

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 1. CORPORATE INFORMATION

The principal place of business of the Company is located at 18/F, Tesbury Centre, 28 Queen's Road East, Hong Kong.

The principal activities of the Group during the year were the manufacturing and trading of plastic products.

## 2. BASIS OF PRESENTATION

The Group recorded a net loss of approximately HK\$6,962,000 for the year ended 31 March 2004 and had net current liabilities and deficiency in assets at the balance sheet date of approximately HK\$26,629,000 and HK\$36,041,000, respectively. In addition, the Group has breached one of the financial covenants as stipulated in the Rescheduling and Restructuring Deed (the "Deed") dated 30 May 2002 at the balance sheet date. Notwithstanding that, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern for the foreseeable future.

In order to improve the financial position, liquidity and cash flow position of the Group, the following measures/arrangements have been implemented:

- (a) Subsequent to the balance sheet date, a creditor has agreed to extend the repayment term of a loan of HK\$10 million advanced to the Group, which will be due for repayment in October 2004, for a further year;
- (b) The directors have been informed by HSBC, being the coordinating agent of the Group's bank creditors in Hong Kong (the "Participating Banks") under the Deed, and an independent third party investor that the Participating Banks and the investor have entered into an agreement on 28 July 2004 in respect of an assignment of debt (the "Debt Assignment") whereby the investor would acquire from the Participating Banks most of the Group's indebtedness under the Deed, including the convertible bonds of HK\$90.4 million (note 27). In addition, HSBC has advised the Group that it has no intention to serve a termination notice in respect of the Deed as a result of the above breach of the financial covenant. The investor has indicated that following completion of the Debt Assignment, the investor would convert the convertible bonds into ordinary share capital of the Company within a short period of time (the "Conversion"); and
- (c) The directors have been taking ongoing action to tighten cost controls over factory overheads and various general and administrative expenses, including the strict monitoring of the Group's accounts receivable and payable.

In the opinion of the directors, in light of the ongoing support from the Group's bankers and creditors and the various measures/arrangements implemented to date, together with the expected results of the debt restructuring plan in progress, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable concern. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial position and tight liquidity as at 31 March 2004.

Should the Group be unable to continue as a going concern and/or the Conversion fail to be completed, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

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### 3. **IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)**

The revised SSAP 12 “Income taxes” is effective for the first time for the current year’s financial statements.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for the financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 10 to these financial statements and include a reconciliation between the accounting profit/loss and the tax expense/income for the year.

### 4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets 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 31 March 2004. 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.

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

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

##### **Joint venture companies**

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

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

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, with other joint venture parties over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's share or registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's share or registered capital, and neither has joint control of, nor is in a position to exercise significant influence over, the joint venture company.

##### **Jointly-controlled entities**

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 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.

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## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Negative goodwill

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

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

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

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

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

On disposal of subsidiaries and jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

### 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.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

##### **Impairment of assets**

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

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

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

##### **Fixed assets and depreciation**

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

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

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## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Fixed assets and depreciation (Cont'd)

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

Leasehold land and buildings outside Hong Kong	Over the lease terms
Leasehold improvements	5 to 10 years or over the lease terms, whichever is shorter
Plant and machinery	2 to 15 years
Furniture, fixtures, equipment and motor vehicles	3 to 5 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.

### Leased assets

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.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, 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 represent the Group's interests in its former subsidiary in Mainland China which are intended to be held on a long term basis. They are stated at their carrying value at the time of their transfer to long term investments less any impairment losses, on an individual investment basis.

### Inventories

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

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

##### Cash and cash equivalents

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

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

##### Provisions

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

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

##### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Income tax (Cont'd)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

### Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (c) subcontracting fee income, on an accrual basis and in accordance with the relevant subcontracting agreements.



#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

##### **Employee benefits**

###### *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group to the balance sheet date.

###### *Pension scheme and other retirement benefits*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the participating 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 Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

##### **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.

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## 5. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

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

- (a) the PVC films segment engages in the manufacture and sale of PVC films;
- (b) the PVC floor coverings segment engages in the manufacture and sale of PVC floor coverings; and
- (c) the corporate and other activities segment engages in investment holding and also includes general corporate income and expense items.

