

Notes to the Financial Statements(continued)

For the year ended 31 March 2003

30.SHARE OPTIONS -continued

During the year, the Old Scheme of the Company was replaced by the New Scheme pursuant to a special resolution passed on 28 August 2002. The following table shows movement in the Company's share options granted under the New Scheme during the year ended 31 March 2003:

Date of grant	Exercisable period	Exercise price HK\$	Granted during the year	Outstanding at 31 March 2003
5 October 2002	5 October 2003 to 27 March 2010	0.840	12,000,000	12,000,000
5 October 2002	5 October 2004 to 27 March 2010	0.840	12,000,000	12,000,000
5 October 2002	5 October 2005 to 27 March 2010	0.840	12,000,000	12,000,000
5 October 2002	5 October 2006 to 27 March 2010	0.840	12,000,000	12,000,000
14 February 2003	14 February 2004 to 27 March 2010	0.874	366,000	366,000
14 February 2003	14 February 2005 to 27 March 2010	0.874	366,000	366,000
14 February 2003	14 February 2006 to 27 March 2010	0.874	368,000	368,000
18 March 2003	18 March 2004 to 27 March 2010	0.800	250,000	250,000
18 March 2003	18 March 2005 to 27 March 2010	0.800	250,000	250,000
18 March 2003	18 March 2006 to 27 March 2010	0.800	250,000	250,000
18 March 2003	18 March 2007 to 27 March 2010	0.800	250,000	250,000
28 March 2003	28 March 2004 to 27 March 2010	0.776	76,000	76,000
28 March 2003	28 March 2005 to 27 March 2010	0.776	76,000	76,000
28 March 2003	28 March 2006 to 27 March 2010	0.776	76,000	76,000
28 March 2003	28 March 2007 to 27 March 2010	0.776	72,000	72,000
			50,400,000	50,400,000

No share option under the New Scheme was exercised during the year ended 31 March 2003.

Notes to the Financial Statements(continued)

For the year ended 31 March 2003

30. SHARE OPTIONS -continued

2002

At 31 March 2002, options granted to certain directors of the Company and employees of the Group, pursuant to the Old Scheme, to subscribe for 160,329,000 ordinary shares of the Company within the following exercisable periods were set out below:

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1 April 2001	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31 March 2002
25 November 2000	25 November 2001 to 27 March 2010	0.336	55,198,000	-	(27,598,000)	(8,070,000)	19,530,000
25 November 2000	25 November 2002 to 27 March 2010	0.336	55,950,000	-	-	(8,308,000)	47,642,000
25 November 2000	25 November 2003 to 27 March 2010	0.336	45,640,000	-	-	(6,472,000)	39,168,000
25 November 2000	25 November 2004 to 27 March 2010	0.336	40,173,000	-	-	(5,984,000)	34,189,000
2 April 2001	2 April 2002 to 27 March 2010	0.292	-	500,000	-	-	500,000
2 April 2001	2 April 2003 to 27 March 2010	0.292	-	500,000	-	-	500,000
2 April 2001	2 April 2004 to 27 March 2010	0.292	-	500,000	-	-	500,000
2 April 2001	2 April 2005 to 27 March 2010	0.292	-	500,000	-	-	500,000
23 January 2002	23 January 2003 to 27 March 2010	0.420	-	3,750,000	-	-	3,750,000
23 January 2002	23 January 2004 to 27 March 2010	0.420	-	3,750,000	-	-	3,750,000
23 January 2002	23 January 2005 to 27 March 2010	0.420	-	3,750,000	-	-	3,750,000
23 January 2002	23 January 2006 to 27 March 2010	0.420	-	3,750,000	-	-	3,750,000
25 March 2002	25 March 2003 to 27 March 2010	0.520	-	966,000	-	-	966,000
25 March 2002	25 March 2004 to 27 March 2010	0.520	-	966,000	-	-	966,000
25 March 2002	25 March 2005 to 27 March 2010	0.520	-	868,000	-	-	868,000
			196,961,000	19,800,000	(27,598,000)	(28,834,000)	160,329,000

*The average closing prices of the Company's shares immediate before the dates of which the share options exercised during the year ended 31 March 2002 range from HK\$0.395 to HK\$0.53.

Notes to the Financial Statements(continued)

For the year ended 31 March 2003

31. SHARE PREMIUM AND RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE COMPANY				
Balance at 1 April 2001	1,037,718	1,001,053	237	2,039,008
Issue of shares	6,513	-	-	6,513
Profit for the year	-	-	104,685	104,685
Dividend paid	-	-	(103,812)	(103,812)
Balance at 31 March 2002	1,044,231	1,001,053	1,110	2,046,394
Issue of shares	14,682	-	-	14,682
Profit for the year	-	-	72,391	72,391
Dividends paid	-	-	(73,357)	(73,357)
Balance at 31 March 2003	1,058,913	1,001,053	144	2,060,110

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of Skyworth Digital Group Limited (formerly Skyworth Digital Technology (Holding) Company Limited) at the date on which the Group Reorganisation became effective and the nominal amount of the share capital of the Company issued under the Group Reorganisation.

