

Notes to the Financial Statements

for the year end 30 June 2003

1. CORPORATE INFORMATION

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The principal place of business of the Company is located at Unit 1906, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 18 to the financial statements. During the year, a subsidiary of the Company entered into an agreement for the establishment of a joint venture company in Beijing, the People's Republic of China (the "PRC"), which is principally engaged in the development, manufacture and sale of nano materials and related products for use in different industries, such as textile, construction and chemical industry. Other than the foregoing, there were no significant changes in the nature of the Group's principal activities during the year.

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

The following recently issued and revised SSAPs are effective for the first time for the current year's financial statements:

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

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

SSAP 1 (revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the contents thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 20 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 profit and loss accounts of overseas subsidiaries and jointly-controlled entities 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.

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for the year end 30 June 2003

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

SSAP 15 (revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. The significant reclassifications resulting from the change in presentation are that taxes paid is now included in cash flows from operating activities, interest received and dividend received are now included in cash flows from investing activities, and interest paid, interest element on finance lease rental payment and dividends paid are now included in cash flows from financing activities. The presentation of the comparative consolidated cash flow statement for the year ended 30 June 2002 has been changed to accord with the new format. 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 thereon, whereas previously they were translated at the exchange rates at the balance sheet date. This change has no significant impact on the cash flows from the operating activities, investing activities and financing activities for the years ended 30 June 2003 and 2002.

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 schemes, as detailed on note 30 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAP, 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, investment properties and short term investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Notes to the Financial Statements

for the year end 30 June 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

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

The Company's investments in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable.

Jointly-controlled entities

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

The joint venture agreement between the venturers stipulates 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.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account 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

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

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

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant consolidated reserves, as appropriate.

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.

Notes to the Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

Impairment of assets

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

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, 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 profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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for the year end 30 June 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

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 profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

Leasehold land and buildings	The shorter of 40 years and the lease terms
Plant and machinery	10 years
Furniture, office equipment and motor vehicles	10 years

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

Construction in progress represents leasehold buildings and plant 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.

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 investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Notes to the Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased assets

(i) *Finance leases*

Leases that transfer substantially all the rewards and risks 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 profit and loss account 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 lease, but are depreciated over their estimated useful lives.

(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 profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. Where the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

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for the year end 30 June 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value after allowance for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads based on a normal level of operating activities. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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.

Deferred tax

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

Revenue recognition

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

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

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for the year end 30 June 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

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

Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) *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 profit and loss account 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.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central retirement benefits scheme (the "PRC Scheme") operated by the respective local municipal governments. These subsidiaries are 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 contributions are charged to the profit and loss account as they become payable.

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for the year end 30 June 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

(iii) 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 as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, 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.

Foreign currencies

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

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

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

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.

Segment revenue, expenses, results, assets and liabilities include items 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.

Notes to the Financial Statements

for the year end 30 June 2003

4. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

The turnover and revenue for the year comprises the following:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover		
Sales of goods	<u>208,770</u>	<u>248,829</u>
Other revenue		
Dividend income from listed investments	244	818
Dividend income from unlisted investments	5,625	–
Interest income	1,944	1,950
Rental income	166	71
Others	<u>3</u>	<u>245</u>
	<u>7,982</u>	<u>3,084</u>
Total revenue	<u><u>216,752</u></u>	<u><u>251,913</u></u>

5. SEGMENT INFORMATION

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

The principal activity of the Group is the manufacture and sale of garment, which is managed according to the geographical location of the Group's customers.

Each of the Group's geographical segments, based on the location of customers, represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of other geographical segments.

Notes to the Financial Statements

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5. SEGMENT INFORMATION (continued)

(a) Geographical segments based on the location of customers

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

The following tables represent revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments.