## NOTES TO FINANCIAL STATEMENTS

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**5. SEGMENT INFORMATION (Cont'd)**

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

**Group**

	PVC films		PVC floor coverings		Corporate and other activities		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:								
Sales to external customers	<b>240,754</b>	266,107	<b>42,847</b>	47,713	-	-	<b>283,601</b>	313,820
Other revenue	-	-	-	-	<b>467</b>	467	<b>467</b>	467
	<b>240,754</b>	266,107	<b>42,847</b>	47,713	<b>467</b>	467	<b>284,068</b>	314,287
Segment results	<b>211</b>	24,176	<b>(3,445)</b>	(264)	<b>(13,605)</b>	(15,620)	<b>(16,839)</b>	8,292
Interest income and unallocated revenue/gains							<b>16,128</b>	18,712
Finance costs							<b>(8,726)</b>	(18,179)
Share of profits and losses of jointly-controlled entities	-	-	-	-	<b>78</b>	2,070	<b>78</b>	2,070
Profit/(loss) before tax							<b>(9,359)</b>	10,895
Tax							<b>2,440</b>	(248)
Profit/(loss) before minority interests							<b>(6,919)</b>	10,647
Minority interests							<b>(43)</b>	(8)
Net profit/(loss) from ordinary activities attributable to shareholders							<b>(6,962)</b>	10,639

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## 5. SEGMENT INFORMATION (Cont'd)

## Group

	PVC films		PVC floor coverings		Corporate and other activities		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment assets	<b>193,837</b>	209,792	<b>32,024</b>	36,625	<b>9,468</b>	10,579	<b>235,329</b>	256,996
Interests in jointly-controlled entities	-	-	-	-	<b>15,272</b>	15,112	<b>15,272</b>	15,112
Unallocated assets							<b>6,352</b>	11,346
Total assets							<b>256,953</b>	283,454
Segment liabilities	<b>(47,722)</b>	(65,766)	<b>(11,770)</b>	(11,017)	<b>(9,697)</b>	(20,420)	<b>(69,189)</b>	(97,203)
Unallocated liabilities							<b>(211,821)</b>	(203,542)
Total liabilities							<b>(281,010)</b>	(300,745)
Other segment information:								
Depreciation	<b>16,011</b>	15,791	<b>5,026</b>	4,645	<b>82</b>	213	<b>21,119</b>	20,649
Reversal of impairment of investment in a jointly-controlled entity	-	-	-	-	-	(2,063)	-	(2,063)
Deficit/(surplus) on revaluation of leasehold land and buildings	-	(9,283)	-	-	<b>(11)</b>	38	<b>(11)</b>	(9,245)
Provision for doubtful debts	-	88	-	-	-	-	-	88
Provision against other receivables	-	-	-	-	<b>940</b>	1,965	<b>940</b>	1,965
Capital expenditure	<b>1,048</b>	2,083	<b>258</b>	107	<b>46</b>	8	<b>1,352</b>	2,198

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## 6. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, but excludes intra-Group transactions.

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

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
<b>Turnover</b>		
Sale of goods	<b>283,601</b>	313,820
<b>Other revenue</b>		
Interest income	<b>10</b>	56
Subcontracting fee income	<b>467</b>	467
Others	<b>203</b>	656
	<b>680</b>	1,179
	<b>284,281</b>	314,999

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## 7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Note	2004 HK\$'000	2003 HK\$'000
Cost of inventories sold		<b>273,960</b>	283,254
Depreciation	13	<b>21,119</b>	20,649
Less: Amount included in cost of inventories sold		<b>(20,107)</b>	(19,663)
		<b>1,012</b>	986
Minimum lease payments under operating leases in respect of land and buildings		<b>3,418</b>	3,455
Less: Amount included in cost of inventories sold		<b>(2,179)</b>	(2,245)
		<b>1,239</b>	1,210
Auditors' remuneration		<b>800</b>	800
Staff costs (excluding directors' remuneration – note 8):			
Wages and salaries		<b>14,133</b>	16,169
Less: Amount included in cost of inventories sold		<b>(6,484)</b>	(6,870)
		<b>7,649</b>	9,299
Pension scheme contributions		<b>398</b>	385
Less: Forfeited contributions		<b>(15)</b>	(47)
Net pension scheme contributions		<b>383</b>	338
Reversal of impairment of interest in a jointly-controlled entity *		<b>–</b>	(2,063)
Surplus on revaluation of leasehold land and buildings *	13	<b>(11)</b>	(9,245)
Provision for doubtful debts *		<b>–</b>	88
Provision against other receivables *		<b>940</b>	1,965
Loss on disposal of fixed assets *		<b>210</b>	644
Loss on disposal of investment properties *		<b>–</b>	41

\* These items are included in "Other operating expenses" on the face of the consolidated profit and loss account.

