

Notes to the Financial Statements

for the year ended 30 June 2004

1. CORPORATE INFORMATION

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

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

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 17 to the financial statements.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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 leasehold land and buildings, investment properties and short term investments, as further explained 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.

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

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

Minority interests represent the interests of outside shareholders in the operating results and net assets of the subsidiaries.

Notes to the Financial Statements

for the year ended 30 June 2004

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

Adoption of revised Statement of Standard Accounting Practice

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from this financial year, in order to comply with Statement of Standard Accounting Practice ("SSAP") 12 (revised) issued by the Hong Kong Institute of Certified Public Accountants, the Group adopted a new policy for deferred taxation as set out in note 3. As a result of the adoption of this accounting policy, the Group's net profit attributable to shareholders for the year has been increased by HK\$7,000 (2003: Nil) and the Group's net assets has been decreased by HK\$2,156,000 (2003: HK\$2,298,000).

The new accounting policy has been adopted retrospectively, with the opening balance of fixed asset revaluation reserve and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity and note 28(a) to the financial statements.

3. PRINCIPAL ACCOUNTING POLICIES

Subsidiaries

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

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

Jointly-controlled entities

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest. A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

Notes to the Financial Statements

for the year ended 30 June 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Jointly-controlled entities (continued)

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

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

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

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

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

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

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

Impairment of assets

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

Notes to the Financial Statements

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3. PRINCIPAL ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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

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

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

Fixed assets and depreciation

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Leased assets

(i) Finance leases

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

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance lease, but are depreciated over their estimated useful lives.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

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

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

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for the year ended 30 June 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Short term investments

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

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash at banks and 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 change 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.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

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3. PRINCIPAL 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:

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

Dividends

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

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

Employee benefits

(i) *Employee leave entitlements*

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

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

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3. PRINCIPAL ACCOUNTING POLICIES (continued)

Employee benefits (continued)

(ii) Retirement benefits scheme

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

The employees of the Group’s subsidiaries which operate in the PRC are required to participate in a central retirement benefits scheme (the “PRC Scheme”) operated by the respective local municipal governments. These subsidiaries are required to contribute a certain sum of money as calculated under the relevant rules specified by the relevant PRC local government authorities to the PRC Scheme to fund the employees’ retirement benefits. The contributions are charged to the profit and loss account as they become payable.

(iii) Share option scheme

The financial impact of share options granted under the share option scheme is not recorded in the Company’s or the Group’s balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, equity is increased by the amount of the proceeds received. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Translation of foreign currencies

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Deferred taxation

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and jointly-controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is charged or credited to the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, results, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

Notes to the Financial Statements

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4. TURNOVER AND REVENUE

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover		
Sales of goods	189,026	208,770
Other revenue		
Dividend income from listed investments	–	244
Dividend income from unlisted investments	–	5,625
Interest income	855	1,944
Rental income	259	166
Others	409	3
	<u>1,523</u>	<u>7,982</u>
Total revenue	<u>190,549</u>	<u>216,752</u>

5. SEGMENTAL INFORMATION

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2004

5. SEGMENTAL INFORMATION (continued)

(a) Geographical segments based on the location of customers

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

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

	The PRC (excluding Hong Kong and Macau)		Hong Kong		Elimination		Consolidation	
	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:								
External sales	156,818	186,839	32,208	21,931	-	-	189,026	208,770
Inter-segment sales	27,755	17,289	1,855	5,748	(29,610)	(23,037)	-	-
Total revenue	<u>184,573</u>	<u>204,128</u>	<u>34,063</u>	<u>27,679</u>	<u>(29,610)</u>	<u>(23,037)</u>	<u>189,026</u>	<u>208,770</u>
Segment results	<u>36,063</u>	<u>43,057</u>	<u>273</u>	<u>249</u>			<u>36,336</u>	<u>43,306</u>
Unallocated revenue and other net gain							2,177	13,343
Unallocated expenses							(15,324)	(12,359)
Profit from operating activities							23,189	44,290
Finance costs							(141)	(193)
Share of profits of jointly-controlled entities							10,509	827
Profit before taxation							33,557	44,924
Taxation							(1,416)	(4,237)
Profit before minority interests							32,141	40,687
Minority interests							(1,796)	(331)
Net profit attributable to shareholders							<u>30,345</u>	<u>40,356</u>

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5. SEGMENTAL INFORMATION (continued)

