties and assets of the Company and its subsidiaries (except for those subsidiaries operating outside Hong Kong) as security for, inter alia, all obligations and liabilities, actual or contingent, from time to time owing by the Group to the bankers and rental revenue of the Group have been discharged by the bankers on 4 September 2002.

34. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bills discounted with recourse	13,460	12,513	—	—
Corporate guarantees given to banks in respect of credit facilities granted to subsidiaries	—	—	337,816	1,059,311
	<u>13,460</u>	<u>12,513</u>	<u>337,816</u>	<u>1,059,311</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

35. CAPITAL COMMITMENTS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
- development of properties	—	40,532
- acquisition of other property, plant and equipment	3,085	35
- capital injection for interests in jointly controlled entities and non wholly-owned subsidiaries	24,342	—
	<u>27,427</u>	<u>40,567</u>
Capital expenditure authorised but not contracted for in respect of development of properties	—	60,000
	<u>27,427</u>	<u>100,567</u>

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

36. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Minimum lease payments recognised in the consolidated income statement during the year	<u>2,992</u>	<u>1,144</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	4,009	2,095
In the second to fifth year inclusive	8,292	8,263
After five years	2,693	2,727
	<u>14,994</u>	<u>13,085</u>

36. OPERATING LEASE ARRANGEMENTS - continued

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases are negotiated for an average term of two to ten years.

Under the leases entered into by the Group, the lease payments are fixed and no arrangements have been entered into for contingent rental payments.

The Group as lessor

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Property rental income earned during the year	19,056	17,865
Less: Outgoings	(558)	(531)
Net rental income	<u>18,498</u>	<u>17,334</u>

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	14,378	14,124
In the second to fifth year inclusive	14,492	2,954
	<u>28,870</u>	<u>17,078</u>

Under the leases entered into by the Group, the rental payments are fixed and no arrangements have been entered into for contingent rental payments.

The Company had no significant lease commitments at the balance sheet date.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

37. RETIREMENT BENEFITS SCHEMES

The Group had defined contribution retirement scheme (the "Retirement Scheme") for its employees and the assets of the Retirement Scheme are held under provident funds managed by independent trustees. With effect from 1 December 2000, the Retirement Scheme has become a "Top Up" scheme to supplement the minimum benefit under the mandatory provident fund scheme (the "MPF Scheme") for all the eligible employees of the Group in Hong Kong.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries or up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK\$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

Employees of the subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

The aggregate employers' contributions, net of forfeited contributions, which have been dealt with in the income statement of the Group were as follows:

	2003 HK\$'000	2002 HK\$'000
Gross employers' contributions	852	757
Less: Forfeited contributions utilised to offset employers' contributions for the year	<u>(26)</u>	<u>(143)</u>
Net employers' contributions charged to the consolidated income statement	<u>826</u>	<u>614</u>

At the balance sheet date, the total amount of forfeited contributions available to reduce the contributions payable in the future years was insignificant.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued share/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Cheong Ko Investment Company Limited	Hong Kong	Ordinary HK\$2 (Non-voting preferred HK\$10,000)*	—	100%	Property holding
Copplestone Limited	Cayman Islands/ Hong Kong	Ordinary US\$42,880,770	—	55.3%**	Investment holding
Digital Empires Company Limited	Hong Kong	Ordinary HK\$100	—	41.5%**	Provision of computer system consultancy services
Easyknit BVI Limited	British Virgin Islands/ Hong Kong	Ordinary US\$100	100%	—	Investment holding
Easyknit International Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	100%	—	Investment holding
Easyknit International Trading Company Limited	Hong Kong	Ordinary HK\$2	—	100%	Trading of garments
Easyknit Properties Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1,000	100%	—	Investment holding
Easyknit Trading Company Limited	Hong Kong	Ordinary HK\$2	—	100%	Trading of garments
Golden Top Properties Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Grand Modern Investment Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Grand Profit Development Limited	Hong Kong	Ordinary HK\$2	—	100%	Trading of garments
i100	Bermuda/Hong Kong	Ordinary HK\$11,018,730	—	55.3%**	Investment holding
i100 Wireless (Hong Kong) Limited	Hong Kong	Ordinary HK\$2	—	55.3%**	Wireless data service provider



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES - *continued*

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued share/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Janson Properties Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Landmark Profits Limited	British Virgin Islands/Hong Kong	Ordinary US\$1	100%	—	Investment holding
Mark Profit Development Limited	Hong Kong	Ordinary HK\$2	—	100%	Property development
Mary Mac Apparel Inc.	USA	Common stock US\$200,000	—	70%	Garment distribution
Perfect Luck Development Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Planetic International Limited	Hong Kong	Ordinary HK\$2	—	100%	Finance company
Po Cheong International Enterprises Limited	Hong Kong	Ordinary HK\$90	—	100%	Investment holding
Touch Profits Limited	British Virgin Islands/Hong Kong	Ordinary US\$1	100%	—	Investment holding
Victor Investment Limited	Hong Kong	Ordinary HK\$1,001	—	100%	Property holding
Wellmake Investments Limited	Hong Kong	Ordinary HK\$9,998 (Non-voting deferred HK\$2)*	—	100%	Property holding
東莞永耀漂染有限公司 ("Wing Yiu")***	PRC	Registered HK\$6,000,000	—	100%	Bleaching and dyeing

* The non-voting preferred shares of Cheong Ko Investment Company Limited and the non-voting deferred shares of Wellmake Investments Limited carry no rights to receive notice of, attend or vote at any general meeting and have very limited rights to participate in a distribution of profits and, on liquidation, to the repayment of the amount paid up on the shares.

** Derived from a 55.3% interest in i100, a company whose shares are listed on the Stock Exchange.

*** Wing Yiu is a wholly-owned foreign enterprise established in the PRC, to be operated for ten years up to 20 August 2011.

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

None of the subsidiaries had issued any debt securities at 31 March 2003.