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**8. DIRECTORS' REMUNERATION AND EMOLUMENTS OF FIVE HIGHEST PAID EMPLOYEES**

Directors' remuneration 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 Companies Ordinance is as follows:

	<b>Group</b>	
	<b>2004</b> HK\$'000	2003 HK\$'000
Fees:		
Independent non-executive directors	<b>50</b>	50
Other emoluments:		
Salaries, allowances and benefits in kind	<b>3,208</b>	3,903
Pension scheme contributions	<b>24</b>	40
	<b>3,232</b>	3,943
	<b>3,282</b>	3,993

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

	<b>Number of directors</b>	
	<b>2004</b>	2003
Nil – HK\$1,000,000	<b>4</b>	6
HK\$1,000,001 – HK\$1,500,000	<b>2</b>	2
	<b>6</b>	8

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

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## 8. DIRECTORS' REMUNERATION AND EMOLUMENTS OF FIVE HIGHEST PAID EMPLOYEES (Cont'd)

The five highest paid employees during the year included two (2003: three) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2003: two) non-director, highest paid employees are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Salaries, allowances and benefits in kind	1,125	1,600
Pension scheme contributions	12	12
	<b>1,137</b>	1,612

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2004	2003
Nil – HK\$1,000,000	3	1
HK\$1,000,001 – HK\$1,500,000	–	1
	<b>3</b>	2

## 9. FINANCE COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest on bank loans, overdrafts and other loans:		
Wholly repayable within five years	6,502	16,381
Wholly repayable after five years	–	488
Interest on finance leases	262	341
Interest on convertible bonds	1,962	969
	<b>8,726</b>	18,179



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**10. TAX**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Current year provision:		
Elsewhere than Hong Kong	<b>678</b>	248
Overprovision of current tax in respect of prior years	<b>(3,118)</b>	–
	<b>(2,440)</b>	248

Hong Kong profits tax has not been provided for the year ended 31 March 2004 as the Group did not generate any assessable profits in Hong Kong during the year (2003: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Certain subsidiaries and one of the Group's jointly-controlled entities operating in Mainland China are exempt from income tax for two years starting from their first profitable year of operations and are entitled to 50% relief from income tax for the following three years under the Income Tax Law of the People's Republic of China (the "PRC"). Income tax has been provided at the rate of 27% on the estimated assessable profits of a subsidiary operating in Mainland China. Other subsidiaries of the Group operating in Mainland China have been loss-making since their incorporation and accordingly income tax has not been provided for the year ended 31 March 2004.

The Group has tax losses arising in Hong Kong of HK\$150,252,000 (2003: HK\$170,257,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 10. TAX (Cont'd)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company, its subsidiaries and jointly-controlled entities are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

### Group – 2004

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>1,057</u>		<u>(10,416)</u>		<u>(9,359)</u>	
Tax at the statutory tax rate	185	17.5	(3,437)	33.0	(3,252)	34.7
Lower tax rate for specific provinces or local authority	-	-	(151)	1.4	(151)	1.6
Adjustments in respect of current tax of previous years	(3,118)	(295.0)	-	-	(3,118)	33.3
Income not subject to tax	(30,130)	(2,850.5)	-	-	(30,130)	321.9
Expenses not deductible for tax	32,280	3,053.9	-	-	32,280	(344.9)
Tax losses not recognised	1,279	121.0	4,266	(40.9)	5,545	(59.2)
Tax losses utilised from previous periods	(3,614)	(341.9)	-	-	(3,614)	38.6
Tax charge/(credit) at the Group's effective rate	<u>(3,118)</u>	<u>(295.0)</u>	<u>678</u>	<u>(6.5)</u>	<u>(2,440)</u>	<u>26.0</u>

### Group – 2003

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>12,611</u>		<u>(1,716)</u>		<u>10,895</u>	
Tax at the statutory tax rate	2,017	16.0	(566)	33.0	1,451	13.3
Lower tax rate for specific provinces or local authority	-	-	(35)	2.0	(35)	(0.3)
Adjustments in respect of current tax of previous years	-	-	92	(5.4)	92	0.8
Income not subject to tax	(1,895)	(15.0)	-	-	(1,895)	(17.4)
Expenses not deductible for tax	2,066	16.4	-	-	2,066	19.0
Tax losses not recognised	1,455	11.5	757	(44.1)	2,212	20.3
Tax losses utilised from previous period	(3,643)	(28.9)	-	-	(3,643)	(33.4)
Tax charge at the Group's effective rate	<u>-</u>	<u>-</u>	<u>248</u>	<u>(14.5)</u>	<u>248</u>	<u>2.3</u>

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company, was HK\$5,202,000 (2003: HK\$64,651,000) (note 30(b)).

