

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

1. GENERAL

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

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the Hong Kong Financial Reporting Standards ("HKFRS") - Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for year 2003 have been restated accordingly. As a result of this change in policy, the balance of accumulated losses at 1 April 2002 has been increased by HK\$312,000, which is the cumulative effect of the change in policy on the results for periods prior to 1 April 2002. The net profit for the year ended 31 March 2004 has been decreased by HK\$285,000 (2003: a decrease of net loss of HK\$87,000).

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, an associate or a jointly controlled entity at the date of acquisition. Goodwill is capitalised and amortised on a straight line basis over its useful economic life.

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

Investments in subsidiaries

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

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

Jointly controlled entities

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Revenue recognition

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

Income from properties developed for sales is recognised when legal title of the properties is passed. Payments received from purchaser prior to this stage are recorded as deposits received (included in trade and other payables) under current liabilities.

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

Other service income is recognised when services are rendered.

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

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

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

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

Impairment

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and any accumulated impairment losses.

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

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

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

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

Leases

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Capitalisation of borrowing costs

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

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

Investment properties

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

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

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

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

Textile quota entitlements

Permanent textile quota entitlements purchased from outside parties are stated at cost less accumulated amortisation and any identified impairment losses. The cost of permanent textile quota entitlements is amortised on a straight line basis over a period of five years by equal monthly instalments up to 31 December 2004.

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

Club debenture

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Investments in securities

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

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

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

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

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

Properties held for sale

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

Inventories

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Taxation - *continued*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

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

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

Retirement benefits costs

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. TURNOVER

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

	2004	2003
	HK\$'000	HK\$'000
Continuing operations:		
Sales of goods	551,938	579,202
Sales of properties	34,424	—
Quota income	38,947	56,941
Rental income	23,074	19,056
	648,383	655,199
Discontinued/discontinuing operations (<i>see note 6</i>):		
Telecommunications services	1,982	2,664
Bleaching and dyeing services	55,679	29,789
	57,661	32,453
	706,044	687,652

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four main operating divisions - garment sourcing and export, property investment, investment in securities and loan financing. These divisions are the bases on which the Group reports its primary segment information. The division of telecommunications services and related investments was discontinued in November 2003 and the Group is in the process of discontinuing its bleaching and dyeing business at 31 March 2004 (see note 6).

Segment information about these businesses is presented below:

Year 2004

(i) Income statement

	Continuing operations				Discontinued/ discontinuing operations			Consolidated HK\$'000
	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Loan financing HK\$'000	Tele- communications services and related investments HK\$'000	Bleaching and dyeing HK\$'000	Eliminations HK\$'000	
TURNOVER								
External	590,885	57,498	—	—	1,982	55,679	—	706,044
Inter-segment	—	3,000	—	—	—	68	(3,068)	—
Total	590,885	60,498	—	—	1,982	55,747	(3,068)	706,044
RESULT								
Segment result and profit from operations	36,169	59,130	(2,333)	4,701	(26,274)	(363)	(8,462)	62,568
Gain on disposal of a subsidiary			63,950					63,950
Gain on deemed disposal of discontinued operations					19,317			19,317
Gain on partial disposal of a subsidiary					886			886
Finance costs								(7,855)
Share of results of associates					(3,919)			(3,919)
Share of results of a jointly controlled entity					(72)			(72)
Profit before taxation								134,875
Taxation								(2,459)
Profit before minority interests								132,416
Minority interests								8,414
Net profit for the year								140,830

Notes:

- (a) Inter-segment transactions are charged at prevailing market prices.
- (b) Turnover from garment sourcing and export includes income from temporary transfer of permanent textile quota entitlements of HK\$34,421,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Business segments - *continued*

Year 2004 - *continued*

(ii) Balance sheet

	Continuing operations			Discontinuing operations		Consolidated HK\$'000
	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Loan financing HK\$'000	Bleaching and dyeing HK\$'000	
ASSETS						
Segment assets	226,008	540,814	79,000	43,465	37,225	926,512
Interests in associates						20,788
Unallocated corporate assets						93,832
Consolidated total assets						1,041,132
LIABILITIES						
Segment liabilities	31,262	15,433	—	27	12,323	59,045
Unallocated corporate liabilities						314,872
Consolidated total liabilities						373,917

(iii) Other information

	Continuing operations			Discontinued/ discontinuing operations			Consolidated HK\$'000
	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Loan financing HK\$'000	Tele- communications services and related investments HK\$'000	Bleaching and dyeing HK\$'000	
Capital additions	252	10	—	—	12,098	5,105	17,465
Depreciation and amortisation	2,059	430	—	—	4,848	1,650	8,987
Impairment loss recognised in respect of property, plant and equipment	—	—	—	—	9,911	—	9,911
Loss on disposal of investment properties	—	1,644	—	—	—	—	1,644
(Gain) loss on disposal of property, plant and equipment	(94)	—	—	—	243	—	149
Impairment loss of goodwill on acquisition of a subsidiary	—	—	—	—	104	—	104
Impairment loss of goodwill on acquisition of additional interests in subsidiaries	3,270	—	—	—	—	—	3,270
(Reversal of allowance) allowance for doubtful debts	(119)	3	—	—	1,237	(27)	1,094
Loss on waiver of amount due from a minority shareholder of a subsidiary	—	—	—	—	117	—	117
Loss on disposal of other investments	—	—	2,328	—	—	—	2,328

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Year 2003

(i) Income statement

	Continuing operations			Discontinued/ discontinuing operations			Eliminations	Consolidated
	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Loan financing HK\$'000	Tele- communications services and related investments HK\$'000	Bleaching and dyeing HK\$'000		
							HK\$'000	HK\$'000 (Restated)
TURNOVER								
External	636,143	19,056	—	—	2,664	29,789	—	687,652
Inter-segment	—	3,144	—	—	—	—	(3,144)	—
Total	<u>636,143</u>	<u>22,200</u>	<u>—</u>	<u>—</u>	<u>2,664</u>	<u>29,789</u>	<u>(3,144)</u>	<u>687,652</u>
RESULT								
Segment result and profit from operations	<u>50,522</u>	<u>27,142</u>	<u>(705)</u>	<u>1,589</u>	<u>(17,898)</u>	<u>(485)</u>	<u>(675)</u>	59,490
Unrealised loss on investment in 21CN (see note 8)			(11,000)					(11,000)
Loss on disposal of investment in 21CN			(50,456)					(50,456)
Income on release of guarantee			5,000					5,000
Finance costs								(10,128)
Loss before taxation								(7,094)
Taxation								(21,044)
Loss before minority interests								(28,138)
Minority interests								3,267
Net loss for the year								<u>(24,871)</u>

Notes:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Year 2003 - *continued*

