

Notes to the Financial Statements

For the year ended 30 June 2004

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands on 22 April 2003 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's ultimate holding company is Talent Crown Investment Limited, which is incorporated in the British Virgin Islands ("BVI").

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 15 August 2003. The shares of the Company have been listed on the Stock Exchange with effect from 10 September 2003. Details of the Group Reorganisation were set out in the prospectus issued by the Company dated 28 August 2003.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting in accordance with Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for Group Reconstructions".

The Company is an investment holding company. Particulars of the principal activities of its subsidiaries are set out in note 14.

Notes to the Financial Statements

For the year ended 30 June 2004

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice and Interpretations approved by the HKICPA:

Income taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. 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. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statement has been prepared under the historical cost convention and 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 30 June each year.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Investments in subsidiaries

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

Turnover

Turnover represents the amounts received and receivable for goods sold, less returns and allowances during the year.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

Depreciation and amortisation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives from the date on which they became fully operational, and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land	Over the lease terms
Buildings	10%
Plant and machinery	10%
Leasehold improvement	20%
Furniture, fixtures, office equipment and motor vehicles	20%

Construction in progress is stated at cost, which includes land cost and the related construction and borrowing costs, as appropriate, less any identified impairment loss. When the construction is completed and the asset is ready for its intended use, the related cost is transferred to an appropriate category of property, plant and equipment and depreciated in accordance with the above policy.

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

Notes to the Financial Statements

For the year ended 30 June 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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 the 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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.

Operating leases

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

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits 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 the rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and 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 or 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference 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 profits 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 in 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

Notes to the Financial Statements

For the year ended 30 June 2004

4. SEGMENT INFORMATION

No analysis on business segment is provided as substantially all the Group's turnover and contribution to profit from operations were derived from the manufacture and sale of finished woven fabrics. In addition, no geographical market analysis is provided as the Group's turnover and contribution to profit from operations were substantially derived from the PRC and the assets are substantially located in the PRC.

5. OTHER OPERATING INCOME

	2004 HK\$'000	2003 HK\$'000
Bank interest income	864	168
Exchange gain	420	–
	<u>1,284</u>	<u>168</u>

6. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operating activities is arrived at after charging (crediting):		
Auditors' remuneration	752	980
Research costs	1,261	752
Staff costs		
– directors' emoluments (note 8)	4,545	235
– other staff cost	6,978	5,418
– other staff's retirement benefits scheme contributions	466	688
	<u>11,989</u>	<u>6,341</u>
Cost of inventories recognised in the income statement	232,490	187,090
Depreciation and amortisation on property, plant and equipment	13,042	9,230
Loss on disposal of property, plant and equipment	181	46
Allowances for doubtful debts	127	37
(Write-back of) allowances for inventories	<u>(1,004)</u>	<u>51</u>

Research costs include staff costs of HK\$159,000 (2003: HK\$96,000), which are also included in the staff costs disclosed separately above.

Notes to the Financial Statements

For the year ended 30 June 2004

7. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on bank borrowings wholly repayable within five years	<u>1,773</u>	<u>1,677</u>

8. DIRECTORS' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
Directors' fees	80	–
Other emoluments		
– Salaries and other benefits	4,432	195
– Retirement benefits scheme contributions	33	40
	<u>4,545</u>	<u>235</u>

During the year ended 30 June 2004, HK\$80,000 (2003: nil) were paid to independent non-executive directors.

The emoluments of the directors were within the following bands:

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

During the two years ended 30 June 2004, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no directors waived any emoluments for the two years ended 30 June 2004.

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For the year ended 30 June 2004

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the Group included four (2003: three) directors of the Company, details of whose emoluments are included in note 8 above. The emoluments of the remaining (2003: two) individual(s) are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	263	118
Retirement benefits scheme contributions	–	14
	<u>263</u>	<u>132</u>

10. INCOME TAX EXPENSE

	2004 HK\$'000	2003 HK\$'000
Current tax:		
Other jurisdiction	<u>19,528</u>	<u>10,223</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group did not generate any assessable profits arising in Hong Kong for both years.

Fuzhou Huaguan Knitting and Springing Co., Ltd. ("Fuzhou Huaguan") is a subsidiary in the PRC which is exempted from the PRC Enterprise Income Tax ("EIT") for two years starting from its first profit-making year of operations and thereafter is eligible for 50% relief from EIT for the following three years under the income tax law of the PRC. The first profit-making year of Fuzhou Huaguan was the year ended 31 December 1999. The tax rate applicable to Fuzhou Huaguan was 12% for the period from 1 January 2001 up to 31 December 2003 and was increased to 24% thereafter.