## 12. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$6,962,000 (2003: net profit of HK\$10,639,000) and the weighted average of 2,851,200,000 (2003: 2,206,750,685) ordinary issued shares in issue during the year.

Diluted loss per share amount for the year ended 31 March 2004 has not been calculated because the convertible bonds outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

The calculation of the diluted earnings per share for the year ended 31 March 2003 is based on the adjusted net profit attributable to shareholders of HK\$11,608,000 calculated on the assumption that the convertible bonds of the Company (which would have a dilutive effect on the earnings per share) had been converted on their respective dates of issue. The diluted earnings per share is based on 2,765,934,966 ordinary shares, being the weighted average number of ordinary shares outstanding during the year, plus the weighted average of 559,184,281 shares to be issued on conversion of the outstanding convertible bonds since their respective dates of issue. The share options outstanding during that year have an anti-dilutive effect on the basic earnings per share.

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 13. FIXED ASSETS

## Group

	<b>Leasehold land and buildings</b>	<b>Leasehold improvements</b>	<b>Plant and machinery</b>	<b>Furniture, fixtures, equipment and motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:					
At beginning of year	35,368	12,224	228,603	10,840	287,035
Additions	-	6	1,077	269	1,352
Disposals	-	-	(557)	(209)	(766)
Surplus on revaluation	22	-	-	-	22
At 31 March 2004	35,390	12,230	229,123	10,900	287,643
Accumulated depreciation:					
At beginning of year	-	3,373	115,102	9,472	127,947
Provided during the year	1,335	1,426	17,900	458	21,119
Disposals	-	-	(334)	(188)	(522)
Reversal of accumulated depreciation upon revaluation	(1,335)	-	-	-	(1,335)
At 31 March 2004	-	4,799	132,668	9,742	147,209
Net book value:					
At 31 March 2004	35,390	7,431	96,455	1,158	140,434
At 31 March 2003	35,368	8,851	113,501	1,368	159,088
Analysis of cost and valuation:					
At cost	-	12,230	229,123	10,900	252,253
At 31 March 2004 valuation	35,390	-	-	-	35,390
	35,390	12,230	229,123	10,900	287,643

The Group's leasehold land and buildings are held under medium term leases outside Hong Kong.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 13. FIXED ASSETS (Cont'd)

The leasehold land and buildings were revalued by LCH (Asia-Pacific) Surveyors Limited ("LCH"), independent professionally qualified valuers, on the open market, existing use basis or depreciated replacement cost method as appropriate, at 31 March 2004 at HK\$35,390,000 in aggregate. The surpluses of HK\$11,000 (note 7) and HK\$1,346,000 so arising have been credited to the profit and loss account and the asset revaluation reserve, respectively.

Had these leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK\$29,004,000 (2003: HK\$29,893,000).

The leasehold land and buildings include a parcel of land located at Lingxia Development Area, Shishuikou Village, Qiaotou Town, Dongguan City, Guangdong Province, the PRC, together with a production plant constructed thereon, for which the Group is still in the process of obtaining the land use right certificate because the related land premium has not yet been paid up. According to the opinion of a PRC legal advisor, there is no legal barrier for the Group to obtain the land use right certificate. The aggregate carrying value of the land and buildings in this respect as at 31 March 2004 amounted to approximately HK\$28,670,000.

The net book value of assets held under finance leases included in the total amount of plant and machinery and motor vehicles at 31 March 2004 amounted to HK\$12,860,000 (2003: HK\$16,182,000) and nil (2003: HK\$195,000), respectively.

Certain leasehold land and buildings and plant and machinery were pledged to secure banking facilities granted to the Group (note 22).

## 14. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	159,593	159,593
Provision for impairment	(147,956)	(147,956)
	11,637	11,637
Due from subsidiaries	392,846	392,911
Provision for impairment	(323,771)	(322,671)
	69,075	70,240
Due to subsidiaries	(17,125)	(11,406)
	63,587	70,471

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

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 14. INTERESTS IN SUBSIDIARIES (Cont'd)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Bestway Group International Limited	British Virgin Islands/ Hong Kong	US\$1,100	100	-	Investment holding
Bestget Plastic Products Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$3,900,000 (Note (a))	-	100	Property holding
Bestway Plastic Products Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$37,440,000 (Note (a))	-	100	Sale of plastic products
Happy Trip Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$1,200,000 (Note (a))	-	100	Sale of plastic products
Luen Fat Hong Investment Limited	British Virgin Islands/ Hong Kong	Ordinary US\$100	-	100	Property holding
Rich Ocean Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$1,000,000 (Note (a))	-	100	Investment holding