Group

	The PRC excluding Hong Kong and Macau		Hong Kong		Elimination		Consolidation	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:								
External sales	186,839	219,188	21,931	29,641	-	-	208,770	248,829
Inter-segment sales	17,289	24,313	5,748	3,907	(23,037)	(28,220)	-	-
Total revenue	<u>204,128</u>	<u>243,501</u>	<u>27,679</u>	<u>33,548</u>	<u>(23,037)</u>	<u>(28,220)</u>	<u>208,770</u>	<u>248,829</u>
Segment results	<u>43,057</u>	<u>61,938</u>	<u>249</u>	<u>472</u>			43,306	62,410
Unallocated revenue and other net gain							13,343	20,084
Unallocated expenses							(12,359)	(6,590)
Profit from operating activities							44,290	75,904
Finance costs							(193)	(220)
Share of profits of jointly-controlled entities							827	-
Profit before taxation							44,924	75,684
Taxation							(4,237)	(10,816)
Profit before minority interests							40,687	64,868
Minority interests							(331)	-
Net profit for the year							<u>40,356</u>	<u>64,868</u>

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5. SEGMENT INFORMATION (continued)

(a) Geographical segments based on the location of customers (continued)

Group

	The PRC excluding Hong Kong and Macau		Hong Kong		Unallocated		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment assets	291,158	249,284	69,013	77,193	-	-	360,171	326,477
Goodwill	-	-	-	-	45,713	53,332	45,713	53,332
Interests in jointly- controlled entities	-	-	-	-	26,291	-	26,291	-
Long term investments	-	-	-	-	6,667	6,667	6,667	6,667
Unallocated assets	-	-	-	-	44,693	19,796	44,693	19,796
Total assets	291,158	249,284	69,013	77,193	123,364	79,795	483,535	406,272
Segment liabilities	8,526	7,416	2,006	1,263	-	-	10,532	8,679
Unallocated liabilities	-	-	-	-	11,383	11,072	11,383	11,072
Minority interests	-	-	-	-	20,924	-	20,924	-
Total liabilities	8,526	7,416	2,006	1,263	32,307	11,072	42,839	19,751
Other segment information:								
Capital expenditure	22,236	4,500	66	1,767	25,464	-	47,766	6,267
Depreciation and amortisation	6,091	6,346	504	538	7,619	1,996	14,214	8,880

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5. SEGMENT INFORMATION (continued)

(b) Geographical segments based on the location of assets

Additional information in respect of segment assets and cost for capital expenditure, based on the location of assets, is as follows:

Group

	The PRC excluding Hong Kong and Macau		Hong Kong		Macau		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	<u>327,891</u>	<u>265,475</u>	<u>105,601</u>	<u>96,999</u>	<u>50,043</u>	<u>43,798</u>	<u>483,535</u>	<u>406,272</u>
Capital expenditure	<u>47,686</u>	<u>3,736</u>	<u>66</u>	<u>1,767</u>	<u>14</u>	<u>764</u>	<u>47,766</u>	<u>6,267</u>

(c) Business segments

No business segment information has been disclosed as the Group is solely engaged in the manufacture and sale of garments.

6. OTHER NET GAIN

	Group	
	2003 HK\$'000	2002 HK\$'000
Net realised (loss)/gain on disposal of short term investments	(336)	12,791
Gain on disposal of subsidiaries	–	20
Gain on disposal of a long term investment	2,875	–
Net unrealised gain on short term investments	<u>2,822</u>	<u>4,189</u>
	<u>5,361</u>	<u>17,000</u>

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7. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived at after charging/(crediting):

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	144,418	161,994
Depreciation	6,595	6,884
Minimum lease payments under operating leases on leasehold land and buildings	127	112
Staff costs (excluding directors' remuneration)		
Wages and salaries	7,986	8,946
Retirement benefits scheme contributions	104	157
Auditors' remuneration	500	1,050
Amortisation of goodwill	7,619	1,996
Deficit on revaluation of leasehold land and buildings	64	1,080
Deficit on revaluation of investment properties	199	250
Loss on disposal of fixed assets	–	243
	<hr/>	<hr/>
Gross rental income	(166)	(71)
Less: Outgoings	5	7
	<hr/>	<hr/>
Net rental income	<u>(161)</u>	<u>(64)</u>

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8. DIRECTORS' REMUNERATION

Details of the remuneration of the directors of the Company for the year 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 are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees:		
Executive directors	–	–
Non-executive directors	81	–
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind		
Executive directors	2,080	1,910
Non-executive directors	–	–
Performance related bonuses	–	–
Retirement benefits scheme contributions:		
Executive directors	36	36
Non-executive directors	–	–
	<u>2,197</u>	<u>1,946</u>

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

	2003 Number of directors	2002 Number of directors
HK\$Nil – HK\$1,000,000	<u>6</u>	<u>7</u>

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

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

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2002: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2002: two) non-director, highest paid employees are as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Basic salaries, housing benefits, other allowances and benefits in kind	1,244	1,300
Performance related bonuses	–	–
Retirement benefits scheme contributions	24	24
	<u>1,268</u>	<u>1,324</u>

The remuneration of each of the remaining two (2002: two) non-director, highest paid employees fell within the band of HK\$Nil – HK\$1,000,000.