For the year ended 30 June 2004

10. INCOME TAX EXPENSE (continued)

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

	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	94,882	78,955
Tax at the income tax rate of 24%	22,772	18,949
Tax effect of expenses not deductible for tax purpose	3,852	1,617
Tax effect of income not taxable for tax purpose	(1,301)	–
Effect of tax exemptions granted to a PRC subsidiary	(5,795)	(10,343)
Tax expense for the year	19,528	10,223

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

11. DIVIDENDS

	2004	2003
	HK\$'000	HK\$'000
Ordinary shares:		
Interim, paid – HK1.0 cent per share (2003: nil)	8,750	–
Final, proposed – HK1.5 cents per share (2003: nil)	13,148	–
	21,898	–

The final dividend of HK1.5 cents per share has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

Notes to the Financial Statements

For the year ended 30 June 2004

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2004 HK\$'000	2003 HK\$'000 (Note)
Earnings:		
Profit for the year and earnings for the purposes of basic and diluted earnings per share	<u>75,354</u>	<u>68,732</u>
Number of shares:	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	841,384	700,000
Effect of dilutive potential ordinary shares in respect of share options	<u>2,372</u>	<u>N/A</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>843,756</u>	<u>N/A</u>

Note: The calculation of basic earnings per share for the year ended 30 June 2003 was based on the Company's 700,000,000 shares deemed to have been issued during the year ended 30 June 2003 on the assumption that the Group Reorganisation and the subsequent capitalisation issue of 698,000,000 shares of the Company as set out in note 21 had been completed on 1 July 2002.

For the year ended 30 June 2004

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures, office equipment and motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
The Group						
COST						
At 1 July 2003	43,177	62,585	–	2,947	24,806	133,515
Additions	16,121	25,970	329	862	17,774	61,056
Transfer	17,108	12,736	1,604	–	(31,448)	–
Disposals	–	(998)	–	–	–	(998)
At 30 June 2004	76,406	100,293	1,933	3,809	11,132	193,573
DEPRECIATION AND AMORTISATION						
At 1 July 2003	9,848	17,143	–	1,323	–	28,314
Provided during the year	4,058	8,084	232	668	–	13,042
Eliminated on disposals	–	(192)	–	–	–	(192)
At 30 June 2004	13,906	25,035	232	1,991	–	41,164
NET BOOK VALUES						
At 30 June 2004	<u>62,500</u>	<u>75,258</u>	<u>1,701</u>	<u>1,818</u>	<u>11,132</u>	<u>152,409</u>
At 30 June 2003	<u>33,329</u>	<u>45,442</u>	<u>–</u>	<u>1,624</u>	<u>24,806</u>	<u>105,201</u>
The Company						
COST						
Additions and at 30 June 2004	–	–	312	186	–	498
DEPRECIATION AND AMORTISATION						
Provided during the year and at 30 June 2004	–	–	16	9	–	25
NET BOOK VALUES						
At 30 June 2004	<u>–</u>	<u>–</u>	<u>296</u>	<u>177</u>	<u>–</u>	<u>473</u>
At 30 June 2003	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The leasehold land and buildings of the Group included above are held under medium term land use rights in the PRC.

At 30 June 2004, the Group has pledged certain of the land and buildings and plant and machinery with aggregate net book values of HK\$55,859,000 (2003: HK\$24,970,000) and HK\$37,635,000 (2003: HK\$19,379,000) respectively, to banks to secure banking facilities granted to the Group.

Notes to the Financial Statements

For the year ended 30 June 2004

14. INTERESTS IN SUBSIDIARIES

	The Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted investment, at cost	172,770	–
Amounts due from subsidiaries	93,214	–
	265,984	–

The carrying amount of the unlisted investment represents the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group under the Group Reorganisation in 2003.

Amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. The amounts will not be repayable within twelve months from the balance sheet date and therefore, are shown as non-current.

Details of the Company's subsidiaries at 30 June 2004 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Art Technology Limited	BVI/PRC	US\$10,000 Ordinary shares	–	100	Research and development of finished woven fabrics
Fuzhou Huaguan *	PRC	RMB41,280,530	–	100	Manufacture and sale of finished woven fabrics

For the year ended 30 June 2004

14. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Global Art International Limited	BVI	US\$1 Ordinary share	–	100	Investment holding
Multi Jet International Trading Limited	Hong Kong	HK\$2 Ordinary shares	–	100	Trading of finished woven fabrics
Right Lane International Limited ("Right Lane")	BVI	US\$30,000 Ordinary shares	100	–	Investment holding
Shine York Limited	Hong Kong	HK\$2 Ordinary shares	–	100	Inactive

* Fuzhou Huaguan is established as a wholly foreign-owned enterprise under the relevant PRC law and regulations with an operating period up to 26 July 2010.