(ii) Balance sheet

	Continuing operations			Discontinued/ discontinuing operations			Consolidated HK\$'000 (Restated)
	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Loan financing HK\$'000	Tele- communications services and related investments HK\$'000	Bleaching and dyeing HK\$'000	
ASSETS							
Segment assets	202,303	543,571	20,000	72,738	9,240	32,403	880,255
Interests in jointly controlled entities	—	—	—	—	1,253	—	1,253
Unallocated corporate assets							78,255
Consolidated total assets							959,763
LIABILITIES							
Segment liabilities	34,722	14,423	10	62	8,284	16,990	74,491
Unallocated corporate liabilities							359,923
Consolidated total liabilities							434,414

(iii) Other information

	Continuing operations			Discontinued/ discontinuing operations			Consolidated HK\$'000
	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Loan financing HK\$'000	Tele- communications services and related investments HK\$'000	Bleaching and dyeing HK\$'000	
Capital additions	21	102,364	—	—	288	5,565	108,238
Depreciation and amortisation	2,549	1,186	—	—	1,070	897	5,702
Loss on disposal of property, plant and equipment	—	—	—	—	—	11	11
Allowance for properties held for sale	—	6,080	—	—	—	—	6,080
Impairment loss of goodwill on acquisition of subsidiaries	—	—	—	—	7,194	—	7,194
Unrealised loss on investment in 21CN	—	—	11,000	—	—	—	11,000
Loss on disposal of investment in 21CN	—	—	50,456	—	—	—	50,456
Impairment loss of goodwill on acquisition of additional interests in subsidiaries	—	—	—	—	—	364	364
Allowance for doubtful debts	4,951	1,022	—	—	—	380	6,353

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Geographical segments

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

	Turnover	
	2004 HK\$'000	2003 HK\$'000
Hong Kong	59,480	21,720
The People's Republic of China, excluding Hong Kong (the "PRC")	55,679	29,789
United States of America ("USA")	525,916	576,453
Canada	14,907	23,327
Mexico	13,575	14,951
Europe	36,487	21,064
Others	—	348
	706,044	687,652

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	984,484	901,593	12,270	102,673
PRC	38,772	34,142	5,105	5,565
USA	15,409	23,655	90	—
	1,038,665	959,390	17,465	108,238

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

6. DISCONTINUED / DISCONTINUING OPERATIONS

(a) Asia Alliance Holdings Limited ("Asia Alliance") (formerly known as i100 Limited) is incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange. It was a subsidiary of the Company (see also note 11). In November 2003 and December 2003, Asia Alliance had two placements of new shares of which the Company was not a subscriber. The Group's equity interest in Asia Alliance was diluted from approximately 51.73% immediately before Asia Alliance's first placement of shares to approximately 43.11% immediately after that and further to approximately 35.93% immediately after Asia Alliance's second placement of shares. Asia Alliance ceased to be a subsidiary of the Company and became an associate (see note 23). The Group's business relating to telecommunications services and related investments was since discontinued.

The gain on the deemed disposal amounted to HK\$19,317,000, which was credited to the consolidated income statement.

The results of the discontinued operations were as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover	1,982	2,664
Cost of sales	<u>(1,703)</u>	<u>(1,271)</u>
Gross profit	279	1,393
Other operating income	442	139
Distribution costs	(11)	(6,818)
Administrative expenses	(16,969)	(5,418)
Impairment loss recognised in respect of property, plant and equipment	(9,911)	—
Impairment loss of goodwill on acquisition of a subsidiary/ subsidiaries	<u>(104)</u>	<u>(7,194)</u>
Loss from operations	(26,274)	(17,898)
Finance costs	(353)	—
Share of results of a jointly controlled entity	<u>(72)</u>	<u>—</u>
Loss for the year	<u><u>(26,699)</u></u>	<u><u>(17,898)</u></u>

The carrying amounts of the assets and liabilities of the discontinued operations at the date of the deemed disposal are set out in note 40. The total assets and total liabilities of the discontinued operation amounted to HK\$35,141,000 and HK\$12,284,000 respectively at 31 March 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

6. DISCONTINUED / DISCONTINUING OPERATIONS - *continued*

The net cash flows of the discontinued operations attributable to the Group were as follows:

	2004 HK\$'000	2003 HK\$'000
Net cash used in operating activities	(13,894)	(11,394)
Net cash used in investing activities	(12,083)	(7)
Net cash from financing activities	22,374	—
Net cash outflow	<u>(3,603)</u>	<u>(11,401)</u>

- (b) As announced by the Company on 5 March 2004, the Group conditionally agreed to sell the entire issued shares of Po Cheong International Enterprises Limited ("Po Cheong"), a wholly-owned subsidiary of the Company, to a wholly-owned subsidiary of Asia Alliance at a consideration of HK\$65,000,000. Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing. The consideration shall be satisfied in cash, of which HK\$50,000,000 was received by the Group on 13 May 2004 and the remaining balance of HK\$15,000,000 shall be received after finalisation of the adjustment (as referred to in the sale and purchase agreement dated 5 March 2004) in the mid of 2005. The disposal constituted a discontinuing operation of the Group and was completed on 17 May 2004.

The results of the discontinuing operations were as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover	55,679	29,789
Cost of sales	(51,731)	(25,176)
Gross profit	3,948	4,613
Other operating income	172	127
Distribution costs	(1,420)	(657)
Administrative expenses	(3,131)	(4,568)
Loss from operations	(431)	(485)
Finance costs	(172)	(30)
Loss for the year	<u>(603)</u>	<u>(515)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

6. DISCONTINUED / DISCONTINUING OPERATIONS - *continued*

The carrying amounts of the assets and liabilities of the discontinuing operations were as follows:

	2004 HK\$'000	2003 HK\$'000
Total assets	<u>38,773</u>	<u>33,532</u>
Total liabilities	<u>21,098</u>	<u>16,990</u>

The net cash flows of the discontinuing operations attributable to the Group were as follows:

	2004 HK\$'000	2003 HK\$'000
Net cash used in operating activities	(5,362)	(1,059)
Net cash used in investing activities	(5,090)	(5,544)
Net cash from (used in) financing activities	<u>9,478</u>	<u>(2,175)</u>
Net cash outflow	<u>(974)</u>	<u>(8,778)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

7. PROFIT FROM OPERATIONS

	2004	2003
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (<i>note 14(a)</i>)	7,208	7,018
Other staff costs, including retirement benefits costs	<u>32,094</u>	<u>21,771</u>
Total staff costs	<u>39,302</u>	<u>28,789</u>
Allowance for doubtful debts	1,094	6,353
Allowance for properties held for sale (<i>note a</i>)	—	6,080
Auditors' remuneration:		
- current year	876	635
- underprovision in prior years	56	109
Cost of inventories consumed	523,254	525,477
Cost of properties sold	32,814	—
Depreciation and amortisation on:		
- owned assets	7,662	4,131
- assets held under finance leases	20	20
- permanent textile quota entitlements (<i>note b</i>)	1,305	1,551
Loss on disposal of other investments	2,328	—
Loss on disposal of property, plant and equipment	149	11
Loss on waiver of amount due from a minority shareholder of a subsidiary	117	—
Loss on waiver of loan to a jointly controlled entity	7	—
Purchased temporary textile quota entitlements utilised	7,679	3,276
and after crediting:		
Gain on disposal of other investments	—	84
Gain on disposal of permanent textile quota entitlements	1	—
Interest income	<u>3,172</u>	<u>2,216</u>

Notes:

(a) The amount is included in cost of sales.