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

	The PRC (excluding Hong Kong and Macau)		Hong Kong		Unallocated		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000 (as restated)	2004 HK\$'000	2003 HK\$'000 (as restated)
Segment assets	263,891	291,158	89,928	69,013	-	-	353,819	360,171
Goodwill	-	-	-	-	101,886	45,713	101,886	45,713
Interests in jointly- controlled entities	-	-	-	-	43,170	26,291	43,170	26,291
Long term investments	-	-	-	-	6,667	6,667	6,667	6,667
Unallocated assets	-	-	-	-	14,409	44,693	14,409	44,693
Total assets	263,891	291,158	89,928	69,013	166,132	123,364	519,951	483,535
Segment liabilities	5,264	8,526	1,776	2,006	-	-	7,040	10,532
Unallocated liabilities	-	-	-	-	13,719	13,681	13,719	13,681
Total liabilities	5,264	8,526	1,776	2,006	13,719	13,681	20,759	24,213
Other segment information:								
Capital expenditure	881	22,236	48	66	88,133	31,714	89,062	54,016
Depreciation and amortisation	6,556	6,091	499	504	8,700	7,619	15,755	14,214
Written off of doubtful debts	2,059	1,574	-	-	-	-	2,059	1,574

Notes to the Financial Statements

for the year ended 30 June 2004

5. SEGMENTAL INFORMATION (continued)

(b) Geographical segments based on the location of assets

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

	The PRC (excluding Hong Kong and Macau)		Hong Kong		Macau		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	352,567	327,891	102,244	105,601	65,140	50,043	519,951	483,535
Capital expenditure	89,014	53,936	48	66	-	14	89,062	54,016

(c) Business segments

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

6. OTHER NET GAIN

	Group	
	2004 HK\$'000	2003 HK\$'000
Gain on disposal of a long term investment	-	2,875
Net unrealised gain on short term investments	-	2,822
Surplus on revaluation of leasehold land and buildings	1,168	-
Net realised loss on disposal and written off of short term investments	(514)	(336)
	<u>654</u>	<u>5,361</u>

Notes to the Financial Statements

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7. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amortisation of goodwill	8,700	7,619
Auditors' remuneration	750	500
Cost of inventories sold	128,783	144,418
Deficit on revaluation of investment properties	–	199
Deficit on revaluation of leasehold land and buildings	43	64
Depreciation – owned assets	6,945	6,485
– leased assets	110	110
Exchange loss	88	–
Gross rental income	(259)	(166)
Less: Outgoings	10	5
Net rental income	(249)	(161)
Loss on disposal of fixed assets	2	–
Minimum lease payments under operating leases on leasehold land and buildings	110	127
Net unrealised loss on short term investments	1,808	–
Staff costs (excluding directors' remuneration)		
Wages and salaries	7,756	7,986
Retirement benefits scheme contributions	271	104
Written off of doubtful debts	2,059	1,574
	<u>2,059</u>	<u>1,574</u>

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8. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

Details of emoluments of the directors of the Company for the year disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	66	81
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind		
Executive directors	2,080	2,080
Non-executive directors	–	–
Performance related bonuses	–	–
Retirement benefits scheme contributions:		
Executive directors	36	36
Non-executive directors	–	–
	<u>2,182</u>	<u>2,197</u>

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

	2004 Number of directors	2003 Number of directors
HK\$Nil – HK\$1,000,000	<u>6</u>	<u>6</u>

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

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

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8. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

(b) Five highest paid individuals

The emoluments of the five individuals with highest emoluments in the Group for the year included three (2003: three) directors, details of whose emoluments have been disclosed above.

Details of the emoluments of the remaining two (2003: two) non-director, highest paid individuals for the year are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	1,021	1,244
Performance related bonuses	–	–
Retirement benefits scheme contributions	23	24
	<u>1,044</u>	<u>1,268</u>

The remuneration of each of the remaining two (2003: two) non-director, highest paid employees fell within the band of HK\$ Nil – HK\$1,000,000.