10. FINANCE COSTS

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest on bank loans and overdrafts	113	156
Interest on a finance lease	80	64
	<u>193</u>	<u>220</u>

Notes to the Financial Statements

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11. TAXATION

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong – current	602	2,684
– overprovision in previous year	(278)	–
Elsewhere	<u>3,913</u>	<u>8,132</u>
Tax charge for the year	<u><u>4,237</u></u>	<u><u>10,816</u></u>

Hong Kong profits tax had been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for deferred tax had been made as the Group did not have any significant deferred tax liabilities in respect of the year (2002: HK\$Nil).

The revaluation of the Group's leasehold land and buildings and investment properties does not constitute a timing difference and, consequently, there is no deferred tax arising thereon.

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 30 June 2003 dealt with in the financial statements of the Company was approximately HK\$4,049,000 (2002: HK\$13,156,000).

13. DIVIDEND

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Proposed final – HK0.2 cent (2002: HK0.4 cent) per ordinary share	<u><u>4,725</u></u>	<u><u>9,488</u></u>

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

Notes to the Financial Statements

for the year end 30 June 2003

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the year of approximately HK\$40,356,000 (2002: HK\$64,868,000) and the weighted average number of 2,365,648,942 (2002: 2,339,465,120) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the year of approximately HK\$40,356,000 (2002: HK\$64,868,000) and on 2,370,654,962 (2002: 2,358,989,471) ordinary shares, being the weighted average number of 2,365,648,942 (2002: 2,339,465,120) ordinary shares in issue during the year, as used in the basic earnings per share calculation, plus the weighted average of 5,006,020 (2002: 19,524,351) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year. The warrants outstanding during the year did not have any dilutive effect on the earnings per share.

Notes to the Financial Statements

for the year end 30 June 2003

15. FIXED ASSETS

Group

	Leasehold land and buildings <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, office equipment and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation					
At beginning of year	51,850	2,191	45,245	8,438	107,724
Additions	–	6,981	119	1,313	8,413
Transfer	9,172	(9,172)	–	–	–
Deficit on revaluation	(2,972)	–	–	–	(2,972)
	<u>58,050</u>	<u>–</u>	<u>45,364</u>	<u>9,751</u>	<u>113,165</u>
At 30 June 2003	<u>58,050</u>	<u>–</u>	<u>45,364</u>	<u>9,751</u>	<u>113,165</u>
Analysis of cost or valuation					
At cost	–	–	45,364	9,751	55,115
At 30 June 2003 valuation	<u>58,050</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>58,050</u>
	<u>58,050</u>	<u>–</u>	<u>45,364</u>	<u>9,751</u>	<u>113,165</u>
Accumulated depreciation					
At beginning of year	–	–	19,724	2,507	22,231
Provided during the year	1,208	–	4,525	862	6,595
Written back on revaluation	(1,208)	–	–	–	(1,208)
	<u>–</u>	<u>–</u>	<u>24,249</u>	<u>3,369</u>	<u>27,618</u>
At 30 June 2003	<u>–</u>	<u>–</u>	<u>24,249</u>	<u>3,369</u>	<u>27,618</u>
Net book value					
At 30 June 2003	<u>58,050</u>	<u>–</u>	<u>21,115</u>	<u>6,382</u>	<u>85,547</u>
At 30 June 2002	<u>51,850</u>	<u>2,191</u>	<u>25,521</u>	<u>5,931</u>	<u>85,493</u>

Notes to the Financial Statements

for the year end 30 June 2003

15. FIXED ASSETS (continued)

The Group's leasehold land and buildings included above are held under the following lease terms:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
At valuation:		
Medium term leases in Hong Kong	6,900	7,100
Medium term leases outside Hong Kong	51,150	44,750
	<u>58,050</u>	<u>51,850</u>

At 30 June 2003, the Group's leasehold land and buildings in Hong Kong were revalued on open market value, based on their existing use, at HK\$6,900,000 by LCH (Asia-Pacific) Surveyors Limited ("LCH"), a firm of independent professionally qualified valuers. A deficit on revaluation of approximately HK\$23,000 (2002: HK\$1,080,000) arising from the above valuation had been charged to the profit and loss account.