(b) The amount is included in distribution costs.

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

The amount represented the unrealised loss on revaluation of the Group's investments in shares of 21CN CyberNet Corporation Limited ("21CN") (now known as CITIC 21CN Company Limited) to fair value at 31 March 2003 (see also note 26(d)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

9. LOSS ON DISPOSAL OF INVESTMENT IN 21CN

The amount represented the loss on disposal of other investments, being shares of 21CN, to an outside party in year 2003 (see also note 26(d)).

10. GAIN ON DISPOSAL OF A SUBSIDIARY

The amount represents the gain on disposal of the entire issued share capital of Touch Profits Limited to an outside party during the year. The principal assets of Touch Profits Limited at the date of disposal are shares of 21CN (see also note 26(e)).

11. GAIN ON PARTIAL DISPOSAL OF A SUBSIDIARY

During the period from June to July 2003 when Asia Alliance was a subsidiary of the Company, the Group disposed of an aggregate of 39,328,000 shares of HK\$0.01 each of Asia Alliance, representing approximately 3.57% of the then issued capital of Asia Alliance. The gain on the partial disposal amounted to HK\$886,000, which was credited to the consolidated income statement.

As a result of the partial disposal, the Group's equity interest in Asia Alliance was reduced from approximately 55.30% to approximately 51.73% (see also note 6(a)).

12. INCOME ON RELEASE OF GUARANTEE

The amount represented income on release of a guarantee in year 2003, details of which are set out in note 26(c).

13. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on:		
- bank borrowings wholly repayable within five years	7,496	10,190
- bank borrowings not wholly repayable within five years	—	184
- other borrowings wholly repayable within five years	353	30
- obligations under finance leases	6	4
	<hr/>	<hr/>
Total borrowing costs	7,855	10,408
Less: Amount capitalised in properties under development	—	(280)
	<hr/>	<hr/>
	7,855	10,128
	<hr/> <hr/>	<hr/> <hr/>

Borrowing costs capitalised in year 2003 arose on specific borrowing at an average interest rate of 3.6% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Information regarding directors' emoluments

	2004 HK\$'000	2003 HK\$'000
Directors' fees:		
Executive	—	—
Independent non-executive	200	200
	<u>200</u>	<u>200</u>
Other emoluments paid to executive directors:		
Salaries and other benefits (including benefits in kind of HK\$1,968,000; 2003: HK\$1,238,000)	6,768	6,578
Retirement benefits costs	240	240
	<u>7,008</u>	<u>6,818</u>
Total directors' emoluments	<u><u>7,208</u></u>	<u><u>7,018</u></u>

The emoluments of the directors fall within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	3	2
HK\$1,000,001 to HK\$1,500,000	1	—
HK\$1,500,001 to HK\$2,000,000	—	2
HK\$2,000,001 to HK\$2,500,000	1	—
HK\$3,000,001 to HK\$3,500,000	1	1
	<u>6</u>	<u>5</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS - *continued*

(b) Information regarding employees' emoluments

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

	2004	2003
	HK\$'000	HK\$'000
Salaries and other benefits	1,824	1,327
Retirement benefits costs	<u>—</u>	<u>45</u>
Total employees' emoluments	<u>1,824</u>	<u>1,372</u>

The emoluments of these employees fall within the following bands:

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	<u>1</u>	<u>—</u>
	<u>2</u>	<u>2</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

15. TAXATION

	2004 HK\$'000	2003 HK\$'000
The charge (credit) comprises:		
Current tax - Hong Kong Profits Tax:		
Current year	2,339	5,938
(Over)underprovision in prior years	(165)	15,193
	2,174	21,131
Deferred taxation (<i>note 37</i>):		
Current year	264	(87)
Attributable to a change in tax rate	21	—
	285	(87)
Tax charge attributable to the Company and its subsidiaries	2,459	21,044

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) on the estimated assessable profit for the year. The effect of the increase in the Hong Kong Profits Tax rate has been reflected in the calculation of the current and deferred tax balances at 31 March 2004.

The tax charge for the year can be reconciled to the results per the consolidated income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit (loss) before taxation	134,875	(7,094)
Tax charge (credit) of Hong Kong Profits Tax at 17.5% (2003: 16%)	23,603	(1,135)
Tax effect of share of results of associates	686	—
Tax effect of share of results of a jointly controlled entity	13	—
Tax effect of expenses not deductible for tax purpose	13,492	14,616
Tax effect of income not taxable for tax purpose	(28,306)	(3,319)
Tax effect of tax losses not recognised	2,504	1,340
Tax effect of utilisation of tax losses previously not recognised	(6,394)	(3,866)
Tax effect of other deductible temporary differences not recognised	(2,995)	(1,785)
(Over)underprovision in prior years	(165)	15,193
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	21	—
Tax charge for the year	2,459	21,044

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

16. PROPOSED DIVIDEND

	2004	2003
	HK\$'000	HK\$'000
Proposed final dividend of 0.5 HK cent (2003: nil) per ordinary share	<u>6,618</u>	<u>—</u>

The final dividend of 0.5 HK cent per share has been proposed by the directors of the Company and is subject to the followings:

- (a) the passing of a special resolution approving the proposed reductions in certain reserves (as described in note 46(c)) at a special general meeting of the Company to be held prior to the forthcoming annual general meeting; and
- (b) the passing of an ordinary resolution approving the declaration of a final dividend for the year ended 31 March 2004 at the forthcoming annual general meeting.

The amount of the proposed final dividend is calculated on the basis of the proposed dividend rate and the 1,323,673,386 ordinary shares in issue at the date of this report.

17. EARNINGS (LOSS) PER SHARE

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

	2004	2003
	HK\$'000	HK\$'000 (Restated)
Earnings (loss) for the purposes of basic earnings (loss) per share	<u>140,830</u>	<u>(24,871)</u>
Number of shares	2004	2003
Number of shares/weighted average number of shares for the purposes of basic earnings (loss) per share	<u>882,448,924</u>	<u>603,578,288</u>

No diluted earnings per share for year 2004 has been presented as the exercise price of the Company's outstanding share options was higher than the average market price for the year and the exercise prices of the outstanding share options of Asia Alliance were also higher than its average market price.