15. INVENTORIES

	The Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	4,363	7,847
Work in progress	10,658	7,657
Finished goods	9,052	7,782
	24,073	23,286

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16. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period ranges from 45 days to 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
0 – 60 days	45,202	37,591
61 – 90 days	236	–
Over 90 days	155	–
	<hr/>	<hr/>
Trade receivables	45,593	37,591
Other receivables	2,169	2,728
	<hr/>	<hr/>
	47,762	40,319

17. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
0 – 60 days	22,595	20,385
Other payables	11,612	10,455
	<hr/>	<hr/>
	34,207	30,840

18. AMOUNTS DUE TO DIRECTORS

The amounts due to directors were unsecured, interest-free and were fully settled during the year ended 30 June 2004.

19. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company was unsecured, interest-free and was fully settled during the year ended 30 June 2004.

Notes to the Financial Statements

For the year ended 30 June 2004

20. BANK BORROWINGS, SECURED

At 30 June 2004 and 30 June 2003, the Group's bank borrowings are wholly repayable within one year and are secured by the following:

- (i) certain leasehold land and buildings as set out in note 13; and
- (ii) certain plant and machinery as set out in note 13.

The bank borrowings carry interest ranging from 5.84% to 6.37% (2003: from 6.43% to 6.90%) per annum.

21. SHARE CAPITAL

	Notes	Number of shares	Nominal value HK\$'000
Ordinary shares of HK\$0.01 each			
Authorised:			
On incorporation and at 30 June 2003	(i)	1,000,000	10
Increase in authorised share capital	(ii)	1,999,000,000	19,990
At 30 June 2004		<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid:			
Allotted and issued at nil paid on incorporation and at 30 June 2003	(i)	1,000,000	–
Issue of shares pursuant to the Group Reorganisation			
– nil paid shares credited as fully paid	(ii) (a)	–	10
– consideration shares issued	(ii) (b)	1,000,000	10
Issue of shares through initial public offer	(iii)	175,000,000	1,750
Capitalisation issue	(iv)	698,000,000	6,980
Exercise of share options	(v)	1,500,000	15
At 30 June 2004		<u>876,500,000</u>	<u>8,765</u>

Notes to the Financial Statements

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21. SHARE CAPITAL (continued)

The share capital of HK\$20,000 at 30 June 2003 in the consolidated balance sheet represented the issued share capital of the Company as if the Group Reorganisation as set out in note 1 was completed on 1 July 2002.

The following changes in the share capital of the Company took place during the period from 22 April 2003 (date of incorporation) to 30 June 2004:

- (i) Upon incorporation on 22 April 2003, the Company had authorised share capital of HK\$10,000 divided into 1,000,000 shares of HK\$0.01 each and all of which were allotted and issued at nil paid on 5 June 2003.
- (ii) Pursuant to the written resolutions of all shareholders of the Company passed on 15 August 2003, the authorised share capital of the Company was increased from HK\$10,000 to HK\$20,000,000 by the creation of additional 1,999,000,000 shares of HK\$0.01 each; and the directors of the Company were authorised:
 - (a) to credit as fully paid at par the 1,000,000 shares of HK\$0.01 each allotted and issued nil paid on 5 June 2003 as set out in (i) above; and
 - (b) to further allot and issue 1,000,000 shares of HK\$0.01 each, credited as fully paid;as consideration of and in exchange for the entire issued share capital of Right Lane.
- (iii) On 10 September 2003, 175,000,000 ordinary shares of HK\$0.01 each were issued at HK\$0.50 per share for cash through an initial public offering by way of placement and public offer. The net proceeds from the placing were used to provide working capital to the Group.
- (iv) Pursuant to a written resolution of all shareholders of the Company passed on 16 August 2003 and conditional on the share premium account of the Company being credited as a result of the placement and public offer on 10 September 2003, an amount of HK\$6,980,000 was capitalised and applied to pay up in full at par 698,000,000 shares of HK\$0.01 each on a pro-rata basis to the Company's shareholders whose names appeared in the register of the Company on 16 August 2003.
- (v) During the year, 1,500,000 share options had been exercised at a price of HK\$0.612 to convert to an aggregate of 1,500,000 ordinary shares of HK\$0.01 each of the Company. The shares issued rank pari passu with the then existing shares in all respects.