9. FINANCE COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest on bank loans and overdrafts	105	113
Interest on a finance lease	36	80
Total finance costs	<u>141</u>	<u>193</u>

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10. TAXATION

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Hong Kong profits tax		
– current	400	602
– over provision in previous year	(585)	(278)
– deferred	(7)	–
Overseas taxation		
– current	1,608	3,913
– deferred	–	–
Share of jointly-controlled entities' taxation	–	–
	<u>1,416</u>	<u>4,237</u>

Hong Kong profits tax had been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate is as follows:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit before taxation	<u>33,557</u>	<u>44,924</u>
Tax at Hong Kong profits tax rate of 17.5%	5,872	7,861
Tax effect of income that is not taxable in determining taxable profit	(2,328)	(1,796)
Tax effect of expenses that are not deductible in determining taxable profit	4,711	5,060
Tax effect of utilisation of tax losses not previously recognised	(4)	(14)
Tax effect of unused tax loss not recognised	531	516
Overprovision of tax in previous year	(585)	(278)
Effect of different tax rates of subsidiaries operating in other jurisdiction	(6,781)	(7,108)
Change in tax rate	–	(4)
Taxation charge	<u>1,416</u>	<u>4,237</u>

Notes to the Financial Statements

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11. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders for the year ended 30 June 2004 dealt with in the financial statements of the Company was approximately HK\$4,521,000 (2003: HK\$4,049,000).

12. DIVIDEND

	Company	
	2004 HK\$'000	2003 HK\$'000
Proposed final – HK0.2 cent (2003: HK0.2 cent) per ordinary share	<u>4,919</u>	<u>4,725</u>

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

13. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$30,345,000 (2003: HK\$40,356,000) and the weighted average of 2,393,347,677 ordinary shares (2003: 2,365,648,942) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of HK\$30,345,000 (2003: HK\$40,356,000) and the weighted average number of ordinary shares of 2,406,540,832 shares (2003: 2,370,654,962) after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option schemes and warrants in issue.

(c) Reconciliation

	2004 Number of shares	2003 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	2,393,347,677	2,365,648,942
Deemed issue of ordinary shares for no consideration	<u>13,193,155</u>	<u>5,006,020</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>2,406,540,832</u>	<u>2,370,654,962</u>

Notes to the Financial Statements

for the year ended 30 June 2004

14. FIXED ASSETS

Group

	Leasehold land and buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, office equipment and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation				
At beginning of year	58,050	45,364	9,751	113,165
Additions	–	25	904	929
Disposal	–	–	(22)	(22)
Deficit on revaluation	(830)	–	–	(830)
	<u>57,220</u>	<u>45,389</u>	<u>10,633</u>	<u>113,242</u>
At end of year	57,220	45,389	10,633	113,242
Analysis of cost or valuation				
At cost	–	45,389	10,633	56,022
At 30 June 2004 valuation	57,220	–	–	57,220
	<u>57,220</u>	<u>45,389</u>	<u>10,633</u>	<u>113,242</u>
Accumulated depreciation				
At beginning of year	–	24,249	3,369	27,618
Provided during the year	1,456	4,524	1,075	7,055
Written back on disposal	–	–	(12)	(12)
Written back on revaluation	(1,456)	–	–	(1,456)
	<u>–</u>	<u>28,773</u>	<u>4,432</u>	<u>33,205</u>
At end of year	–	28,773	4,432	33,205
Net book value				
At 30 June 2004	<u>57,220</u>	<u>16,616</u>	<u>6,201</u>	<u>80,037</u>
At 30 June 2003	<u>58,050</u>	<u>21,115</u>	<u>6,382</u>	<u>85,547</u>

Notes to the Financial Statements

for the year ended 30 June 2004

14. FIXED ASSETS (continued)

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
At valuation:		
Medium term leases in Hong Kong	7,890	6,900
Medium term leases outside Hong Kong	49,330	51,150
	<u>57,220</u>	<u>58,050</u>

At 30 June 2004, the Group's leasehold land and buildings in Hong Kong were revalued on open market value, based on their existing use, at HK\$7,890,000 by LCH (Asia-Pacific) Surveyors Limited ("LCH"), a firm of independent professionally qualified valuers. A surplus on revaluation of approximately HK\$1,168,000 (2003: deficit on revaluation of approximately HK\$23,000) arising from the above valuation had been credited to the profit and loss account.

At 30 June 2004, the Group's leasehold land and buildings in Macau were revalued on market value, based on their existing use, by LCH at HK\$630,000. A deficit on revaluation of approximately HK\$43,000 (2003: HK\$41,000) arising from the above valuation had been charged to the profit and loss account.