At 30 June 2003, the Group's leasehold land and buildings in Macau were revalued on market value, based on their existing use, by LCH at HK\$690,000. A deficit on revaluation of approximately HK\$41,000 (2002: HK\$Nil) arising from the above valuation had been charged to the profit and loss account.

At 30 June 2003, the Group's leasehold land and buildings in the PRC were revalued on a depreciated replacement cost basis by LCH at HK\$50,460,000. A deficit on revaluation of approximately HK\$1,700,000 (2002: HK\$185,000) arising from the above valuation had been charged to the fixed asset revaluation reserve.

Included in the Group's leasehold land and buildings in the PRC at 30 June 2003 are properties with carrying value of approximately HK\$9,625,000 in respect of which the Group is currently in the process of obtaining the building ownership certificate. In the opinion of the directors, the Group will not encounter any legal barrier in obtaining the building ownership certificate.

Had the Group's leasehold land and buildings held in Hong Kong been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$7,981,000 (2002: HK\$8,209,000).

Had the Group's leasehold land and buildings held outside Hong Kong been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$51,075,000 (2002: HK\$43,287,000).

Notes to the Financial Statements

for the year end 30 June 2003

15. FIXED ASSETS (continued)

At 30 June 2003, certain leasehold land and buildings of the Group with a carrying value of HK\$4,100,000 (2002: HK\$4,300,000) held in Hong Kong were pledged to secure certain banking facilities granted to the Group (note 26).

The net book value of the Group's fixed assets held under finance leases, included in the total amount of furniture, office equipment and motor vehicles at 30 June 2003, amounted to approximately HK\$902,000 (2002: HK\$1,012,000).

16. INVESTMENT PROPERTIES

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Valuation:		
At beginning of year	1,100	1,350
Additions	13,889	–
Deficit on revaluation	<u>(199)</u>	<u>(250)</u>
At end of year	<u><u>14,790</u></u>	<u><u>1,100</u></u>

At 30 June 2003, the Group's investment property in Hong Kong was revalued on open market value, based on income capitalisation basis, by LCH at HK\$1,100,000. There is no revaluation difference arising from the above valuation (2002: deficit on revaluation of approximately HK\$250,000 charged to the profit and loss account).

At 30 June 2003, the Group's investment properties in the PRC were revalued on market value by LCH at HK\$13,690,000. The resulting revaluation deficit of approximately HK\$199,000 had been charged to the profit and loss account.

Notes to the Financial Statements

for the year end 30 June 2003

17. GOODWILL

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

	Group <i>HK\$'000</i>
Cost	
At beginning and end of year	<u>57,039</u>
Accumulated amortisation	
At beginning of year	3,707
Amortisation provided during the year	<u>7,619</u>
At end of year	<u>11,326</u>
Net book value	
At 30 June 2003	<u><u>45,713</u></u>
At 30 June 2002	<u><u>53,332</u></u>

According to the Group's accounting policy as further detailed in note 3, goodwill is amortised on the straight-line basis over its estimated useful life. In previous years, the useful life of the goodwill was estimated to be 20 years. During the current year, a reassessment was made by the directors and it was decided that the unamortised goodwill brought forward would be amortised over its revised estimated useful life of 7 years inclusive of the current year. The effect of this change in accounting estimate on the consolidated profit and loss account was to increase the amortisation of goodwill by approximately HK\$4,767,000.

Notes to the Financial Statements

for the year end 30 June 2003

18. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	64,522	64,522
Due from a subsidiary	197,535	171,135
	<u>262,057</u>	<u>235,657</u>

At 30 June 2003, the amount due from a subsidiary is unsecured, interest-free and is not repayable before 30 June 2004.