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

**14. INTERESTS IN SUBSIDIARIES (Cont'd)**

Particulars of the principal subsidiaries: (cont'd)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Best Faith Plastic Products Limited	Hong Kong	HK\$10,000	-	100	Sale of plastic products
Beijing William Shun Plastic Products Co., Ltd.	PRC/ Mainland China	US\$4,920,000	-	(Note (b))	Manufacturing of plastic products
Dongguan Bestway Plastic Manufactory (Note (c))	PRC/ Mainland China	US\$12,741,664	-	97.65	Manufacturing of plastic products
Dongguan Best Faith Plastic Products Limited (Note (d))	PRC/ Mainland China	US\$2,826,710	-	100	Manufacturing of plastic products

Notes:

- (a) The profits which the company may determine to distribute in respect of any financial year shall be distributed, as regards the first HK\$1,000,000,000,000 thereof, among the holders of ordinary shares, with one-half of the balance of the said profits being distributed among the holders of the non-voting deferred shares and the other half of such balance being distributed among the holders of ordinary shares. Save as aforesaid, the non-voting deferred shares carry no other rights to dividends. The non-voting deferred shares carry no rights to attend or vote at general meetings, but carry the rights to receive one-half of the balance of any surplus in a return of capital in a winding-up after the holders of the ordinary shares have received a total return of HK\$500,000,000,000.
- (b) Beijing William Shun Plastic Products Co., Ltd. ("BJWS") is a contractual joint venture company established by the Group and a PRC partner for a period of 20 years which commenced from 6 August 1992. According to the original joint venture agreement and as revised by the supplementary agreement subsequent thereto, the Group and the PRC partner were entitled to 51% and 49%, respectively, of the results of BJWS. However, pursuant to the subcontracting agreement entered into between the Group and the PRC partner, the PRC partner agreed to waive its 49% entitlement to the results of BJWS in return for a fixed and guaranteed annual fee payable until 2020. Accordingly, the entire results of BJWS for the year have been included in the Group's profit and loss account. At the expiry of the tenure of the co-operative joint venture, the net assets of BJWS will vest with the Group.
- (c) This subsidiary is registered as a contractual joint venture under the PRC law.
- (d) This subsidiary is registered as a wholly-owned foreign enterprise under the PRC law.

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

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 15. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	48,539	48,379
Provision for impairment	(33,267)	(33,267)
	<b>15,272</b>	15,112

The negative goodwill remaining in consolidated reserves, arising from the acquisition of a jointly-controlled entity prior to the adoption of SSAP 30 in 2001, pursuant to the transitional provisions of SSAP 30 amounted to HK\$4,581,000 as at 31 March 2003 and 2004 (note 30(a)).

The amount due from a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest, voting power and profit sharing	Principal activities
Shantou SEZ Hua Chang Plastic Packing Co., Ltd.	Corporate	PRC/ Mainland China	40	Manufacturing of plastic products
Shenzhen Wuye Jifa Warehouse Co., Ltd. ("SWJ")	Corporate	PRC/ Mainland China	25	Property holding

SWJ's major asset is the holding of a parcel of land located at Yantian Port, Yantian, Shenzhen, Guangdong Province, the PRC (the "Land"). The accumulated deficit arising from the revaluation of the Land as at 31 March 2004 performed by independent professionally qualified valuers has been included in the provision for impairment.

The Group's entire interest in SWJ is pledged to secure banking facilities granted to the Group (note 22).



## NOTES TO FINANCIAL STATEMENTS

31 March 2004

**16. LONG TERM INVESTMENT**

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted equity investment	11,128	11,128
Provision for impairment	(7,978)	(7,978)
	<b>3,150</b>	3,150

The Group's long term investment represents an investment in Chengdu Xingxing Rich Ocean Plastic Products Co., Ltd. ("CD Rich Ocean"), a former subsidiary of the Company, which was subcontracted to the PRC joint venture partner during a prior year. According to the subcontracting agreements, the Group forfeited its rights to exercise significant influence/control over the financial and operating policy decisions of CD Rich Ocean in return for a fixed and guaranteed annual subcontracting fee. When CD Rich Ocean lost its status as a subsidiary of the Group in prior years, it was reclassified as a long term investment accordingly.

The Group's interest in CD Rich Ocean is held on a long term basis and is stated at the Group's share of the net assets as at the date when the Group's forfeiture of its control became effective, less (i) amortisation for the investment amounts which will be recovered through the receipt of subcontracting fees from the joint venture partners over the subcontracting period; and (ii) any impairment losses.