No reconciliation of 2003 basic loss per share was disclosed as the adjustment to 2003 basic loss per share arising from the adoption of SSAP 12 (Revised) is insignificant.

The calculation of diluted loss per share for year 2003 was not disclosed as the exercise of the Company's outstanding share options would reduce the loss per share for that year and the exercise prices of the outstanding share options of Asia Alliance were higher than its average market price.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

18. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Sales of garments	861	2,398
Bleaching and dyeing charges received	27,840	16,969
Rental income	494	—
Purchases of garments	<u>245,849</u>	<u>255,617</u>

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Trade receivables	<u>10,942</u>	17,450
Deposits paid	<u>102,913</u>	<u>71,933</u>
Trade and other receivables	113,855	89,383
Loans and interest receivable	<u>—</u>	<u>3,119</u>
	<u>113,855</u>	<u>92,502</u>

The loans were unsecured and bore interest at 2% per annum.

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

Consequent upon the amendments to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) which took effect on 31 March 2004, the aforesaid entities become “connected persons” and the Company is required to comply with new requirements under the amended Listing Rules relating to transactions with these connected persons. Details of the relevant ongoing connected transactions are set out, inter alia, in the circular of the Company dated 29 June 2004. The relevant agreements in respect of the ongoing connected transactions are subject to shareholders’ approval at a special general meeting to be held on 28 July 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

18. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS - *continued*

(b) During the year, the Group provided administrative services to Easyknit Properties Management Limited, a company in which Mr. Koon Wing Yee and Mr. Tsang Yiu Kai, both of whom are directors of the Company, have beneficial interests and received service income of HK\$222,000 (2003: HK\$149,000) from that company. The service income is determined based on mutually agreed terms.

19. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP					
COST OR VALUATION					
At 1 April 2003	41,384	10,883	20,745	2,860	75,872
Additions	—	3,783	12,956	726	17,465
On deemed disposal of a subsidiary	—	—	(14,991)	(359)	(15,350)
Disposals	—	—	(1,992)	(686)	(2,678)
At 31 March 2004	41,384	14,666	16,718	2,541	75,309
Comprising:					
At cost	12,384	14,666	16,718	2,541	46,309
At valuation - 1995	29,000	—	—	—	29,000
	41,384	14,666	16,718	2,541	75,309
DEPRECIATION AND IMPAIRMENT LOSS					
At 1 April 2003	18,204	893	13,805	2,210	35,112
Provided for the year	241	1,201	6,032	208	7,682
Impairment loss recognised in the year	—	—	9,911	—	9,911
On deemed disposal of a subsidiary	—	—	(14,058)	(99)	(14,157)
Eliminated on disposals	—	—	(1,673)	(569)	(2,242)
At 31 March 2004	18,445	2,094	14,017	1,750	36,306
NET BOOK VALUE					
At 31 March 2004	22,939	12,572	2,701	791	39,003
At 31 March 2003	23,180	9,990	6,940	650	40,760

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

19. PROPERTY, PLANT AND EQUIPMENT - *continued*

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

The valuation of certain leasehold land and buildings was carried out by Jones Lang Wootton Ltd., a firm of independent professional property valuers, at 31 October 1994 on an open market value vacant possession basis. Had all leasehold land and buildings been carried at cost less accumulated depreciation, their carrying value would have been stated at HK\$28,003,000 (2003: HK\$28,686,000).

The net book value of property, plant and equipment of the Group included an amount of HK\$38,000 (2003: HK\$58,000) in respect of assets held under finance leases.

During the year ended 31 March 2004, the directors conducted a review of the Group's operating assets and determined that a number of those assets were impaired. Accordingly, an impairment loss of HK\$9,911,000 has been recognised in respect of furniture, fixtures and equipment. The impairment loss was recognised based on the recoverable amounts of furniture, fixtures and equipment which were determined by the estimated discounted net future cash flows from these assets. The carrying amounts of the furniture, fixtures and equipment were reduced to the respective recoverable amounts which were estimated using market borrowing rates.

20. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
VALUATION	
At 1 April 2003	452,780
Disposals	(16,000)
Surplus arising on revaluation	42,500
	479,280
At 31 March 2004	479,280

The investment properties are held for rental purposes under operating leases. They were revalued at 31 March 2004 by Messrs. Knight Frank, a firm of independent professional property valuers, on an open market existing use basis. This revaluation gives rise to a revaluation surplus of HK\$42,500,000 which was credited to the consolidated income statement to reverse deficit previously charged.

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Long leases	174,000	158,000
Medium-term leases	305,280	294,780
	479,280	452,780
	479,280	452,780

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

21. PERMANENT TEXTILE QUOTA ENTITLEMENTS

	THE GROUP HK\$'000
COST	
At 1 April 2003	232,726
Disposals	(2,345)
At 31 March 2004	230,381
AMORTISATION	
At 1 April 2003	230,515
Provided for the year	1,305
Eliminated on disposals	(2,323)
At 31 March 2004	229,497
CARRYING AMOUNT	
At 31 March 2004	884
At 31 March 2003	2,211

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

22. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	48,577	48,726
Amounts due from subsidiaries	1,755,418	2,235,488
	1,803,995	2,284,214
Less: Allowance	(1,464,503)	(1,905,017)
	339,492	379,197
Amounts due to subsidiaries	(118,182)	(56,627)

The amounts due from subsidiaries are unsecured and have no fixed repayment terms. An aggregate sum of HK\$66,663,000 (2003: HK\$96,681,000) bear interest at the prevailing market rates and the remaining amounts are non-interest bearing. In the opinion of the directors, repayment of the amounts due from subsidiaries will not be demanded by the Company within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current assets in the balance sheet.

The amounts due to subsidiaries are unsecured and repayable on demand. An amount of HK\$73,163,000 (2003: nil) bears interest at the prevailing market rates and the remaining amounts are non-interest bearing.

Particulars of the Company's principal subsidiaries at 31 March 2004 are set out in note 47.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

23. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	<u>20,788</u>	<u>—</u>

Particulars of the Group's principal associates as at 31 March 2004 are as follows:

Name of associate	Form of business structure	Place of incorporation	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group	Nature of business
Asia Alliance Holdings Limited	Incorporated	Bermuda	Hong Kong	Ordinary	35.93%	Investment holding
Castlebright Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	35.93%*	Provision of management services
Digital Empires Company Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	35.93%*	Provision of computer system consultancy services
Good Fine Technology Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	35.93%*	Wireless communication business, communication solutions consultancy services and Internet operations
i100 Wireless (Hong Kong) Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	35.93%*	Wireless data service provider

* Derived from a 35.93% interest in Asia Alliance whose shares are listed on the Stock Exchange.