At 30 June 2004, the Group's leasehold land and buildings in the PRC were revalued on a depreciated replacement cost basis by LCH at HK\$48,700,000. A deficit on revaluation of approximately HK\$499,000 (2003: HK\$1,700,000) arising from the above valuation had been charged to the fixed asset revaluation reserve.

Had the Group's leasehold land and buildings held in Hong Kong been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$7,754,000 (2003: HK\$7,981,000).

Had the Group's leasehold land and buildings held outside Hong Kong been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$49,691,000 (2003: HK\$51,075,000).

At 30 June 2004, certain leasehold land and buildings of the Group with a carrying value of HK\$4,530,000 (2003: HK\$4,100,000) held in Hong Kong was pledged to secure certain banking facilities granted to the Group (note 25).

The net book value of the Group's fixed assets held under finance leases, included in the total amount of furniture, office equipment and motor vehicles as at 30 June 2004, amounted to approximately HK\$792,155 (2003: HK\$902,000).

Notes to the Financial Statements

for the year ended 30 June 2004

15. INVESTMENT PROPERTIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Valuation:		
At beginning of year	14,790	1,100
Additions	–	13,889
Deficit on revaluation	–	(199)
	<u>14,790</u>	<u>14,790</u>
At end of year	<u>14,790</u>	<u>14,790</u>

At 30 June 2004, the Group's investment property in Hong Kong was revalued on open market value, by LCH at HK\$1,100,000. There is no revaluation difference arising from the above valuation in both years.

At 30 June 2004, the Group's investment properties in the PRC were revalued on market value, by LCH at HK\$13,690,000. There is no revaluation difference arising from the above valuation (2003: deficit on revaluation of approximately HK\$199,000 had been charged to the profit and loss account).

16. GOODWILL

The amount of goodwill capitalised as an asset, arising from the acquisitions of equity interests in subsidiaries, are as follows:

	Group HK\$'000
Cost	
At beginning of year	57,039
Addition from acquisition of a subsidiary	<u>64,873</u>
At end of year	<u>121,912</u>
Accumulated amortisation	
At beginning of year	11,326
Amortisation for the year	<u>8,700</u>
At end of year	<u>20,026</u>
Net book value	
At 30 June 2004	<u>101,886</u>
At 30 June 2003	<u>45,713</u>

Notes to the Financial Statements

for the year ended 30 June 2004

17. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	64,522	64,522
Due from a subsidiary	241,385	197,535
	<u>305,907</u>	<u>262,057</u>

At 30 June 2004, the amount due from a subsidiary is unsecured, interest-free and is not repayable before 30 June 2005.

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

Name	Place of incorporation/ establishment and operation	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Holt Hire Holdings Limited	British Virgin Islands ("BVI")	Ordinary US\$3	100%	Investment holding
Indirectly held				
Able Business Developments Limited	BVI	Ordinary US\$10	100%	Investment holding
Cannon Ape Company Limited	Hong Kong	Ordinary HK\$10,000	100%	Property holding
Charming World Investments Limited	BVI	Ordinary US\$2	100%	Investment holding
Clothes Galore Limited	BVI	Ordinary US\$1	100%	Intellectual property holding
Digital 910 Limited	Hong Kong	Ordinary HK\$10,000	100%	Investment holding
Fancy Spirit Limited	Hong Kong	Ordinary HK\$2	100%	Property holding

Notes to the Financial Statements

for the year ended 30 June 2004

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries as at 30 June 2004 are as follows (continued):

Name	Place of incorporation/ establishment and operation	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Fujian Good Fellow Fashion Co., Ltd.	The PRC	Registered RMB10,000,000	100%	Trading of garments
福建盈富科軟計算機軟件開發有限公司	The PRC	Registered HK\$15,000,000	100%	Investment holding
Good Country Investment Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred HK\$10,000	100%	Property holding and trading of securities
Good Fellow (Macau) Commercial Offshore Limited	Macau	MOP100,000	100%	Trading of garments
Good Fellow Fashion (Group) Limited	Hong Kong	Ordinary HK\$10,000	100%	Distribution of garments and provision of marketing services
Good Fellow Garment (Fujian) Co., Ltd.	The PRC	Registered US\$5,000,000	100%	Manufacture and sale of garments
Hi-Tech Market Limited	BVI	Ordinary US\$100	100%	Investment holding
Huatong Garment Co., Ltd. Putian	The PRC	Registered US\$600,000	100%	Manufacture and sale of garments
莆田市科能高新技術有限公司 (Putian City Keneng Hi-Tech Development Co., Ltd.*)	The PRC	Registered RMB55,600,000	100%	Investment holding