**17. PREPAID RENTALS**

As at 31 March 2004, the Group prepaid an amount of approximately HK\$8,566,000 (2003: HK\$10,745,000) in respect of the rentals for the land and buildings situated in Mainland China under an operating lease agreement for the period up to 26 July 2008. At 31 March 2004, the portion of the prepaid rental for the year ending 31 March 2005 of approximately HK\$2,156,000 (2003: HK\$2,139,000) has been included in prepayments, deposits and other receivables under current assets, while an amount of approximately HK\$6,410,000 (2003: HK\$8,606,000) attributable to the period after 31 March 2005 has been classified as a non-current asset.

**18. INVENTORIES**

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	19,425	13,059
Work in progress	469	398
Finished goods	4,420	4,800
	<b>24,314</b>	18,257

No inventories included above were carried at net realisable value as at the balance sheet date (2003: Nil).

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 19. ACCOUNTS AND BILLS RECEIVABLE

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of two months, extending up to three months for major customers. Each customer has a maximum credit limit. Overdue balances are regularly reviewed by senior management of the Group.

An aged analysis of the accounts and bills receivable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 30 days	24,102	31,981
Between 31 to 60 days	8,606	12,345
Between 61 to 90 days	5,412	9,540
Over 90 days	11,954	4,542
	<b>50,074</b>	58,408
Less: Provision for doubtful debts	<b>(3,420)</b>	(4,047)
	<b>46,654</b>	54,361

## 20. PLEDGED DEPOSITS

The Group's bank deposits of HK\$3,438,000 as at 31 March 2004 (2003: HK\$1,404,000) were pledged for trust receipt loans and other short term trade financing facilities granted to the Group (note 22).

## 21. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the accounts and bills payable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 30 days	12,363	19,800
Between 31 to 60 days	5,715	9,330
Between 61 to 90 days	5,545	7,744
Over 90 days	12,508	8,521
	<b>36,131</b>	45,395

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 22. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank loans:				
Secured	<b>47,825</b>	41,895	<b>7,031</b>	7,031
Unsecured	<b>20,093</b>	20,093	-	-
	<b>67,918</b>	61,988	<b>7,031</b>	7,031
Other loans:				
Secured	<b>16,448</b>	16,448	-	-
Unsecured	<b>23,471</b>	17,164	-	-
	<b>39,919</b>	33,612	-	-
	<b>107,837</b>	95,600	<b>7,031</b>	7,031

The interest-bearing bank and other borrowings are further analysed as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank loans repayable:				
Within one year	<b>17,726</b>	7,297	<b>879</b>	-
In the second year	<b>27,692</b>	23,191	<b>1,758</b>	879
In the third to fifth years, inclusive	<b>22,500</b>	27,000	<b>4,394</b>	5,273
Beyond five years	-	4,500	-	879
	<b>67,918</b>	61,988	<b>7,031</b>	7,031
Other loans repayable:				
Within one year	<b>19,177</b>	12,870	-	-
In the second year	<b>14,363</b>	4,672	-	-
In the third to fifth years, inclusive	<b>6,379</b>	16,070	-	-
	<b>39,919</b>	33,612	-	-
	<b>107,837</b>	95,600	<b>7,031</b>	7,031
Portion classified as current liabilities	<b>(36,903)</b>	(20,167)	<b>(879)</b>	-
Long term portion	<b>70,934</b>	75,433	<b>6,152</b>	7,031

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

### 22. INTEREST-BEARING BANK AND OTHER BORROWINGS (Cont'd)

As at 31 March 2004, the Group's bank and other borrowings were secured by:

- (i) A pledge of the Group's time deposits amounting to HK\$3,438,000 (note 20);
- (ii) A legal charge on a parcel of the Group's medium term leasehold land situated outside Hong Kong. The net book value of the land together with the buildings erected thereon was approximately HK\$28,670,000 as at 31 March 2004 (note 13);
- (iii) The pledge of certain plant and machinery of the Group with an aggregate net book value of HK\$37,022,000 (note 13);
- (iv) The Group's entire equity interest in a jointly-controlled entity (note 15);
- (v) First legal charges over certain ordinary shares of the Company beneficially held by a director and a former director of the Company;
- (vi) A joint and several personal guarantee executed by a director and a former director of the Company to the extent of HK\$20,000,000;
- (vii) An unlimited corporate guarantee executed by a related company wholly owned by a director of the Company for bank loans in the amount of HK\$17,654,000 at 31 March 2004 granted to the Group;
- (viii) Unlimited joint and several personal guarantees executed by a director and his spouse for a bank loan of HK\$9,967,000 at 31 March 2004 granted to the Group;
- (ix) Unlimited joint and several personal guarantees executed by two directors; and
- (x) Corporate guarantees executed by the Company and certain of its subsidiaries.