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Holt Hire Holdings Limited	British Virgin Islands ("BVI")	Ordinary US\$3	100%	Investment holding
Indirectly held				
Able Business Developments Limited	BVI	Ordinary US\$10	100%	Investment holding
Cannon Ape Company Limited	Hong Kong	Ordinary HK\$10,000	100%	Property holding
Clothes Galore Limited	BVI	Ordinary US\$1	100%	Intellectual property holding

Notes to the Financial Statements

for the year end 30 June 2003

18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Crown Hero Assets Limited	BVI	Ordinary US\$1	100%	Investment holding
Digital 910 Limited	Hong Kong	Ordinary HK\$10,000	100%	Investment holding
Fancy Spirit Limited	Hong Kong	Ordinary HK\$2	100%	Property holding
Fujian Good Fellow Fashion Co., Ltd.	PRC	Registered RMB5,298,000	100%	Trading of garments
福建盈富科軟計算機 軟件開發有限公司 (Formerly known as 福建盈富實業 有限公司)	PRC	Registered HK\$15,000,000	100%	Development and sale of computer software
Good Country Investment Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred HK\$10,000	100%	Property holding and trading of securities
Good Fellow (Macau) Commercial Offshore Limited	Macau	MOP100,000	100%	Trading of garments
Good Fellow Fashion (Group) Limited	Hong Kong	Ordinary HK\$10,000	100%	Distribution of garments and provision of marketing services

Notes to the Financial Statements

for the year end 30 June 2003

18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Good Fellow Garment (Fujian) Co., Ltd.	PRC	Registered US\$5,000,000	100%	Manufacture and sale of garments
Hi-Tech Market Limited	BVI	Ordinary US\$100	100%	Investment holding
Huatong Garment Co., Ltd. Putian	PRC	Registered US\$600,000	100%	Manufacture and sale of garments
Strike Again Group Limited	BVI	Ordinary US\$1	100%	Dormant
莆田市科能高新技术 有限公司	PRC	Registered RMB55,600,000	60%	Investment holding

Notes to the Financial Statements

for the year end 30 June 2003

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Share of net assets	<u>26,291</u>	<u>—</u>

Particulars of the jointly-controlled entities are as follows:

Name	Form of business structure	Place of establishment and operations	Percentage of ownership interest attributable to the Group	Principal activities
中科納米技術工程 中心有限公司 (Zhongke Nanotech Engineering Center Co., Ltd.*)	Corporated	PRC	33%	Development and sale of nano materials and related products
北京中科納米高彈 材料有限公司 (Beijing Zhongke Nanotech High Elastic Materials Co., Ltd.*)	Corporated	PRC	30%	Manufacture and sale of nano high elastic materials

* *For identification only*

Long term other prepayment of approximately HK\$6,250,000 represents deposit made by the Group for the establishment of a joint venture in which each of the Group and Zhongke Nanotech Engineering Center Co., Ltd. have acquired equity interests subsequent to the balance sheet date.

Notes to the Financial Statements

for the year end 30 June 2003

20. LONG TERM INVESTMENTS

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted investments outside Hong Kong, at cost	<u>6,667</u>	<u>6,667</u>

Particulars of the investee company are as follows:

Name	Place of establishment	Paid-up registered capital	Percentage of equity attributable to the Group	Principal activities
Global Network Corporation	PRC	RMB20,000,000	36%	Computer software and network system development

The above investment is not equity-accounted for in accordance with SSAP 10 "Accounting for investments in associates" because the directors of the Company consider that the Group has no significant influence on the daily financial and operating decisions of Global Network Corporation.

21. INVENTORIES

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Raw materials	27,116	28,532
Work in progress	2,963	1,481
Finished goods	<u>20,278</u>	<u>16,867</u>
	<u>50,357</u>	<u>46,880</u>

No inventories of the Group were carried at net realisable value (2002: HK\$Nil) at 30 June 2003.

Notes to the Financial Statements

for the year end 30 June 2003

22. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 120 days.

An aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sales, is as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
0 – 30 days	15,003	12,668
31 – 60 days	11,288	16,729
61 – 90 days	9,724	7,742
Over 90 days	11,990	11,602
	<u>48,005</u>	<u>48,741</u>

23. SHORT TERM INVESTMENTS

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Securities listed in Hong Kong, at market value	<u>16,854</u>	<u>17,925</u>

24. BANK AND CASH BALANCES

At 30 June 2003, the bank and cash balances of the Group denominated in Renminbi (“RMB”) amounted to approximately HK\$79 million (2002: HK\$67 million) were kept in the PRC. The conversion of RMB denominated balances into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

Notes to the Financial Statements

for the year end 30 June 2003

25. INTEREST-BEARING BANK BORROWINGS

	Notes	Group	
		2003 HK\$'000	2002 HK\$'000
Bank overdrafts, secured	26	589	282
Trust receipt loans, secured	26	–	4
Bank loans, secured and repayable:	26		
Within one year		274	263
In the second year		286	274
In the third to fifth years, inclusive		939	899
Beyond five years		881	1,208
		<u>2,969</u>	<u>2,930</u>
Portion classified as current liabilities		<u>(863)</u>	<u>(549)</u>
Non-current portion		<u>2,106</u>	<u>2,381</u>

26. BANKING FACILITIES

At 30 June 2003, the Group's banking facilities were secured by the following:

- (a) certain leasehold land and buildings of the Group located in Hong Kong with a carrying value of HK\$4,100,000 (note 15);
- (b) the Group's bank deposits of approximately HK\$35,448,000; and
- (c) corporate guarantees given by the Company to the extent of HK\$16,800,000.

Notes to the Financial Statements

for the year end 30 June 2003

27. FINANCE LEASE PAYABLE

The Group leases a motor vehicle for general business purposes. The lease is classified as a finance lease and has remaining lease term of two years and seven months at 30 June 2003.

At 30 June 2003, the total future minimum lease payments under the finance lease and its present value were as follows:

Group

	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	2003 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Amounts payable:				
Within one year	212	203	212	203
In the second year	212	189	212	189
In the third to fifth years, inclusive	<u>122</u>	<u>104</u>	<u>334</u>	<u>272</u>
Total minimum finance lease payments	546	<u><u>496</u></u>	758	<u><u>664</u></u>
Future finance charges	<u>(50)</u>		<u>(94)</u>	
Total net finance lease payable	496		664	
Portion classified as a current liability	<u>(203)</u>		<u>(203)</u>	
Non-current portion	<u><u>293</u></u>		<u><u>461</u></u>	

Notes to the Financial Statements

for the year end 30 June 2003

28. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days from its suppliers.

An aging analysis of the trade payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
0 – 30 days	2,270	566
31 – 60 days	395	65
61 – 90 days	13	224
Over 90 days	3,527	4,470
	<u>6,205</u>	<u>5,325</u>

29. SHARE CAPITAL

	Note	Number of shares		Ordinary share capital	
		2003 '000	2002 '000	2003 HK\$'000	2002 HK\$'000
Ordinary shares of HK\$0.10 each					
Authorised:		<u>5,000,000</u>	<u>5,000,000</u>	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:					
At beginning of year		2,349,465	776,030	234,947	77,603
Shares issued on exercise of share options	(a)	22,530	7,605	2,253	761
Issue of bonus shares		–	1,565,830	–	156,583
Repurchases of shares	(b)	(9,600)	–	(960)	–
At end of year		<u>2,362,395</u>	<u>2,349,465</u>	<u>236,240</u>	<u>234,947</u>

Notes to the Financial Statements

for the year end 30 June 2003

29. SHARE CAPITAL (continued)

Notes:

- (a) During the year, 1,530,000 and 21,000,000 share options were exercised at the subscription price of HK\$0.16 and HK\$0.137 per share, respectively, resulting in the issue of 22,530,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of approximately HK\$3,122,000. The excess of the subscription consideration received over the nominal value of shares issued, amounting to approximately HK\$869,000, was credited to the share premium account (note 31(a)).
- (b) During the period from 10 June 2003 to 13 June 2003, the Company repurchased a total of 9,600,000 ordinary shares in the share capital of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate cost of approximately HK\$2,658,000. The highest and lowest price paid per share amounted to HK\$0.28 and HK\$0.27, respectively. The repurchased shares were cancelled after the repurchases and the issued share capital of the Company was reduced by the nominal value thereof. The premium paid on the repurchases of the shares of HK\$1,698,000 was charged as to HK\$912,000 to the share premium account (note 31(a)) and as to HK\$786,000 to the retained profits of the Company (note 31(a)). The repurchases of the Company's shares during the year was made with a view to benefiting shareholders as a whole by enhancing the net assets and earnings per share of the Group.