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

24. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	—	1,231
Loan to a jointly controlled entity	—	22
	<u>—</u>	<u>1,253</u>
Amounts due to jointly controlled entities	<u>—</u>	<u>(1,234)</u>

During the year ended 31 March 2004, a jointly controlled entity became a subsidiary of the Group (see note 38) and the remaining one was struck off.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

25. PROPERTIES HELD FOR SALE

The properties held for sales are situated in Hong Kong and are held under medium-term leases. They are stated at net realisable value at the balance sheet date.

26. OTHER INVESTMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Equity securities listed in Hong Kong - 21CN, at market value	—	20,000

Notes:

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

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

The Sale Shares represented approximately 6.92% of the then issued share capital of 21CN. Disposal of the Sale Shares shall be recognised by the Group when the call option to acquire Best Quarter, purchaser of the Sale Shares, lapses on 15 May 2002 and the Group's interest in 21CN would then be reduced from approximately 13.27% at 31 March 2002 to 6.35% (based on 21CN's then capital structure). HK\$5,000,000, being a portion of the consideration for the Sale Shares, received by the Group was therefore shown as deposit received (included in trade and other payables) under current liabilities in the consolidated balance sheet at 31 March 2002.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

26. OTHER INVESTMENTS - *continued*

- (c) As announced by the Company on 7 June 2002, the Company was not paid the remaining consideration of HK\$83,863,356.40 referred to in (b) above on 15 May 2002 by Best Quarter. Pursuant to the Sale Shares Agreement, the Company, after considering the options available, entered into an agreement with Mr. Chan dated 22 May 2002 to acquire from Mr. Chan 1 share of US\$1.00 of Best Quarter, being the entire issued share capital of Best Quarter, and the shareholder loan of HK\$5,000,000 owing by Best Quarter to Mr. Chan. The aggregate consideration amounted to HK\$5,000,008 which shall not be paid in cash but shall instead be satisfied by the delivery to Mr. Chan of a letter under seal from the Company unconditionally releasing the guarantee formerly given by Mr. Chan under the Sale Shares Agreement, which was credited to the income statement in year 2003 (see note 12).

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

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

- (d) As announced by the Company on 12 September 2002, the Company entered into an agreement (the "2002 Sale Shares Agreement") on that day with an independent third party not connected with the directors, chief executive or substantial shareholders of the Company or any of their respective associates as defined in the Listing Rules to dispose of an aggregate of 305,965,700 shares of HK\$0.01 each in the issued capital of 21CN (the "2002 Sale Shares") for an aggregate cash consideration of HK\$45,894,855. At 31 March 2003, completion of the 2002 Sale Shares Agreement has taken place and a loss on disposal amounting to HK\$50,456,000 was recognised in the consolidated income statement in year 2003 (see note 9).

At 31 March 2003, the Group held 100,000,000 shares of 21CN, representing approximately 3.22% of the issued ordinary shares of HK\$0.01 each in the capital of 21CN (based on 21 CN's then capital structure). An aggregate unrealised loss of HK\$11,000,000 was recognised in the consolidated income statement in year 2003 (see note 8).

- (e) As announced by the Company on 15 January 2004, the Company entered into an agreement (the "2004 Sale Shares Agreement") on that day with Fairworld Investments Limited ("Fairworld") and Mr. Chen Tien Tui ("Mr. T. Chen") to dispose of the remaining 100,000,000 shares of HK\$0.01 each in the issued share capital of 21CN (the "2004 Sale Shares") held by Touch Profits Limited, a then wholly-owned subsidiary of the Company, for an aggregate consideration of HK\$84,000,000. Fairworld is a company incorporated in the British Virgin Islands and Mr. T. Chen was the registered and beneficial owner of the entire issued share capital of Fairworld. Fairworld and Mr. T. Chen are independent third parties not connected with the directors, chief executive or substantial shareholders of the Company or any of their respective associates as defined in the Listing Rules. The consideration was determined with reference to the then market value of shares of 21CN. As at the closing of trading on 14 January 2004, the closing market price of shares of 21CN as quoted on the Stock Exchange was HK\$0.84 per share, which is equivalent to the purchase price per share of the 2004 Sale Shares. The consideration shall be paid by Fairworld in three tranches with (i) HK\$5,000,000 upon completion of the 2004 Sale Shares Agreement; (ii) HK\$39,500,000 on or before 20 July 2004; and (iii) the remaining HK\$39,500,000 on or before 20 January 2005. Mr. T. Chen agreed to guarantee the performance of Fairworld's obligations in the 2004 Sale Shares Agreement.

Details of the above are set out, inter alia, in the circular of the Company dated 4 February 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

26. OTHER INVESTMENTS - *continued*

On 11 February 2004, the Company served Fairworld and Mr. T. Chen a letter proposing that the sale of the 2004 Sale Shares be effected by way of the sale of the entire issued share capital of US\$1.00 of Touch Profits Limited instead with other terms of the 2004 Sale Shares Agreement remained unchanged. Both Fairworld and Mr. T. Chen accepted the proposal. As at 31 March 2004, completion of the 2004 Sale Shares Agreement has taken place and the Group did not have any interest in the issued share capital of 21CN. Gain on disposal of Touch Profits Limited amounting to HK\$63,950,000 was recognised in the consolidated income statement in the current year (see note 10).

As at the date of this report, the Group has received HK\$44,500,000 in accordance with the terms of the 2004 Sale Shares Agreement. The remaining HK\$39,500,000 of the total consideration shall be paid by Fairworld to the Group on or before 20 January 2005.

27. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	2,145	1,976
Work-in-progress	478	669
Finished goods	5,732	8,125
	8,355	10,770
	8,355	10,770

At 31 March 2003, finished goods of HK\$125,000 were carried at net realisable value.

28. CONSIDERATION RECEIVABLE ON DISPOSAL OF A SUBSIDIARY

The amount represents the consideration receivable on disposal of the entire issued share capital of Touch Profits Limited, the principal assets of which at the date of disposal are shares of 21CN (see note 26(e)). The repayment terms of the balance is as follows:

	THE GROUP AND THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Repayable:		
On or before 20 July 2004	39,500	—
On or before 20 January 2005	39,500	—
	79,000	—
	79,000	—

As at the date of this report, the sum repayable by 20 July 2004 has been received by the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

29. TRADE AND OTHER RECEIVABLES

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 - 60 days	121,451	156,329
61 - 90 days	17,345	23,626
Over 90 days	82,475	8,311
	221,271	188,266
	221,271	188,266

30. LOANS RECEIVABLE

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Amount secured by property interests or listed securities and bearing interest at rates ranging from 2% to 5% (2003: 5% to 8%) per annum	22,200	49,500
Unsecured amount		
- guaranteed by outside parties and bearing interest at rates ranging from 2% to 5% (2003: 2% to 9%) per annum	20,142	17,692
- bearing interest at rates ranging from 4% to 10% (2003: 5% to 10%) per annum	575	4,500
- guaranteed by outside parties and non-interest bearing	360	—
	43,277	71,692
	43,277	71,692