Under the Companies Act 1981 of Bermuda, contributed surplus is also available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

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

In the opinion of the directors, the Company's reserves available for distribution to shareholders were as follows:

	2003 HK\$'000	2002 HK\$'000
Contributed surplus	1,001,053	1,001,053
Accumulated profits	144	1,110
	1,001,197	1,002,163

Notes to the Financial Statements(continued)

For the year ended 31 March 2003

32. DISPOSAL OF A SUBSIDIARY

	2003 HK\$'000	2002 HK\$'000
<hr/> Share of net assets disposed of:		
Property, plant and equipment	15	-
Bank balances and cash	937	-
Minority interest	(285)	-
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Share of net assets of a subsidiary	667	-
Transfer to interest in an associate	(333)	-
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Net assets disposed of	334	-
Gain on disposal of a subsidiary	367	-
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Total consideration	701	-
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Satisfied by:		
<hr/>		
Investments in securities	701	-
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Cash outflow arising on disposal:		
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Bank balances and cash disposed of	937	-
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During the year, the Group disposed 35% of equity interest in a subsidiary and the subsidiary became an associate on the effective date of disposal. The subsidiary disposed of during the year had no significant impact on the results and cash flows of the Group for the year.

33. PLEDGE OF ASSETS

At 31 March 2003, the Group's land and buildings with an aggregate net book value of approximately HK\$19,724,000 (2002:HK\$18,900,000) and bank deposits of nil (2002: HK\$33,247,000) were pledged to banks to secure the banking facilities granted to the Group.

Notes to the Financial Statements(continued)

For the year ended 31 March 2003

34. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of land and building which fall due as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	8,265	4,605
In the second to fifth years inclusive	14,661	7,835
Over five years	340	-
	<u>23,266</u>	<u>12,440</u>

Operating lease payments represent rentals payable by the Group for certain of its offices and factory premises. Leases are negotiated for an average term of three years and rentals are fixed over the term of the relevant leases.

The Group as lessor

Property rental income earned during the year was HK\$3,859,000 (2002: nil). The investment properties are expected to generate rental yield of 16.5% per annum on an ongoing basis. The Group's investment properties held have committed tenants ranging from two to ten years.

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	24,853	-
In the second to fifth years inclusive	40,316	-
Over five years	502	-
	<u>65,671</u>	<u>-</u>

Notes to the Financial Statements(continued)

For the year ended 31 March 2003

35. CAPITAL COMMITMENTS

At 31 March 2003, the Group had the following capital commitments:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Commitments contracted for but not provided in respect of:		
Purchase of other property, plant and equipment	63,268	20,409
Investment in unlisted equity securities in the PRC	5,460	7,800
Factory buildings under construction	-	55,706
	<u>68,728</u>	<u>83,915</u>

In addition to the above, the Group's share of the capital commitments of its jointly controlled entity in respect of the purchase of property, plant and equipment authorised but not contracted for in its financial statements as at 31 March 2003 amounting to HK\$5,160,000 (2002: HK\$13,526,000).

36. CONTINGENT LIABILITIES

THE COMPANY

At 31 March 2003, the Company has executed certain corporate guarantees in favour of banks in respect of credit facilities granted to subsidiaries to the extent of HK\$159,000,000 (2002: HK\$115,000,000).

Notes to the Financial Statements(continued)

For the year ended 31 March 2003

37. RETIREMENT BENEFITS SCHEMES

With effective from 1 December 2000, the Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong and all the assets of the defined contribution retirement benefit scheme operated prior to 1 December 2000 has been transferred to the MPF Scheme. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the Scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the Scheme. The pension cost charged represents contribution payable to the funds by the Group at rates specified in the rules of the schemes. No forfeited contribution is available to reduce the contribution payable in the future years.

The PRC employees of the subsidiaries in the PRC are members of the pension scheme operated by the PRC local government. The joint venture subsidiary is required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension scheme to fund the benefits. The only obligation for the Group with respect of the pension scheme is the required contributions under the pension scheme.

The aggregate retirement benefit scheme contributions and pension costs for the Group's employees, net of forfeited contributions, which have been dealt with in the income statement of the Group, are as follows:

	2003	2002
	HK\$'000	HK\$'000
Retirement benefit scheme contributions made by the Group	1,489	1,717
Pension costs in the PRC	3,808	2,435
Total retirement benefit scheme contributions	5,297	4,152

At 31 March 2003, there were no forfeited contributions available to offset future employers' contributions to the scheme.