Share options

Details of the Company's share option schemes are set out in note 30 to the financial statements.

Warrants

During the year, the Company issued 360,000,000 warrants at an issue price of HK\$0.07 per warrant through a private placement, resulting in net proceeds of approximately HK\$24,543,000 (after deduction of related issue expenses of approximately HK\$657,000). Each of the warrants entitles the holder thereof to subscribe for one ordinary share at an initial subscription price of HK\$0.37 per share, subject to adjustment, for a period of 18 months commencing on the date of dealings of the warrants on 16 September 2002. Any shares falling to be issued upon the exercise of the subscription rights attaching to the warrants rank pari passu in all respects with the existing fully-paid shares in issue on the relevant subscription date.

During the year, no warrants were exercised by the warrant holders. At 30 June 2003, the outstanding number of warrants was 360,000,000. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 360,000,000 additional ordinary shares of the Company, with proceeds of HK\$133,200,000 in aggregate before any related share issue expenses.

Notes to the Financial Statements

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30. SHARE OPTION SCHEMES

On 25 October 1998, the Company adopted a share option scheme (the “Old SO Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Old SO Scheme include directors and employees of the Company and its subsidiaries as determined by the directors of the Company.

In compliance with the amendments to the Listing Rules, the directors of the Company consider that it is in the interest of the Company to terminate the Old SO Scheme and to adopt a new share option scheme (the “New SO Scheme”). An ordinary resolution was passed at the annual general meeting of the Company held on 23 November 2001 for the approval of the said adoption of the New SO Scheme and termination of the Old SO Scheme. Pursuant to the amendments to the Listing Rules, no further options may be granted under the Old SO Scheme thereunder but in other respects, the provisions of the Old SO Scheme remain in force and all outstanding options granted continue to be valid and exercisable in accordance therewith.

(a) Old SO Scheme

As mentioned above, the Old SO Scheme was terminated on 23 November 2001 and no further options may be offered thereunder. The following share options were outstanding under the Old SO Scheme during the year:

Name or category of participant	Number of share option			Date of grant of share options (note (i))	Exercise period of share options	Exercise price of share options (note (ii)) HK\$	Price of Company’s shares (note (iii))	
	At 1 July 2002	Exercise of share options	At 30 June 2003				At grant date of options HK\$	At exercise date of options HK\$
Directors								
Mr. Ng Leung Ho	7,200,000	-	7,200,000	1 February 1999	1 May 1999–24 October 2008	0.1	0.330	N/A
Other employees								
In aggregate	21,000,000	(21,000,000)	-	1 November 2000	1 November 2000 – 24 October 2008	0.137	0.560	0.365
	1,530,000	(1,530,000)	-	21 May 2001	21 May 2001 – 24 October 2008	0.160	0.660	0.550
	<u>22,530,000</u>	<u>(22,530,000)</u>	<u>-</u>					
	<u>29,730,000</u>	<u>(22,530,000)</u>	<u>7,200,000</u>					

Notes to the Financial Statements

for the year end 30 June 2003

30. SHARE OPTION SCHEMES (continued)

(a) Old SO Scheme (continued)

Notes:

- (i) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- (ii) The exercise price of the share options is adjusted for the two for one bonus issue in the issued share capital of the Company as approved by the ordinary resolution passed at the general meeting held on 12 April 2002. The adjusted exercise price is subject to further adjustment in the case of any future rights or bonus issues, or other similar changes in the Company's share capital.
- (iii) The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the actual exercises of share options within the disclosure category.
- (iv) During the year, no share options were lapsed or cancelled.

At 30 June 2003, the Company had 7,200,000 share options outstanding under the Old SO Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 7,200,000 additional ordinary shares of the Company and additional share capital of HK\$720,000.

(b) New SO Scheme

The New SO Scheme is adopted for the purpose of providing incentives and rewards to eligible participants for their contribution to the success of the Group's operations. Eligible participants of the New SO Scheme include directors and employees of the Company and its subsidiaries. The New SO Scheme will, unless otherwise cancelled or amended, remain in force for 10 years from 23 November 2001.