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

* For identification only

Notes to the Financial Statements

for the year ended 30 June 2004

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Share of net assets	<u>43,170</u>	<u>26,291</u>

Particulars of the principal jointly-controlled entities as at 30 June 2004 are as follows:

Name	Form of business structure	Place of establishment and operation	Percentage of ownership interest attributable to the Group	Principal activities
中科納米技術工程中心 有限公司 (Zhongke Nanotech Engineering Center Co., Ltd.*)	Corporated	The PRC	55%	Development and sales of nano materials and transfer of related technology
中科納米技術工程(蘇州) 有限公司 (Zhongke Nanotech (Suzhou) Co., Ltd.*)	Corporated	The PRC	68.5%	Development and sales of nano materials and transfer of related technology
北京中科納米高彈材料 有限公司 (Beijing Zhongke Nanotech High-elastic Material Co., Ltd.*)	Corporated	The PRC	38.5%	Manufacture and sales of nano high-elastic plastic and materials
北京時代科能化工材料 有限公司 (Beijing Shidai Keneng Chemical Co., Ltd.*)	Corporated	The PRC	44%	Dormant
中科安康醫療用品有限公司 (Beijing Zhongke Health Medical Products Co., Ltd.*)	Corporated	The PRC	35.4%	Sales of nano- medical products
蘇州中科納米高彈材料 有限公司 (Suzhou Zhongke Nanotech High-elastic Material Co., Ltd.*)	Corporated	The PRC	34.9%	Development and sales of nano high-elastic plastic

* For identification only

Notes to the Financial Statements

for the year ended 30 June 2004

19. LONG TERM INVESTMENT

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted investment outside Hong Kong, at cost	<u>6,667</u>	<u>6,667</u>

Particulars of the investee company are as follows:

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

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

20. INVENTORIES

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Raw materials	18,228	27,116
Work in progress	1,355	2,963
Finished goods	<u>26,563</u>	<u>20,278</u>
	<u>46,146</u>	<u>50,357</u>

No inventories of the Group were carried at net realisable value (2003: HK\$Nil) as at 30 June 2004.

Notes to the Financial Statements

for the year ended 30 June 2004

21. TRADE RECEIVABLES

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

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

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	14,958	15,003
31 – 60 days	10,973	11,288
61 – 90 days	10,688	9,724
Over 90 days	9,537	11,990
	<u>46,156</u>	<u>48,005</u>

22. SHORT TERM INVESTMENTS

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Securities listed in Hong Kong, at market value	<u>10,821</u>	<u>16,854</u>

23. BANK AND CASH BALANCES

At 30 June 2004, the bank and cash balances of the Group denominated in Renminbi (“RMB”) amounted to approximately HK\$73 million (2003: HK\$79 million). Conversion of RMB into foreign currencies is subject to the PRC’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

Notes to the Financial Statements

for the year ended 30 June 2004

24. INTEREST-BEARING BANK BORROWINGS

	Notes	Group	
		2004 HK\$'000	2003 HK\$'000
Bank overdrafts, secured	25	328	589
Bank loans, secured and repayable:	25		
Within one year		297	274
In the second year		306	286
In the third to fifth years, inclusive		977	939
Beyond five years		522	881
		<u>2,430</u>	<u>2,969</u>
Portion classified as current liabilities		<u>(625)</u>	<u>(863)</u>
Non-current portion		<u>1,805</u>	<u>2,106</u>

25. BANKING FACILITIES

At 30 June 2004, the Group's banking facilities were secured by the followings:

- Certain leasehold land and buildings of the Group located in Hong Kong with a carrying value of HK\$4,530,000 (note 14);
- the Group's bank deposits of approximately HK\$36,690,000; and
- corporate guarantees given by the Company to the extent of HK\$16,800,000.

Notes to the Financial Statements

for the year ended 30 June 2004

26. FINANCE LEASE PAYABLE

The Group leases a motor vehicle for general business purposes. The lease is classified as a finance lease and has remaining lease term of one year and seven months as at 30 June 2004.

