

Notes to Financial Statements

31 March 2004

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- Manufacture and sale of laminates
- Manufacture and sale of printed circuit boards
- Manufacture and sale of copper foil

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

SSAP 12 (Revised): “Income taxes” is effective for the first time for the current year’s financial statements. SSAP 12 (Revised) prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of an investment property and other investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

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

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

Impairment of assets

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

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

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

Fixed assets and depreciation

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

Depreciation of fixed assets is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for calculating depreciation are as follows:

Freehold land	Nil
Leasehold land	2%
Buildings	2% – 4.5%
Leasehold improvements	20%
Plant and machinery	9% – 10%
Furniture and office equipment	10% – 20%
Motor vehicles	18% – 20%

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

Construction in progress

Construction in progress represents factory buildings and plant and machinery under construction, and is included in fixed assets and stated at cost less any impairment losses. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. No depreciation is provided until the construction work is completed. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Investment property

Investment property is interest in land and building in respect of which construction work and development has been completed and which is intended to be held on a long term basis for its investment potential, any rental income being negotiated at arm's length. Such property is not depreciated and is stated at its open market value on the basis of annual professional valuations performed at the end of each financial year.

Changes in the value of such investment property is dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Trademark

The trademark is stated at cost less any impairment losses. Amortisation of trademark is calculated on the straight-line basis over its estimated useful life of five years. No amortisation is provided until the products are put into commercial production.

Other investments

Other investments represent investment in listed equity securities and unlisted funds which are held for the purpose of capital gain, and are stated at their fair values on the basis of their quoted market price and market price quoted by the bank, respectively, at the balance sheet date. The gains or losses arising from changes in the fair value of such investments are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for any obsolete or slow-moving items. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less any estimated costs expected to be incurred to completion and in selling and distribution.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property held for resale

Property held for resale, consisting of completed property, is classified under current assets and stated at the lower of cost and net realisable value. Cost consists of all expenditure directly attributable to the acquisition and development of the property plus other direct costs attributable to such property. Net realisable value is determined by reference to prevailing market price, less all costs of marketing and selling.

Foreign currencies

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

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

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

With respect to the investments in certain overseas subsidiaries which are financed by way of loans that are not repayable in the foreseeable future, rather than by equity, the resulting exchange differences on translation are included in the exchange equalisation reserve. In the opinion of the directors, such loans are for practical purposes as permanent as equity and, accordingly, are treated as part of the Group's net investment in the subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

Dividends

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

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

Related parties

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. Ongoing contributions to the MPF Scheme are made based on a percentage of the employees’ salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group operates defined contribution schemes for those employees in Thailand who are eligible and have elected to participate in the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions are made based on a percentage of the participating employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. When an employee leaves the scheme prior to his/her interest in the Group’s employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

The employees of the Group’s subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Employment Ordinance long service payments

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

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be obtained.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. 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 those assets. The 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. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate at Hong Kong prime rate has been applied to the expenditure on the individual assets.

4. SEGMENT INFORMATION

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

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

- (a) the manufacture and sale of laminates segment is a supplier of industrial laminates mainly for use in the manufacture of telecommunications and computer-related products;
- (b) the manufacture and sale of printed circuit boards ("PCBs") segment is a supplier of PCBs mainly for use in audio and visual household products; and
- (c) the manufacture and sale of copper foil segment is a supplier of copper foil mainly for use in the manufacture of industrial laminates and PCBs.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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4. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group

	Manufacture and sale of laminates		Manufacture and sale of PCBs		Manufacture and sale of copper foil		Eliminations		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:										
Sales to external customers	184,859	149,115	70,118	72,261	2,622	2,346	-	-	257,599	223,722
Intersegment sales	29,154	24,417	-	-	49,686	40,769	(78,840)	(65,186)	-	-
Other revenue	2,637	1,843	243	357	90	138	(1,454)	(1,298)	1,516	1,040
Total	<u>216,650</u>	<u>175,375</u>	<u>70,361</u>	<u>72,618</u>	<u>52,398</u>	<u>43,253</u>	<u>(80,294)</u>	<u>(66,484)</u>	<u>259,115</u>	<u>224,762</u>
Segment results	<u>43,837</u>	<u>36,983</u>	<u>25,372</u>	<u>27,093</u>	<u>(1,753)</u>	<u>(1,651)</u>	<u>(76,307)</u>	<u>(64,830)</u>	<u>(8,851)</u>	<u>(2,405)</u>
Interest income									47	90
Unallocated expenses									(1,226)	(1,257)
Loss from operating activities									(10,030)	(3,572)
Finance costs									(5,495)	(6,228)
Loss before tax									(15,525)	(9,800)
Tax									38	(178)
Net loss from ordinary activities attributable to shareholders									<u>(15,487)</u>	<u>(9,978)</u>