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

31. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 - 60 days	20,703	41,122
61 - 90 days	1,466	1,275
Over 90 days	14,941	3,450
	37,110	45,847
	37,110	45,847

32. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable under finance leases:				
Within one year	26	26	19	19
Between one to two years	25	26	18	19
Between two to five years	—	25	—	19
	51	77	37	57
Less: Future finance charges	(14)	(20)	—	—
Present value of lease obligations	37	57	37	57
Less: Amount due within one year shown under current liabilities			(19)	(19)
Amount due after one year			18	38

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

33. SECURED BORROWINGS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
The amounts represent:		
Bank loans	298,629	337,816
Import loans	2,916	—
Other loan	—	4,000
	301,545	341,816
Less: Amount due within one year shown under current liabilities	(150,420)	(161,483)
Amount due after one year	151,125	180,333
The borrowings bear interest at prevailing market rates and are repayable as follows:		
Within one year	150,420	161,483
Between one to two years	82,504	60,483
Between two to five years	68,621	117,529
After five years	—	2,321
	301,545	341,816

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

34. SHARE CAPITAL

	<i>Notes</i>	Nominal value per share HK\$	Number of shares	Amount HK\$'000
Authorised:				
At 1 April 2002		0.01	300,000,000,000	3,000,000
On consolidation of shares	(a)		<u>(270,000,000,000)</u>	<u>—</u>
At 31 March 2003 and 31 March 2004		0.10	<u>30,000,000,000</u>	<u>3,000,000</u>
Issued and fully paid:				
At 1 April 2002		0.01	2,206,122,318	22,061
On consolidation of shares	(a)		<u>(1,985,510,087)</u>	<u>—</u>
		0.10	220,612,231	22,061
Rights issue of shares at a price of HK\$0.12 per rights share	(b)	0.10	<u>661,836,693</u>	<u>66,184</u>
At 31 March 2003 and 31 March 2004		0.10	<u>882,448,924</u>	<u>88,245</u>

Notes:

- (a) As announced by the Company on 17 July 2002, the Company proposed to effect the share consolidation pursuant to which every ten issued and unissued then existing shares were consolidated into one consolidated share. Details of the share consolidation are set out in the circular dated 31 July 2002 issued by the Company. Ordinary resolutions approving the share consolidation were passed at the special general meeting of the Company held on 22 August 2002.
- (b) Rights issue of 661,836,693 shares of HK\$0.10 each at a subscription price of HK\$0.12 per rights share were allotted on 9 September 2002 to the shareholders of the Company in the proportion of three rights shares for every existing share then held.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

35. SHARE OPTION SCHEMES

(a) Share option scheme of the Company:

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

The Scheme is for the primary purpose of attracting, retaining and motivating talented employees, providing participants of the Scheme with opportunity to acquire proprietary interests in the Company and encouraging participants as incentives to work towards enhancing the value of the Company and as rewards for the participants' contribution and potential contribution to the Group. The Scheme will expire on 18 February 2012.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

35. SHARE OPTION SCHEMES - *continued*

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

A summary of the movements of share options granted during the year ended 31 March 2004 is as follows:

Grantee	Date of grant	Exercise period	Exercise price HK\$	Number of share options			Share price at grant date of options (Note) HK\$
				At 1 April 2003	Granted during the year	At 31 March 2004	
Employees	20 February 2004	20 February 2004 to 19 August 2004	0.144	—	88,000,000	88,000,000	0.143

No share options have been granted to the directors of the Company during the year.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

35. SHARE OPTION SCHEMES - *continued*

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

No share options have been exercised during both years.

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

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

(b) Share option schemes of Asia Alliance:

Asia Alliance became a subsidiary of the Company with effect from 28 January 2003 and became an associate in December 2003.

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

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

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

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

The maximum number of shares which may be issued under the 2002 Share Option Scheme must not (when aggregate with any shares subject to any other share option scheme of Asia Alliance) exceed 10% of the shares in issue at the date of adoption of the 2002 Share Option Scheme.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

35. SHARE OPTION SCHEMES - *continued*

(b) Share option schemes of Asia Alliance: - *continued*

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

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

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

A summary of the movements of share options granted to employees of Asia Alliance during the year ended 31 March 2004 is as follows:

Date of grant	Exercise period	Exercise price HK\$ (note iii)	Number of share options (adjusted as appropriate)				Share price at grant date of options HK\$ (note iv)
			At 1 April 2003	Adjustments *	Lapsed during the year	At 31 March 2004	
2 August 2000 (note i)	2 August 2001 to 1 August 2010	0.75	595,000	(245,000)	(350,000)	—	0.80
		20.00*	—	9,187	(1,687)	—	—
		3.333*	—	(7,500)	—	—	—
				45,000	—	45,000	—
26 March 2001 (note i)	26 March 2002 to 25 March 2011	0.385	725,000	(275,000)	(450,000)	—	0.39
		10.267*	—	10,312	(937)	—	—
		1.711*	—	(9,375)	—	—	—
				56,250	—	56,250	—
31 August 2001 (note i)	31 August 2002 to 30 August 2011	0.4032	1,928,000	(1,128,000)	(800,000)	—	0.50
		10.752*	—	42,300	(2,625)	—	—
		1.792*	—	(39,675)	—	—	—
				238,050	—	238,050	—
31 August 2001 (note ii)	31 August 2001 to 30 August 2011	0.4032	25,000,000	(25,000,000)	—	—	0.50
		10.752*	—	937,500	—	—	—
		1.792*	—	(937,500)	—	—	—
				5,625,000	—	5,625,000	—
			<u>28,248,000</u>	<u>(20,678,451)</u>	<u>(1,605,249)</u>	<u>5,964,300</u>	

* The number of share options and the corresponding exercise price have been adjusted as a result of share consolidation and rights issue of shares of Asia Alliance during the year ended 31 March 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

35. SHARE OPTION SCHEMES - *continued*

(b) Share option schemes of Asia Alliance: - *continued*

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

Date of grant	Exercise period	Exercise price HK\$ (note iii)	Number of share options			Share price at grant date HK\$ (note iv)
			At 1 April 2002	Lapsed during the year	At 31 March 2003	
2 August 2000 (note i)	2 August 2001 to 1 August 2010	0.7500	3,475,000	(2,880,000)	595,000	0.800
6 October 2000 (note i)	6 October 2001 to 5 October 2010	0.4700	1,540,000	(1,540,000)	—	0.560
26 March 2001 (note i)	26 March 2002 to 25 March 2011	0.3850	6,875,000	(6,150,000)	725,000	0.390
31 August 2001 (note i)	31 August 2002 to 30 August 2011	0.4032	12,736,000	(10,808,000)	1,928,000	0.500
31 August 2001 (note ii)	31 August 2001 to 30 August 2011	0.4032	25,000,000	—	25,000,000	0.500
			49,626,000	(21,378,000)	28,248,000	