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

**23. FINANCE LEASE PAYABLES**

The Group leases certain of its plant and machinery for its manufacturing activities. The lease is classified as finance lease and has a remaining lease term of two years.

At 31 March 2004, the total future minimum lease payments under finance leases and their present values were as follows:

**Group**

	<b>Minimum lease payments</b>	<b>Minimum lease payments</b>	<b>Present value of minimum lease payments</b>	<b>Present value of minimum lease payments</b>
	<b>2004 HK\$'000</b>	2003 HK\$'000	<b>2004 HK\$'000</b>	2003 HK\$'000
Amounts payable:				
Within one year	<b>1,372</b>	1,422	<b>1,324</b>	1,365
In the second year	<b>1,400</b>	1,422	<b>1,241</b>	1,265
In the third to fifth years, inclusive	<b>-</b>	1,498	<b>-</b>	1,234
Total minimum finance lease payments	<b>2,772</b>	4,342	<b>2,565</b>	3,864
Future finance charges	<b>(207)</b>	(478)		
Total net finance lease payables	<b>2,565</b>	3,864		
Portion classified as current liabilities	<b>(1,220)</b>	(1,170)		
Long term portion	<b>1,345</b>	2,694		

**24. DUE TO A DIRECTOR**

The amount due to a director is unsecured, interest-free and has no fixed term of repayment.

**25. DUE TO JOINT VENTURE PARTNERS**

The amounts due to joint venture partners are unsecured, interest-free and are repayable on demand.

**26. PROVISION**

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading "Employee benefits" in note 4 to the financial statements. The provision for long service payments of HK\$575,000 (2003: HK\$575,000) is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 27. CONVERTIBLE BONDS

		<b>Group and Company</b>	
		<b>2004</b>	2003
		<b>HK\$'000</b>	HK\$'000
	Notes		
3% First Convertible Bonds (the "First CBs")	(a)	<b>40,000</b>	40,000
1.5% Second Convertible Bonds (the "Second CBs")	(b)	<b>50,415</b>	50,415
		<b>90,415</b>	90,415

Notes:

- (a) The First CBs are convertible, at the option of the bondholders, into ordinary shares of HK\$0.01 each in the Company at a conversion price of HK\$0.05 at any time before 19 September 2009 (the "Maturity Date"). The Company may at any time before the Maturity Date redeem all or some of the First CBs on a pro rata basis at an amount equal to 102% of the principal amount of the First CBs and the accrued interest thereon. The First CBs will be redeemed by the Company on maturity at their principal amount and the accrued interest thereon, if not previously redeemed, purchased and cancelled, or converted.
- (b) The Second CBs are convertible, at the option of the bondholders, into ordinary shares of HK\$0.01 each in the Company at a conversion price of HK\$0.20 at any time before the Maturity Date. The Company may at any time before the Maturity Date redeem all or some of the Second CBs on a pro rata basis at an amount equal to 102% of the principal amount of the Second CBs and the accrued interest thereon. The Second CBs will be mandatorily converted into ordinary shares of HK\$0.01 each in the Company on maturity, if not previously redeemed, purchased and cancelled, or converted.

## 28. SHARE CAPITAL

### Shares

		<b>2004</b>	2003
		<b>HK\$'000</b>	HK\$'000
Authorised			
24,000,000,000 ordinary shares of HK\$0.01 each		<b>240,000</b>	240,000
Issued and fully paid:			
2,851,200,000 ordinary shares of HK\$0.01 each		<b>28,512</b>	28,512

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 29. SHARE OPTIONS

The first share option scheme of the Company, which became effective on 13 September 1995, is terminated upon the adoption of a new share option scheme (the "Scheme") on 19 August 2003.

The Company operates the Scheme for the purpose of providing incentives or rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors of the Company, any of its subsidiaries or any entity in which the Group holds any equity interest (the "invested entity"), other employees of the Group, suppliers of goods or services, customers, and shareholders of any member of the Group or invested entity or holders of securities issued by member of the Group or invested entity. The Scheme became effective on 19 August 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. Options that lapse in accordance with the terms of this scheme will not be counted for the purpose of calculating the 10% limit unless the Company obtains a fresh approval from shareholders to renew the limit provided that the maximum number of shares in respect of which options may be granted under the Scheme together with any options outstanding and yet to be exercised under the Scheme and any other schemes shall not exceed 30% of the issued shares from time to time.

The maximum number of shares issuable under share options to each eligible participant in the 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.

An option may not be sold, transferred, charged, mortgaged or assigned and is personal to the grantee.