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Manufacture and sale of laminates		Manufacture and sale of PCBs		Manufacture and sale of copper foil		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	259,180	259,906	44,215	40,092	57,643	63,628	(58,644)	(64,269)	302,394	299,357
Unallocated assets									23,584	21,301
Total assets									325,978	320,658
Segment liabilities	40,639	27,208	42,382	34,308	14,279	18,541	(36,650)	(36,540)	60,650	43,517
Unallocated liabilities									74,323	84,656
Total liabilities									134,973	128,173
Other segment information:										
Depreciation	4,836	6,207	4,437	3,719	10,050	9,235	-	-	19,323	19,161
Unallocated write back of provision for impairment in value of property held for resale									(200)	(500)
Provision/(write back of provision) for bad and doubtful debts	1,323	(881)	-	1,889	-	-	-	-	1,323	1,008
Write back of provision against inventories	(654)	(2,813)	-	-	(10)	(10)	-	-	(664)	(2,823)
Capital expenditure	6,971	8,829	3,100	5,519	78	1,032	-	-	10,149	15,380

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4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	People's Republic of China								Consolidated	
	Hong Kong		Mainland China		Overseas		Eliminations		2004	2003
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	213,732	183,644	21,590	14,615	22,277	25,463	-	-	257,599	223,722
Other segment information:										
Segment assets	157,881	143,503	169,019	177,461	57,721	63,963	(58,643)	(64,269)	325,978	320,658
Capital expenditure	9	3	10,062	14,345	78	1,032	-	-	10,149	15,380

5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of turnover and revenue is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Turnover		
Sale of goods	257,599	223,722
Other revenue		
Sale of scrap materials	722	678
Interest income	47	90
Rental income	156	-
Others	638	362
	1,563	1,130
Total turnover and revenue	259,162	224,852

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6. LOSS FROM OPERATING ACTIVITIES

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

		Group	
	Notes	2004 HK\$'000	2003 HK\$'000
Auditors' remuneration		846	715
Depreciation	14	19,323	19,161
Provision for bad and doubtful debts		1,323	1,008
Write back of provision against inventories		(664)	(2,823)
Write back of provision for impairment in value of property held for resale*	19	(200)	(500)
Deficit/(surplus) on revaluation of an investment property	15	(150)	470
Staff costs (including directors' remuneration – note 8):			
Pension scheme contributions		289	362
Less: Forfeited contributions		(46)	(30)
Net pension scheme contributions**		243	332
Salaries and wages		26,176	24,824
		<u>26,419</u>	<u>25,156</u>
Foreign exchange losses, net		<u>2,505</u>	<u>756</u>

* The write back of provision for impairment in value of property held for resale for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.

** As at 31 March 2004, there were no forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years (2003: Nil).

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7. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest expense on:		
Bank loans and other borrowings wholly repayable within five years	3,681	3,967
Factoring arrangements	2,230	2,102
Finance leases	492	877
Total interest	6,403	6,946
Less: Interest capitalised in construction in progress	(908)	(718)
	<u>5,495</u>	<u>6,228</u>

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	300	300
Other emoluments:		
Salaries, allowances and benefits in kind:		
Executive directors	8,073	6,556
Independent non-executive directors	–	–
	<u>8,373</u>	<u>6,856</u>

A management fee of nil (2003: HK\$468,000) paid to Emerald Hope Investments Limited, which is controlled by a director, during the year was included in the above remuneration.