Notes:

- (i) The vesting period is the period of three years after the date of grant. One-third of the share options become exercisable after 12 months from the date of grant, and after the subsequent 18 months, 24 months, 30 months and 36 months from the date of grant, further one-sixth of the options become exercisable.
- (ii) The vesting period is the period from the date of grant to six months after the date of grant. Half of the share options are exercisable from the date of grant and the remaining half becomes exercisable after 6 months from the date of grant.
- (iii) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of Asia Alliance.
- (iv) The share price at grant date of options represents the closing price of shares of Asia Alliance as stated on the daily quotations sheets issued by the Stock Exchange on the trading day immediately preceding the date of grant of the options.

No share options have been granted or exercised during both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

35. SHARE OPTION SCHEMES - *continued*

(b) Share option schemes of Asia Alliance: - *continued*

The financial impact of share options granted by the Company 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 recognised in the income statement in respect of the value of options in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

36. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY					
At 1 April 2002	1,103,894	895,932	48,369	(1,740,963)	307,232
Premium arising from issue of new shares during the year	13,237	—	—	—	13,237
Net loss for the year	—	—	—	(58,343)	(58,343)
At 31 March 2003	1,117,131	895,932	48,369	(1,799,306)	262,126
Net profit for the year	—	—	—	13,798	13,798
At 31 March 2004	<u>1,117,131</u>	<u>895,932</u>	<u>48,369</u>	<u>(1,785,508)</u>	<u>275,924</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

36. RESERVES - *continued*

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

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

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

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

At 31 March 2004, the accumulated losses of the Group include losses of HK\$3,919,000 (2003: nil) attributable to the associates.

37. DEFERRED TAXATION

Major deferred tax liabilities and assets recognised and movements thereon are as follows:

	THE GROUP		
	Accelerated tax depreciation	Tax losses	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 April 2002			
- as previously reported	—	—	—
- prior period adjustment on adoption of SSAP 12 (Revised) (<i>see note 2</i>)	963	(651)	312
- as restated	963	(651)	312
Charge (credit) to the income statement	949	(1,036)	(87)
At 31 March 2003	1,912	(1,687)	225
Charge (credit) to the income statement	2,375	(2,111)	264
Effect of change in tax rate			
- charge (credit) to the income statement	179	(158)	21
At 31 March 2004	<u>4,466</u>	<u>(3,956)</u>	<u>510</u>

For the purposes of balance sheet presentation, the above deferred tax liabilities and assets have been offset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

37. DEFERRED TAXATION - *continued*

At the balance sheet date, deductible temporary differences not recognised in the financial statements were analysed into:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Tax losses	320,831	360,261
Accelerated accounting depreciation	109,523	132,461
Miscellaneous allowance	8,784	2,963
	<hr/> 439,138 <hr/>	<hr/> 495,685 <hr/>

At 31 March 2004, the Group has unused tax losses of HK\$343,437,000 (2003: HK\$370,805,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$22,606,000 (2003: HK\$10,544,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$320,831,000 (2003: HK\$360,261,000) due to the unpredictability of future profits streams. The unrecognised tax losses may be carried forward indefinitely except losses of HK\$15,202,000 (2003: HK\$3,984,000) which will expire as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Year of expiry		
2022	1,821	1,821
2023	2,163	2,163
2024	11,218	—
	<hr/> 15,202 <hr/>	<hr/> 3,984 <hr/>

Other deductible temporary differences of HK\$118,307,000 (2003: HK\$135,424,000) have not been recognised as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

At 31 March 2004, the Company has unused tax losses of HK\$3,934,000 (2003: HK\$8,552,000) available for offset against future profit. No deferred tax asset has been recognised due to the unpredictability of future profits streams.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

38. ACQUISITION OF A SUBSIDIARY/SUBSIDIARIES

During the year ended 31 March 2004, the Group acquired an additional interest of 45% of the issued share capital of Vector Entertainment Corporation ("Vector") for a cash consideration of approximately HK\$1.0 million. Vector was previously a jointly controlled entity of the Group in which the Group had a 45% equity interest amounting to HK\$954,000. Acquisition of the subsidiary was accounted for by the acquisition method of accounting.

During the year ended 31 March 2003, the Group acquired 55.3% of the issued share capital of Asia Alliance and the entire equity interest of Victor Investment Limited for consideration of approximately HK\$6.1 million and HK\$18.7 million, respectively. Acquisition of these subsidiaries was accounted for by the acquisition method of accounting. The goodwill of HK\$7,194,000 arising as a result of the acquisition was charged to the consolidated income statement in year 2003 as the estimated recoverable amount from business operation of the subsidiaries acquired was less than the carrying amount. The recoverable amount from business operations was estimated based on cashflow forecast discounted at market borrowing rate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

38. ACQUISITION OF A SUBSIDIARY/SUBSIDIARIES - *continued*

	2004 HK\$'000	2003 HK\$'000
Net assets acquired		
Property, plant and equipment	—	4,947
Investment properties	—	29,951
Interests in jointly controlled entities	—	1,253
Inventories	—	137
Trade and other receivables	—	36,432
Amounts due from shareholders	1,131	—
Bank balances and cash	971	1,732
Trade and other payables	—	(40,107)
Amount due to a jointly controlled entity	—	(1,234)
Bank loans	—	(10,779)
Minority interests	(209)	(1,579)
	<u>1,893</u>	<u>20,753</u>
Goodwill on acquisition	104	7,194
	<u>1,997</u>	<u>27,947</u>
Total consideration		
Satisfied by:		
Cash	1,043	24,758
Reclassification of interest in a jointly controlled entity	954	—
Expenses incurred in connection with acquisitions	—	3,189
	<u>1,997</u>	<u>27,947</u>
Net cash outflow arising on acquisition:		
Cash consideration paid	(1,043)	(24,758)
Expenses incurred in connection with acquisitions	—	(3,189)
Bank balances and cash acquired	971	1,732
	<u>(72)</u>	<u>(26,215)</u>
Net cash outflow of cash and cash equivalents in respect of the purchase of a subsidiary/subsidiaries		

The subsidiary acquired during the year ended 31 March 2004 did not have any significant impact on the results and cash flows of the Group.