22. SHARE OPTION SCHEME

The Company's a share option scheme (the "Scheme") was adopted for the purpose of providing incentives and rewards to eligible participants for their contribution 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 any equity interest ("Invested Entity"). Eligible participants of the Scheme include the directors and employees of the Company, its subsidiaries or any Invested Entity, suppliers and customers, 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 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. The Scheme became effective on 10 September 2003 (the "Listing date") and, unless otherwise terminated or amended, will remain in force for 10 years.

At 30 June 2004, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 42,250,000, representing approximately 5% of the shares of the Company in issue at that date. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option scheme adopted by the Group shall not exceed such number of Company's shares as equal to 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the Company's shares in issue as at the Listing date. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

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22. SHARE OPTION SCHEME (continued)

The following table discloses details of the Company's share options held by directors and employees and movements in such holdings during the year:

Category	Date of grant	Exercise period	Exercise price HK\$	Outstanding at 1.7.2003	Granted during the year	Exercised during the year	Outstanding at 30.6.2004
Directors	23.12.2003	23.12.2003 – 22.12.2013	0.612	–	8,000,000	–	8,000,000
Employees	23.12.2003	23.12.2003 – 22.12.2013	0.612	–	35,750,000	(1,500,000)	34,250,000
				–	43,750,000	(1,500,000)	42,250,000
				–	43,750,000	(1,500,000)	42,250,000

Total consideration received during the year from eligible participants for taken up the options granted amounted to HK\$16.

The closing prices of the Company's share on the dates on which the share options were exercised during the year ended 30 June 2004 range from HK\$0.82 to HK\$0.90 per share.

The financial impact of share options granted 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 granted 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 in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

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23. RESERVES

	Share premium	Capital reserve	Dividend reserve	Retained profit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Company					
Capital reserve arising on the					
Group Reorganisation	–	172,750	–	–	172,750
Premium arising on issue of shares	85,750	–	–	–	85,750
Capitalisation issue	(6,980)	–	–	–	(6,980)
Share issue expenses	(10,344)	–	–	–	(10,344)
Exercise of share options	903	–	–	–	903
Net profit for the year	–	–	–	22,059	22,059
Proposed interim dividend	–	–	8,750	(8,750)	–
Interim dividend paid	–	–	(8,750)	–	(8,750)
Proposed final dividend	–	–	13,148	(13,148)	–
At 30 June 2004	<u>69,329</u>	<u>172,750</u>	<u>13,148</u>	<u>161</u>	<u>255,388</u>

Capital reserve of the Company represents the difference between underlying net assets of the subsidiaries which were acquired by the Company and the nominal value of the share capital issued by the Company to acquire the assets under the Group Reorganisation.

The Company has reserves amounting to HK\$13,309,000, which comprises of dividend reserve and retained profit of the Company, available for distribution to shareholders at 30 June 2004.

24. AMOUNTS DUE TO SUBSIDIARIES

The amounts are unsecured, interest-free and have no fixed repayment terms. The amounts will not be repayable within twelve months from balance sheet date and therefore, are shown as non-current.

Notes to the Financial Statements

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25. OPERATING LEASE ARRANGEMENTS

The Group and the Company as lessees

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Minimum lease payments paid under operating leases during the year in respect of:				
Plant and machinery	–	2,377	–	–
Rented premises	<u>1,689</u>	<u>799</u>	<u>118</u>	<u>–</u>
	<u>1,689</u>	<u>3,176</u>	<u>118</u>	<u>–</u>

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

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	<u>964</u>	<u>839</u>	<u>223</u>	<u>–</u>
In the second to fifth years, inclusive	<u>1,498</u>	<u>1,014</u>	<u>74</u>	<u>–</u>
	<u>2,462</u>	<u>1,853</u>	<u>297</u>	<u>–</u>

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

For the year ended 30 June 2004

26. COMMITMENTS

Capital expenditure contracted for but not provided in the financial statements in respect of:

Construction of land and buildings
Acquisition of land use rights
Leasehold improvements of offices

The Group	
2004	2003
HK\$'000	HK\$'000
472	4,553
–	166
–	13
<u>472</u>	<u>4,732</u>

At 30 June 2004, the Group had commitments for future research costs of HK\$672,000 (2003: HK\$105,000) payable under a non-cancellable consultancy agreement which will expire on 31 March 2009.

The Company did not have any commitments as at 30 June 2004.