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8. DIRECTORS' REMUNERATION (continued)

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

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	4	5
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	1	2
HK\$2,000,001 – HK\$2,500,000	2	–
	<u>7</u>	<u>8</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2003: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2003: five) directors, details of whose remuneration are set out in note 8 above.

10. TAX

	Group	
	2004 HK\$'000	2003 HK\$'000
Provision for the year:		
Hong Kong	–	38
Underprovision/(overprovision) in the prior year	(38)	140
Tax charge/(credit) for the year	<u>(38)</u>	<u>178</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004. Taxes on profits assessable elsewhere in the People's Republic of China ("PRC") have been calculated at the applicable rates of tax prevailing in the regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations in the PRC, certain of the Group's PRC subsidiaries enjoy income tax exemptions and reductions.

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10. TAX (continued)

The overseas tax represents corporate income tax (“CIT”) payable by a subsidiary operating in Thailand. The tax is charged at 30% (2003: 30%) on the income earned from non-promoted activities as defined by the Board of Investment in Thailand (the “Board of Investment”). The subsidiary received promotional privileges from the Board of Investment under promotion certificates issued for the manufacture of copper foil. Under these privileges, this subsidiary was exempt from certain taxes and duties as detailed in the certificates, including exemption from CIT for a period of seven years from the date of commencement of the promoted business of this subsidiary. As a promoted industry, the subsidiary is required to comply with the terms and conditions as specified in the promotion certificates.

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

Group – 2004

	Hong Kong		Mainland China		Thailand		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(7,943)</u>		<u>(949)</u>		<u>(6,633)</u>		<u>(15,525)</u>	
Tax at the statutory tax rate	(1,390)	17.5	(256)	27.0	(1,990)	30.0	(3,636)	23.4
Adjustments in respect of current tax								
of previous periods	(38)	0.5	-	-	-	-	(38)	0.2
Tax losses not recognised	2,131	(26.8)	545	(57.4)	1,980	(29.9)	4,656	(30.0)
Income not subject to tax	(1,223)	15.4	(289)	30.4	-	-	(1,512)	9.8
Expenses not deductible for tax	482	(6.1)	-	-	10	(0.1)	492	(3.2)
Tax charge at the Group's effective rate	<u>(38)</u>	<u>0.5</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(38)</u>	<u>0.2</u>

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10. TAX (continued)

Group – 2003

	Hong Kong		Mainland China		Thailand		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(4,662)</u>		<u>(2,499)</u>		<u>(2,639)</u>		<u>(9,800)</u>	
Tax at the statutory tax rate	(746)	16.0	(675)	27.0	(792)	30.0	(2,213)	22.6
Adjustments in respect of current tax								
of previous periods	–	–	120	(4.8)	20	(0.8)	140	(1.4)
Tax losses not recognised	1,283	(27.5)	686	(27.5)	147	(5.5)	2,116	(21.6)
Income not subject to tax	(1,101)	23.6	(11)	0.5	–	–	(1,112)	11.3
Expenses not deductible for tax	602	(12.9)	–	–	651	(24.7)	1,253	(12.8)
Tax losses utilised from previous periods	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(6)</u>	<u>0.2</u>	<u>(6)</u>	<u>0.1</u>
Tax charge at the Group's effective rate	<u>38</u>	<u>(0.8)</u>	<u>120</u>	<u>(4.8)</u>	<u>20</u>	<u>(0.8)</u>	<u>178</u>	<u>(1.8)</u>

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company was HK\$1,225,000 (2003: net profit of HK\$6,743,000).

12. DIVIDEND

	Group and Company	
	2004 HK\$'000	2003 HK\$'000
Interim – Nil (2003: HK1 cent) per share	<u>–</u>	<u>3,713</u>

The directors do not recommend the payment of a final dividend by the Company in respect of the year ended 31 March 2004 (2003: Nil).

Notes to Financial Statements

31 March 2004

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders of HK\$15,487,000 (2003: HK\$9,978,000) and the weighted average of 375,417,161 (2003: 371,464,740) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 March 2004 and 2003 have not been disclosed, as the share options outstanding during these years had an anti-dilutive effect on the basic loss per share for both of the years.