The subsidiaries acquired during the year ended 31 March 2003 contributed HK\$3,406,000 to the Group's turnover and incurred loss from operations of HK\$10,039,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

39. DISPOSAL OF A SUBSIDIARY

	2004	2003
	HK\$'000	HK\$'000
Net assets disposed of:		
Other investments	20,000	—
Gain on disposal of a subsidiary	<u>63,950</u>	<u>—</u>
	<u>83,950</u>	<u>—</u>
Satisfied by:		
Cash consideration		
- Cash received	5,000	—
- Consideration receivable	79,000	—
Expenses incurred in connection with the disposal of a subsidiary	<u>(50)</u>	<u>—</u>
	<u>83,950</u>	<u>—</u>
Net cash inflow of cash and cash equivalents in respect of the disposal of a subsidiary:		
Cash received	5,000	—
Expenses incurred in connection with the disposal of a subsidiary	<u>(50)</u>	<u>—</u>
	<u>4,950</u>	<u>—</u>

The subsidiary disposed of during the year did not have any significant impact on the results and cash flows of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

40. DEEMED DISPOSAL OF A SUBSIDIARY

	2004 HK\$'000	2003 HK\$'000
Net liabilities released:		
Property, plant and equipment	1,193	—
Interests in associates	20	—
Inventories	282	—
Trade and other receivables	4,440	—
Bank balances and cash	17,822	—
Secured other loan	(4,000)	—
Trade and other payables	(3,881)	—
Loan from a related company	(21,270)	—
Minority interests	(15,935)	—
	<u>(21,329)</u>	—
Gain on deemed disposal of a subsidiary	<u>19,317</u>	—
	<u>(2,012)</u>	—
Represented by:		
Interests in associates - share of net liabilities	<u>(2,012)</u>	—
Cash outflow of cash and cash equivalents in connection with the deemed disposal of a subsidiary:		
Bank balances and cash disposal of	<u>(17,822)</u>	—

The results and cashflows of the subsidiary deemed to be disposed of during the year are set out in note 6(a).

41. PLEDGE OF ASSETS

At 31 March 2004, leasehold land and buildings, and investment properties with carrying amount of HK\$9,558,000 and HK\$478,400,000, respectively, have been pledged to banks to secure the bank borrowings granted to the Group.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

42. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bills discounted with recourse	5,719	13,460	—	—
Corporate guarantees given to banks in respect of credit facilities granted to subsidiaries	—	—	301,545	337,816
	<u>5,719</u>	<u>13,460</u>	<u>301,545</u>	<u>337,816</u>

43. CAPITAL COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
- acquisition of property, plant and equipment	—	3,085
- capital injection for interests in jointly controlled entities and non wholly-owned subsidiaries	—	24,342
	<u>—</u>	<u>27,427</u>

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

44. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Minimum lease payments recognised in the consolidated income statement during the year	<u>3,164</u>	<u>2,992</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

44. OPERATING LEASE ARRANGEMENTS - *continued*

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	3,993	4,009
In the second to fifth year inclusive	7,952	8,292
After five years	1,795	2,693
	13,740	14,994
	13,740	14,994

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

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

The Group as lessor

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Property rental income earned during the year	23,074	19,056
Less: Outgoings	(703)	(558)
Net rental income	22,371	18,498
	22,371	18,498

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	21,448	14,378
In the second to fifth year inclusive	18,451	14,492
	39,899	28,870
	39,899	28,870

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

44. OPERATING LEASE ARRANGEMENTS - *continued*

Under the leases entered into by the Group, the rental payments are fixed and no arrangements have been entered into for contingent rental payments. The properties held have committed tenants for a term of one to three years.

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

45. RETIREMENT BENEFITS SCHEMES

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

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

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

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Gross employers' contributions	835	852
Less: Forfeited contributions utilised to offset employers' contributions for the year	(61)	(26)
Net employers' contributions charged to the consolidated income statement	774	826

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

46. POST BALANCE SHEET EVENTS

The following events took place subsequent to 31 March 2004:

- (a) As announced by the Company on 11 May 2004, the Company proposed a rights issue of 441,224,462 rights shares of HK\$0.10 each at a subscription price of HK\$0.11 per rights share in the proportion of one rights share for every two shares held. Details of this are set out, inter alia, in the prospectus of the Company dated 7 June 2004.
- (b) As announced by the Company on 20 May 2004, the Company proposed a reduction in its authorised share capital from HK\$3,000,000,000 to HK\$1,000,000,000 by the diminution of 20,000,000,000 authorised but unissued shares of HK\$0.10 each. This proposal is subject to shareholders' approval at a special general meeting to be held on 28 July 2004. Details of this are set out, inter alia, in the circular of the Company dated 29 June 2004.
- (c) As announced by the Company on 26 July 2004, the Company proposed to effect the reductions of certain reserves of the Company as follow:
 - (i) the entire amount standing to the credit of the share premium account and the capital reserve account of the Company will be reduced; and
 - (ii) part of the credits arising from (i) above in the sum of HK\$1,785,508,000 will be applied to offset the accumulated losses of the Company as at 31 March 2004 in full and the remaining balance of HK\$227,555,000 will be transferred to the contributed surplus account of the Company.

The above proposal is subject to shareholders' approval at a special general meeting to be held prior to the forthcoming annual general meeting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2004 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued share/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Cheong Ko Investment Company Limited	Hong Kong	Ordinary HK\$2 (Non-voting preferred HK\$10,000) *	—	100%	Property holding
Easyknit BVI Limited	British Virgin Islands/ Hong Kong	Ordinary US\$100	100%	—	Investment holding
Easyknit International Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	100%	—	Investment holding
Easyknit International Trading Company Limited	Hong Kong	Ordinary HK\$2	—	100%	Trading of garments
Easyknit Properties Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1,000	100%	—	Investment holding
Easyknit Trading Company Limited	Hong Kong	Ordinary HK\$2	—	100%	Trading of garments
Golden Top Properties Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Grand Profit Development Limited	Hong Kong	Ordinary HK\$2	—	100%	Trading of garments
Janson Properties Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Landmark Profits Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	100%	—	Investment holding
Mark Profit Development Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding and property development

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For the year ended 31 March 2004

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES - *continued*

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued share/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Mary Mac Apparel Inc.	USA	Common stock US\$200,000	—	100%	Garment distribution
Perfect Luck Development Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Planetic International Limited	Hong Kong	Ordinary HK\$2	—	100%	Finance company
Po Cheong International Enterprises Limited	Hong Kong	Ordinary HK\$90	—	100%	Investment holding
Victor Investment Limited	Hong Kong	Ordinary HK\$1,001	—	100%	Property holding
Wellmake Investments Limited	Hong Kong	Ordinary HK\$9,998 (Non-voting deferred HK\$2) *	—	100%	Property holding
東莞永耀漂染有限公司 ("Wing Yiu") **	PRC	Registered HK\$11,260,000	—	100%	Bleaching and dyeing

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

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

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

None of the subsidiaries had issued any debt securities at 31 March 2004.