The maximum number of unexercised share options currently permitted to be granted under the New SO Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the New SO Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

Notes to the Financial Statements

for the year end 30 June 2003

30. SHARE OPTION SCHEMES (continued)

(b) New SO Scheme (continued)

The offer of a grant of share options may be accepted within the date specified in 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 of the Company, 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 share options or the expiry date of the New SO Scheme, if earlier.

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

At the date of this report, no share options have been offered and/or granted to any participants under the New SO Scheme.

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for the year end 30 June 2003

31. RESERVES

(a) The Company

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Subscription right reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2001	84,480	64,322	–	8,671	157,473
Arising on exercise of share options	1,632	–	–	–	1,632
Arising on issue of bonus shares	(86,069)	(64,322)	–	(6,192)	(156,583)
Net profit for the year	–	–	–	13,156	13,156
Proposed final dividend	–	–	–	(9,488)	(9,488)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2002 and 1 July 2002	43	–	–	6,147	6,190
Arising on exercise of share options	869	–	–	–	869
Arising on issue of warrants	–	–	25,200	–	25,200
Warrant issue expenses	–	–	(657)	–	(657)
Premium paid on repurchases of own shares	(912)	–	–	(786)	(1,698)
Net profit for the year	–	–	–	4,049	4,049
– note 12	–	–	–	4,049	4,049
Proposed final dividend – note 13	–	–	–	(4,725)	(4,725)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2003	<u> </u>	<u> </u>	<u>24,543</u>	<u>4,685</u>	<u>29,228</u>

- (b) The contributed surplus of the Group represents the difference between the nominal value of shares of the subsidiaries acquired pursuant to the Group reorganisation in preparation for the listing of the Company's shares on the Stock Exchange completed on 25 October 1998, over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company represents the excess of the fair value of the shares in the subsidiaries acquired pursuant to the same Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

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32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net assets disposed of:		
Inventories	–	13,922
Trade receivables	–	7,707
Other payables and accruals	–	(5,510)
Provision for taxation	–	(16,119)
	<u>–</u>	<u>–</u>
	–	–
Gain on disposal of subsidiaries	<u>–</u>	<u>20</u>
	–	20
	<u>–</u>	<u>20</u>
Satisfied by:		
Cash	<u>–</u>	<u>20</u>

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

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Cash consideration and inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>–</u>	<u>20</u>

The subsidiaries disposed of in the previous year did not have significant impacts to the Group.

(b) Major non-cash transactions

During the year ended 30 June 2003, a portion of the proceeds from the disposal of long term investment in the amount of HK\$9,500,000 remained unpaid and was included as part of the Group's other receivables as at the balance sheet date.

During the preceding year ended 30 June 2002, the Group had entered into the following major non-cash transactions:

- (i) a bonus issue of new shares in the Company was credited by way of capitalisation of the Group's contributed surplus and retained profits of approximately HK\$5,415,000 and HK\$65,099,000, respectively.
- (ii) the Group entered into a finance lease arrangement in respect of assets with a total capital value at the inception of the lease of approximately HK\$900,000.

Notes to the Financial Statements

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33. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date.

The Company has given guarantees in favour of certain banks to the extent of HK\$16,800,000 (2002: HK\$24,100,000) in respect of banking facilities granted to certain subsidiaries of the Company. At 30 June 2003, the banking facilities utilised by these subsidiaries amounted to approximately HK\$2,969,000 (2002: HK\$2,931,000).

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 16) under operating lease arrangements with lease terms of two years to seven years.

At 30 June 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	239	120
In the second to fifth years, inclusive	847	100
	<u>1,086</u>	<u>220</u>

(b) As lessee

The Group leases certain of its leasehold land and buildings under operating lease arrangements with lease terms of two years.

At 30 June 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	71	78
In the second to fifth years, inclusive	-	71
	<u>71</u>	<u>149</u>

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

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35. COMMITMENTS

The Group entered into a joint venture agreement with a jointly-controlled entity on 4 May 2003 to set up a joint venture in the PRC. The Group had capital contribution commitment of approximately HK\$35 million at 30 June 2003.

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

36. COMPARATIVE AMOUNTS

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

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 October 2003.