14. FIXED ASSETS

Group

	Land and buildings	Leasehold improve- ments	Plant and machinery	Furniture and office equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:							
At beginning of year	71,173	4,939	198,532	17,531	3,136	47,937	343,248
Additions	218	-	3,191	173	-	6,567	10,149
Transfers	1,824	-	-	-	-	(1,824)	-
Exchange realignment	2,137	-	6,558	201	38	15	8,949
At 31 March 2004	75,352	4,939	208,281	17,905	3,174	52,695	362,346
Accumulated depreciation:							
At beginning of year	14,955	4,939	115,008	13,554	2,412	-	150,868
Provided during the year	3,010	-	15,125	1,005	183	-	19,323
Exchange realignment	400	-	3,398	136	35	-	3,969
At 31 March 2004	18,365	4,939	133,531	14,695	2,630	-	174,160
Net book value:							
At 31 March 2004	56,987	-	74,750	3,210	544	52,695	188,186
At 31 March 2003	56,218	-	83,524	3,977	724	47,937	192,380

Notes to Financial Statements

31 March 2004

14. FIXED ASSETS (continued)

At the balance sheet date, the Group's land and buildings were situated in the following locations under the following lease terms:

	2004 HK\$'000	2003 HK\$'000
At cost:		
Freehold land and buildings situated in Thailand	26,986	24,826
Medium term leasehold land and buildings situated in Hong Kong	1,039	1,039
Medium term leasehold land and buildings situated in Mainland China	47,327	45,308
	<u>75,352</u>	<u>71,173</u>

The net book values of plant and machinery and motor vehicles held under finance leases at the balance sheet date amounted to HK\$13,238,000 (2003: HK\$16,230,000) and HK\$461,000 (2003: HK\$600,000), respectively.

As at 31 March 2004, the Group's land and buildings with a net book value of HK\$21,255,000 (2003: HK\$33,687,000) were pledged for banking facilities granted to the Group (note 22).

Included in the Group's fixed assets as at 31 March 2004 was land and buildings, plant and machinery, furniture and office equipment and construction in progress situated in Suzhou, the People's Republic of China, with net book values of HK\$11,506,000, HK\$2,938,000, HK\$135,000 and HK\$50,700,000, respectively. As at 31 March 2004, the Group was in the process of setting up its operations in Suzhou. The recoverability of these fixed assets depends, inter alia, upon the Group's ability to obtain additional financial resources to establish the operations and thereafter, to obtain additional financial resources and sufficient sales orders to attain profitable and positive cash flow operations, in its factory in Suzhou. In the opinion of the directors, the factory is in its final stage of completion. The directors are confident that the Group will be able to obtain additional financial resources to establish and satisfy the future working capital requirements of its operations in Suzhou, and such operations with sufficient sales orders being obtained will be able to sustain profitable and positive cash flow operations. Accordingly, no impairment losses have been made on the above fixed assets.

Notes to Financial Statements

31 March 2004

15. INVESTMENT PROPERTY

	Group	
	2004	2003
	HK\$'000	HK\$'000
At beginning of year	4,330	–
Transfer from property held for resale (note 19)	–	4,800
Surplus/(deficit) on revaluation	150	(470)
At end of year	4,480	4,330

The Group's investment property is situated in Hong Kong and is held under a medium term lease.

The revaluation of the above investment property was carried out by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, on an open market, existing use basis, as at 31 March 2004.

As at 31 March 2004, the Group's investment property was pledged to a bank for banking facilities granted to the Group (note 22).

16. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	63,074	63,074
Amounts due from subsidiaries	188,067	181,801
Amount due to a subsidiary	(246)	(245)
	250,895	244,630
Provision for impairment	(10,371)	(10,371)
	240,524	234,259

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

Notes to Financial Statements

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16. INTERESTS IN SUBSIDIARIES (continued)

The Company's interests in subsidiaries included its interest in Nam Hing (B.V.I.) Limited in relation to the Group's operations in Suzhou amounting to HK\$74,449,000 as at 31 March 2004. The directors are aware of the fact that the recoverability of the Group's trademark and fixed assets in Suzhou may have a direct impact on the carrying value of the Company's interest in Nam Hing (B.V.I.) Limited. As further explained in note 14 to the financial statements, the directors are confident that the Group will be able to obtain additional financial resources to establish the Suzhou operations and thereafter, be able to obtain additional financial resources and sufficient sales orders to attain profitable and positive cash flow operations. Accordingly, no impairment losses have been made in respect of its interest in Nam Hing (B.V.I.) Limited.