The offer of a grant of share options may be accepted 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, and commences on the day on which the offer for the grant of options is made and ends on a date which is not later than 10 years from the date of the offer but subject to the early termination of the Scheme.

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

No share options were granted during the year and there are no outstanding share options under the Scheme at the balance sheet date.

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

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 30. RESERVES

### (a) Group

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

The contributed surplus of the Group arose as a result of the Group reorganisation prior to its public listing on 2 October 1995 and represents the difference between the nominal value of the share capital of the former holding company of the Group acquired pursuant to the Group reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor.

On the adoption of SSAP 30 in 2001, the Group applied the transitional provisions of SSAP 30 "Business combinations" which permit goodwill and negative goodwill in respect of acquisitions of subsidiaries and jointly-controlled entities that occurred prior to the adoption of the SSAP, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively. The amount of negative goodwill remaining in consolidated reserves arising from the acquisition of a jointly-controlled entity prior to the adoption of SSAP 30 was HK\$4,581,000 as at 31 March 2003 and 2004.

### (b) Company

	<b>Share premium account</b>	<b>Contributed surplus</b>	<b>Accumulated losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2002	131,062	159,393	(429,002)	(138,547)
Capital reduction	–	–	128,304	128,304
Issue of shares	17,107	–	–	17,107
Share issue expenses	(1,584)	–	–	(1,584)
Net loss for the year	–	–	(64,651)	(64,651)
At 31 March 2003 and 1 April 2003	146,585	159,393	(365,349)	(59,371)
Net loss for the year	–	–	(5,202)	(5,202)
At 31 March 2004	146,585	159,393	(370,551)	(64,573)

The contributed surplus of the Company arose as a result of the Group reorganisation referred to in note 30(a), and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefor.



## NOTES TO FINANCIAL STATEMENTS

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**31. CONTINGENT LIABILITIES**

At the balance sheet date, the Group's and the Company's contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees of banking facilities granted to subsidiaries	-	-	348,410	348,410
Guarantees of finance leases granted to subsidiaries	-	-	2,772	3,683
Guarantees of banking facilities granted to independent third parties	8,411	1,869	-	-
	<b>8,411</b>	1,869	<b>351,182</b>	352,093

In respect of the Company's guarantees for banking facilities granted to its subsidiaries, the balance utilised by the subsidiaries at the balance sheet date amounted to approximately HK\$33,469,000 (2003: HK\$33,469,000).

**32. OPERATING LEASE ARRANGEMENTS**

The Group leases certain of its office premises, factory premises and staff quarters under operating lease arrangements. Leases for premises are negotiated for terms ranging from two to seven years. The terms of the leases generally require the Group to pay deposits.

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

	2004 HK\$'000	2003 HK\$'000
Within one year	293	831
In the second to fifth years, inclusive	1,035	380
After five years	-	755
	<b>1,328</b>	1,966

At the balance sheet date, the Company did not have any significant operating lease commitments.

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

### 33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group and the Company had the following commitments at the balance sheet date:

- (a) The Company had a contracted commitment in respect of a capital contribution to a subsidiary operating in Mainland China amounting to US\$3,603,000 (equivalent to approximately HK\$28,106,000).
- (b) The Group had a contracted commitment in respect of guaranteed annual payments to the minority owner of a subsidiary operating in Mainland China of approximately HK\$20,094,000 in aggregate (with HK\$1,402,000 payable within one year).
- (c) The Group had unprovided commitments of RMB18,197,000 (equivalent to approximately HK\$17 million) in respect of the land premium for a parcel of land located in Dongguan, the PRC.

### 34. RELATED PARTY TRANSACTIONS

In addition to those transactions and balances disclosed elsewhere in these financial statements, the Group had the following significant transactions with related parties during the year:

- (a) Certain of the Group's banking facilities which were supported/pledged by personal guarantees executed by a director, his spouse and a related company, and ordinary shares in the Company held by a director, as further disclosed in note 22 to the financial statements.
- (b) The Group paid underwriting commission of HK\$100,000 to Best Online Limited in relation to the Company's open offer of shares during the year ended 31 March 2003. Best Online Limited is currently a substantial shareholder of the Company and is wholly-owned by the spouse of a director of the Company.

### 35. POST BALANCE SHEET EVENT

The directors have been informed by HSBC, being the coordinating agent of the Participating Banks under the Deed, and an independent third party investor that the Participating Banks and the investor have entered into an agreement on 28 July 2004 in respect of a debt assignment whereby the investor would acquire from the Participating Banks most of the Group's indebtedness under the Deed, including the convertible bonds of HK\$90.4 million (note 27).

### 36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 July 2004.