Notes to the Financial Statements(continued)

For the year ended 31 March 2003

38. RELATED PARTY TRANSACTIONS

Other than as disclosed in note 7 above, the Group had entered into the following significant related party transactions during the year:

- (a) The Group acquired additional 33.33% interest in Skyworth Computer & Network Company Limited, a subsidiary of the Company, from Taos Technology Limited, the minority shareholder of that subsidiary, at a consideration of HK\$1 agreed by both parties.
- (b) The Group disposed of 35% interest in 海南正商企業在綫有限公司 (前稱海南創維網絡系統有限公司) to Mr. Lau Tsun Fan, the minority shareholder of that subsidiary, at a consideration of HK\$701,000 satisfied by exchange of unlisted equity securities in the PRC.
- (c) The Group paid rental expenses, for leasing warehouse premise, of HK\$246,000 (2002: HK\$246,000) to Main Sea Development Limited, a company in which Mr. Wong Wang Sang, Stephen, the Chairman of the Company, has a beneficial interest. The rental expenses were based on a pre-determined monthly amount.
- (d) The Group received interest income, calculated at 5.85% per annum on the outstanding balance of unsecured short-term loans, from the jointly controlled entity of the Group amounting to HK\$ 1,372,000 (2002: HK\$205,000).
- (e) The Group paid professional service fee of HK\$180,000 (2002: nil) to C & S Consultancy Company, a company in which Mr. So Hon Cheung, Stephen, an independent non-executive director of the Company, has a beneficial interest. The professional service fee was based on a pre-determined amount agreed by both parties.

Notes to the Financial Statements(continued)

For the year ended 31 March 2003

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital %	Principal activities
深圳創維 - RGB電子有限公司 Shenzhen Chuangwei - RGB Electronics Co., Ltd.	PRC (note a)	Registered capital RMB12,572,000	75.5	Manufacture and sale of consumer electronic Products
Skyworth Broadband Technology Limited	British Virgin Islands	Ordinary shares US\$100	100	Investment holding
創維數字技術(深圳)有限公司 (前稱創維寬頻技術(深圳)有限公司)	PRC (note b)	Registered capital US\$1,500,000	100	Research and products development
Skyworth Optical-Electronic Company Limited (formerly Skyworth Computer & Network Company Limited)	British Virgin Islands	Ordinary shares HK\$37,500,000 and US\$10,000	100	Investment holding
創維光電科技(深圳)有限公司 (前稱創維電腦科技(深圳)有限公司)	PRC (note b)	Registered capital US\$1,500,000	100	Research and development and trading of internet related television technology and related products
Skyworth Display Limited	British Virgin Islands/ PRC	Ordinary share US\$1	100	Trading of optical projecting and display products
Skyworth Digital Group Limited (note c) (formerly Skyworth Digital Technology (Holding) Company Limited)	British Virgin Islands	Ordinary shares HK\$893 Preference shares HK\$990	100	Investment holding
新創維電器(深圳)有限公司 Skyworth Electrical Appliances (Shenzhen) Co., Ltd.	PRC (note b)	Registered capital US\$15,338,000	100	Manufacture of consumer electronic products and property holding

Notes to the Financial Statements(continued)

For the year ended 31 March 2003

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES - continued

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital %	Principal activities
Skyworth TV Holdings Limited (formerly Skyworth (Group) Company Limited)	Hong Kong	Ordinary shares HK\$30,600,000 Non-voting deferred shares HK\$2,500,000 (note d)	100	Design and sale of consumer electronic products and investment holding
Skyworth Industries Limited	Hong Kong	Ordinary shares HK\$500,000	100	Investment holding
Skyworth Information Technologies Holdings Limited	British Virgin Islands	Ordinary share US\$1	100	Investment holding
創維網絡通訊(深圳)有限公司	PRC (note b)	Registered capital HK\$50,000,000	100	Investment holding
Skyworth Multimedia International Limited	British Virgin Islands	Ordinary share US\$1	100	Investment holding
Skyworth Multimedia International Limited	Hong Kong	Ordinary shares HK\$10,000	100	Manufacture and sale of consumer electronic products
Skyworth Moulds Industrial Company Limited	British Virgin Islands	Ordinary share US\$1	100	Investment holding
創維多媒體(深圳)有限公司	PRC (note b)	Registered capital US\$3,500,000	100	Manufacture and sale of consumer electronic products
新創維注塑(深圳)有限公司 Skyworth Plastic (Shenzhen) Co., Ltd.	PRC (note b)	Registered capital US\$2,100,000	100	Property holding
Skyworth Sales (Hong Kong) Co., Limited	Hong Kong	Ordinary shares HK\$2	100	Trading of consumer electronic products
創維澳門離岸商業服務有限公司 Skyworth Macao Commercial Offshore Company Limited	Macau	Ordinary shares MOP\$100,000	100	Research and development
Winform Inc.	British Virgin Islands/ Hong Kong	Ordinary share US\$1	100	Property holding

Note:

- (a) The subsidiary is a sino-foreign equity joint venture registered in the PRC.
- (b) The subsidiaries are wholly foreign owned enterprises registered in the PRC.
- (c) The Company directly holds the entire interest in Skyworth Digital Group Limited. The interests of all other companies are indirectly held by the Company.
- (d) The non-voting deferred shares carry practically no rights to dividends nor receive notice of nor to attend or vote at any general meeting of the relevant company nor to participate in any distribution on winding up.

None of the subsidiaries had any debt securities outstanding at 31 March 2003 or at any time during the year.