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
Nam Hing (B.V.I.) Limited	British Virgin Islands	US\$50,000	100	100	Investment holding
Nam Hing Industrial Laminate Limited	Hong Kong	HK\$200 HK\$2,000,000*	100	100	Trading of laminates
Nam Hing Circuit Board Company Limited	Hong Kong	HK\$500,000	100	100	Trading of printed circuit boards
Natural Century Limited	Hong Kong	HK\$2	100	100	Investment holding
Bangkok Industrial Laminate Company Limited #	Thailand	Baht20,000,000	100	100	Trading and manufacture of copper foil
Zhongshan Nam Hing Insulating Material Limited @#	Mainland China	HK\$93,000,000	100	100	Manufacture of laminates
Nam Hing Circuit Board (Dongguan) Co., Ltd. @#	Mainland China	HK\$32,295,982	100	100	Manufacture of printed circuit boards

Notes to Financial Statements

31 March 2004

16. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
Suzhou Nam Hing Industrial Laminate Limited @#	Mainland China	US\$6,800,000	100	100	Not yet commenced business
Zhongshan Chung Yuen Electronic Applied Materials Company Limited @#	Mainland China	HK\$2,000,000	100	100	Manufacture of laminates

Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

* Non-voting deferred shares.

@ These subsidiaries are registered as wholly-owned foreign enterprises under the PRC laws.

Except for Nam Hing (B.V.I.) Limited which operates in Hong Kong, all of the other subsidiaries' places of operations are the same as their places of incorporation/registration.

Except for Nam Hing (B.V.I.) Limited, all subsidiaries are indirectly held by the Company.

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

17. TRADE DEBTORS

An aged analysis of the trade debtors at the balance sheet date is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 3 months	43,438	29,210
4 to 6 months	15,723	10,225
Over 6 months	1,613	4,061
	<u>60,774</u>	<u>43,496</u>

Notes to Financial Statements

31 March 2004

17. TRADE DEBTORS (continued)

The Group's credit terms given to its customers vary, which are generally around three months, and are granted based on the financial strengths of the individual customers. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically by management.

18. INVENTORIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	19,413	25,696
Work in progress	3,802	758
Finished goods	15,880	20,010
	<u>39,095</u>	<u>46,464</u>
Less: Provision against inventories	(3,409)	(4,073)
	<u>35,686</u>	<u>42,391</u>

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$496,000 (2003: HK\$1,113,000) at the balance sheet date.

19. PROPERTY HELD FOR RESALE

	Group	
	2004	2003
	HK\$'000	HK\$'000
At beginning of year	15,700	20,000
Transfer to an investment property (note 15)	–	(4,800)
Write back of provision for impairment in value	200	500
At end of year	<u>15,900</u>	<u>15,700</u>

The Group's property held for resale is held under a medium term lease.

The carrying amount of property held for resale carried at net realisable value included in the above balance was HK\$15,900,000 (2003: HK\$15,700,000) at the balance sheet date.

Notes to Financial Statements

31 March 2004

19. PROPERTY HELD FOR RESALE (continued)

Details of the property held for resale are as follows:

Location	Use	Site area/gross floor area (sq. feet)	Percentage of attributable interest of the Group
Lot Nos. 587, 588, 675, 714, 1875A, 1875B and the remaining portion of Lot Nos. 589 and 1875C, Demarcation District, No. 107, Fung Kat Heung, Yuen Long, New Territories, Hong Kong.	Industrial	78,408/ 46,505	100

As at 31 March 2004, the Group's property held for resale with an aggregate carrying amount of HK\$15,900,000 (2003: HK\$15,700,000) were pledged for banking facilities granted to the Group (note 22).

20. OTHER INVESTMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Listed equity investment in Hong Kong, at market value	120	80
Unlisted investments, at fair value	3,075	1,051
	<u>3,195</u>	<u>1,131</u>

As at 31 March 2004, the Group's other investments amounting to HK\$3,075,000 (2003: HK\$1,051,000) were pledged to a bank for banking facilities granted to the Group (note 22).

Notes to Financial Statements

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21. TRADE CREDITORS

An aged analysis of the trade creditors at the balance sheet date is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within 3 months	32,028	19,591
4 to 6 months	6,389	1,845
Over 6 months	3,187	4,514
	<u>41,604</u>	<u>25,950</u>

22. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Bank overdrafts, secured	13,252	19,380
Bank loans, secured	24,710	26,024
Trust receipt loans, secured	30,066	28,008
Loan from a director, unsecured	1,464	769
	<u>69,492</u>	<u>74,181</u>
Less: Portion due within one year included under current liabilities	<u>(55,548)</u>	<u>(64,156)</u>
Long term portion	<u>13,944</u>	<u>10,025</u>
Bank loans and other borrowings are repayable:		
Within one year	55,548	64,156
In the second year	6,688	4,700
In the third to fifth years, inclusive	5,362	5,325
Over the fifth year	1,894	–
	<u>69,492</u>	<u>74,181</u>

The loan from a director is unsecured, interest-free and has no fixed terms of repayment.

Notes to Financial Statements

31 March 2004

22. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Certain bank borrowings are secured by:

- (a) the Group's leasehold land and buildings with an aggregate net book value of HK\$21,255,000 (2003: HK\$33,687,000);
- (b) the Group's investment property of HK\$4,480,000 (2003: HK\$4,330,000);
- (c) the Group's properties held for resale with an aggregate carrying amount of HK\$15,900,000 (2003: HK\$15,700,000);
- (d) the Group's other investments amounting to HK\$3,075,000 (2003: HK\$1,051,000); and
- (e) the Group's fixed deposits amounting to HK\$7,114,000 (2003: HK\$9,083,000).

23. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its manufacturing operations. These leases are classified as finance leases and have remaining lease terms ranging from one to four years.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 2004 HK\$'000	Minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2004 HK\$'000	Present value of minimum lease payments 2003 HK\$'000
Amounts payable:				
Within one year	3,769	6,810	2,778	6,112
In the second year	2,162	2,761	974	2,538
In the third to fifth years, inclusive	1,186	1,448	775	1,389
Total minimum finance lease payments	7,117	11,019	4,527	10,039
Future finance charges	(2,590)	(980)		
Total net finance lease payables	4,527	10,039		
Portion classified as current liabilities	(2,778)	(6,112)		
Long term portion	1,749	3,927		

24. DEFERRED TAX

The principal components of the Group's and Company's net deferred tax asset position which have not been recognised in the financial statements are as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Accelerated depreciation allowances	400	(270)	–	–
Tax losses	9,970	9,320	59	594
	10,370	9,050	59	594

The Group has tax losses arising in Hong Kong of HK\$56,965,000 (2003: HK\$46,932,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Thailand of HK\$2,674,000 (2003: HK\$639,000) that can be used to offset against future taxable profits of the companies in which the losses arose, which are due to expire within one to five years. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

25. SHARE CAPITAL

Shares

	Company	
	2004	2003
	HK\$'000	HK\$'000
Authorised:		
500,000,000 (2003: 500,000,000) ordinary shares of HK\$0.10 each	50,000	50,000
Issued and fully paid:		
401,838,800 (2003: 371,718,800) ordinary shares of HK\$0.10 each	40,184	37,172

During the year, the movements in the Company's share capital were as follows:

- (a) The subscription rights attaching to 120,000 share options were exercised at the subscription price of HK\$0.2104 per share, resulting in the issue of 120,000 ordinary shares of HK\$0.10 each for a total cash consideration before the related issue expenses of approximately HK\$25,000.
- (b) Pursuant to a share subscription agreement dated 2 February 2004, 30,000,000 ordinary shares of HK\$0.10 each were issued for cash at a subscription price of HK\$0.255 each, for a total consideration, before expenses, of HK\$7,650,000. The net proceeds were used for general working capital of the Group.

A summary of the above movements in the Company's issued share capital during the year is as follows:

	Number of issued shares	Issued share capital HK\$'000
At 1 April 2002	371,850,800	37,185
Exercise of share options	1,210,000	121
Repurchase of shares	(1,342,000)	(134)
At 31 March 2003 and 1 April 2003	371,718,800	37,172
Exercise of share options (a)	120,000	12
Subscription of shares (b)	30,000,000	3,000
At 31 March 2004	401,838,800	40,184

25. SHARE CAPITAL (continued)

Share option scheme

On 12 January 1994, the Company adopted a share option scheme (the “Old Scheme”), which was the first share option scheme of the Company, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The Old Scheme was terminated and replaced by a new share option scheme (the “New Scheme”) at the annual general meeting of the Company held on 23 August 2002. Upon termination of the Old Scheme, no further options can be granted thereunder but in all other respects, the provisions of the Old Scheme shall remain in force and any options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

A summary of the New Scheme of the Company is as follows:

Purpose	To provide incentives and rewards to eligible participants for their contributions to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest (the “Invested Entity”).
Participants	<ul style="list-style-type: none">(i) any employee (whether full-time or part-time), executive directors, non-executive directors and independent non-executive directors of the Company, any of its subsidiaries or any Invested Entity;(ii) any supplier of goods or services to any member of the Group or any Invested Entity; any customer of the Group or any Invested Entity; any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and(iii) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.
Total number of ordinary shares available for issue under the New Scheme and the percentage of the issued share capital that it represents as at the date of the annual report	33,190,880 ordinary shares and approximately 8.25% of the issued share capital.

25. SHARE CAPITAL (continued)

Share option scheme (continued)

Maximum entitlement
of each participant

Where any further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of shares in issue, such further grant must be separately approved by the shareholders in general meeting

Where any grant of options to a substantial shareholder or an independent non-executive director 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 and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the relevant class of shares in issue; and
- (b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5,000,000,

such further grant of Options must be approved by the shareholders in general meeting.

Period within which the
securities must be taken
up under an option

An option may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall end in any event not later than 10 years from the date of offer of the grant of options subject to the provisions for early termination set out in the New Scheme.

Minimum period for which
an option must be held before
it can be exercised

There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the directors.

Amount payable on acceptance
of the option and the period
within which such payment
must be made

The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK\$1.00 being payable by the grantee.

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25. SHARE CAPITAL (continued)

Share option scheme (continued)

Basis of determining the exercise price

Determined by the directors but shall not be less than the highest of (i) the closing price of the ordinary shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of grant of options, which must be a trading day; (ii) the average closing price of the ordinary shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant of options; and (iii) the nominal value of shares.

The remaining life of the New Scheme

The New Scheme remains in force until 27 August 2012.

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

The following table shows the movement of share options during the year:

Category of participant	Number of share options outstanding at 1 April 2003	Number of share options exercised during the year	Number of share options lapsed during the year	Number of share options outstanding at 31 March 2004	Date of grant of share options	Exercise period of share options	Exercise price of share options ***
							HK\$
Employees other than the directors							
In aggregate	200,000*	(40,000)**	(160,000)	-	22 May 2000	From 22 November 2000 to 21 November 2003	0.2104
	200,000*	(40,000)**	(160,000)	-	22 May 2000	From 22 November 2001 to 21 November 2003	0.2104
	240,000*	(40,000)**	(200,000)	-	22 May 2000	From 22 November 2002 to 21 November 2003	0.2104
	<u>640,000</u>	<u>(120,000)</u>	<u>(520,000)</u>	<u>-</u>			

* These share options were granted under the Old Scheme.

** The weighted average closing price of the shares immediately before the date on which the options were exercised is HK\$0.265.

*** 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 Company's share capital.

During the year, no options to subscribe for ordinary shares in the Company have been granted under the New Scheme to any eligible participants. In addition, no share options were cancelled during the year.

As at 31 March 2004, the Company did not have any outstanding share options.

Notes to Financial Statements

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26. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 23 of the financial statements.

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1994, over the nominal value of the Company's shares issued in exchange therefor.

(b) Company

		Share premium account	Contributed surplus	Capital redemption reserve	Retained profits	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2002		120,339	62,604	330	10,614	193,887
Repurchase of shares		(101)	–	134	(134)	(101)
Issue of shares		134	–	–	–	134
Net profit for the year		–	–	–	6,743	6,743
Interim 2003 dividend	12	–	–	–	(3,713)	(3,713)
At 31 March 2003 and 1 April 2003		120,372	62,604	464	13,510	196,950
Exercise of share options	25	13	–	–	–	13
Subscription of shares	25	4,650	–	–	–	4,650
Share issue expenses		(324)	–	–	–	(324)
Net loss for the year		–	–	–	(1,225)	(1,225)
At 31 March 2004		124,711	62,604	464	12,285	200,064

The contributed surplus of the Company represents the excess of the fair value of the subsidiaries acquired pursuant to the reorganisation referred to in note 26(a), over the nominal value of the Company's shares issued for their acquisition. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus shall not be distributed to the shareholders if there are reasonable grounds for believing that:

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

The capital redemption reserve represents the par value of shares of the Company which have been repurchased and cancelled.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before tax to net cash inflow from operating activities

	Notes	2004 HK\$'000	2003 HK\$'000
Loss before tax		(15,525)	(9,800)
Adjustments for:			
Finance costs	7	5,495	6,228
Interest income	5	(47)	(90)
Depreciation	6	19,323	19,161
Provision for bad and doubtful debts	6	1,323	1,008
Write back of provision against inventories	6	(664)	(2,823)
Write back of provision for impairment in value of property held for resale	6	(200)	(500)
Deficit/(surplus) on revaluation of an investment property	6	(150)	470
Operating profit before working capital changes:		9,555	13,654
Decrease/(increase) in trade debtors		(18,601)	184
Decrease in other debtors, prepayments and deposits		1,198	5,103
Decrease/(increase) in inventories		7,369	(322)
Increase in trade creditors		15,654	5,424
Increase in bills payable		2,374	146
Increase in other creditors and accruals		(887)	1,459
Cash generated from operations		16,662	25,648
Dividend paid		–	(3,713)
Hong Kong profits tax refunded/(paid)		38	(38)
Overseas taxes paid		(140)	(355)
Net cash inflow from operating activities		16,560	21,542

(b) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of leases of HK\$608,000 (2003: HK\$2,550,000).

28. CONTINGENT LIABILITIES

- (a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Debts factored with recourse	38,657	36,177

At 31 March 2004, the Company had guarantees given to banks in connection with facilities granted to its subsidiaries to the extent of approximately HK\$105,258,000 (2003: HK\$113,263,000), of which HK\$68,029,000 (2003: HK\$73,412,000) had been utilised at the balance sheet date.

- (b) The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$637,000 (2003: HK\$711,000), as further explained under the heading "Employee benefits" in note 3 to the financial statements. The contingent liability has arisen because, at 31 March 2004, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

29. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 15) under an operating lease arrangement, with the lease negotiated for a term of three years. The terms of the lease also requires the tenants to pay security deposits.

At the balance sheet date, the Group had total future minimum lease receivable under non-cancellable operating lease with its tenants falling due as follows:

	2004	2003
	HK\$'000	HK\$'000
Within one year	140	140
In the second to fifth years, inclusive	128	268
	268	408

29. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases its office premise under an operating lease arrangement, with the lease negotiated for a term of two years.

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

	2004	2003
	HK\$'000	HK\$'000
Within one year	58	64
In the second to fifth years, inclusive	–	58
	58	122

30. COMMITMENTS

In addition to the operating lease commitments detailed in note 29(b) above, at the balance sheet date, the Group had the following commitments in respect of capital expenditure, which was authorised, but not provided for in the financial statements:

	2004	2003
	HK\$'000	HK\$'000
Contracted for in respect of purchases of fixed assets	4,238	5,234
Not contracted for	580	116
	4,818	5,350

Apart from the above, a subsidiary of the Company had commitment in respect of capital contribution to a wholly-owned foreign enterprise of the Company in the PRC amounting to HK\$34,731,000 (2003: HK\$37,000,000) at the balance sheet date.

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

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 July 2004.