At 30 June 2004, the total future minimum lease payments under the finance lease and its present value were as follows:

Group	Minimum	Present	Minimum	Present
	lease	value of	lease	value of
	payments	minimum	payments	minimum
		lease		lease
		payments		payments
	2004	2004	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	212	203	212	203
In the second year	123	112	212	189
In the third to fifth years, inclusive	–	–	122	104
	<u>335</u>	<u>315</u>	<u>546</u>	<u>496</u>
Total minimum finance lease payments	335	315	546	496
Future finance charges	<u>(20)</u>		<u>(50)</u>	
Total net finance lease payable	315		496	
Portion classified as a current liability	<u>(203)</u>		<u>(203)</u>	
Non-current portion	<u>112</u>		<u>293</u>	

Notes to the Financial Statements

for the year ended 30 June 2004

27. TRADE PAYABLES

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

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

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
0 – 30 days	1,206	2,270
31 – 60 days	707	395
61 – 90 days	276	13
Over 90 days	1,022	3,527
	<u>3,211</u>	<u>6,205</u>

28. DEFERRED TAXATION

- (a) The following are the major deferred tax liabilities (assets) recognised by the Group and movement thereon during the current and prior periods:

Group	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2002			
– as previously reported	–	–	–
– adjustment on change in accounting policy	–	2,757	2,757
	<u>–</u>	<u>2,757</u>	<u>2,757</u>
– as restated	–	2,757	2,757
Charge to equity for the year	–	(459)	(459)
	<u>–</u>	<u>(459)</u>	<u>(459)</u>
At 30 June 2003	–	2,298	2,298
At 1 July 2003			
– as previously reported	–	–	–
– adjustment on change in accounting policy	–	2,298	2,298
	<u>–</u>	<u>2,298</u>	<u>2,298</u>
– as restated	–	2,298	2,298
Credit to profit and loss account for the year	(7)	–	(7)
Charge to equity for the year	–	(135)	(135)
	<u>–</u>	<u>(135)</u>	<u>(135)</u>
At 30 June 2004	<u>(7)</u>	<u>2,163</u>	<u>2,156</u>

Notes to the Financial Statements

for the year ended 30 June 2004

28. DEFERRED TAXATION (continued)

(a) (continued)

	Group	
	2004 HK\$'000	2003 HK\$'000 (as restated)
Deferred tax liabilities	2,163	2,298
Deferred tax assets	(7)	–
	<u>2,156</u>	<u>2,298</u>

(b) At the balance sheet date the Group has unused tax losses of HK\$8,209,000 (2003: HK\$6,015,000) available for offset against future profits. No deferred tax asset in relation to tax losses has been recognised due to the unpredictability of future taxable profit streams.

29. SHARE CAPITAL

	Number of shares		Ordinary share capital	
	2004 '000	2003 '000	2004 HK\$'000	2003 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:	<u>5,000,000</u>	<u>5,000,000</u>	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:				
At beginning of year	2,362,395	2,349,465	236,240	234,947
Shares issued on exercise of share options	–	22,530	–	2,253
Shares issued on exercise of warrants (<i>note</i>)	97,180	–	9,718	–
Repurchases of shares	–	(9,600)	–	(960)
At end of year	<u>2,459,575</u>	<u>2,362,395</u>	<u>245,958</u>	<u>236,240</u>

Notes to the Financial Statements

for the year ended 30 June 2004

29. SHARE CAPITAL (continued)

Note: During the year ended 30 June 2003, the Company issued 360,000,000 warrants at an issue price of HK\$0.07 per warrant through a private placement, resulting in net proceeds of approximately HK\$24,543,000 (after deduction of related issue expenses of approximately HK\$657,000). Each of the warrants entitles the holder thereof to subscribe for one ordinary share at an initial subscription price of HK\$0.37 per share, subject to adjustment, for a period of 18 months commencing on the date of dealings of the warrants on 16 September 2002. Any shares falling to be issued upon the exercise of the subscription rights attaching to the warrants rank pari passu in all respects with the existing fully-paid shares in issue on the relevant subscription date.

During the year, 97,180,000 warrants were exercised at the subscription price of HK\$0.37 per share, resulting in the issue of 97,180,000 shares of HK\$0.10 each for a total cash consideration of approximately HK\$35,957,000. The excess of the subscription consideration received over the nominal value of shares issued, amounting to approximately HK\$26,239,000, was credited to the share premium account (note 31). The remaining 262,820,000 unexercised warrants were lapsed on 15 March 2004.

Share options

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

30. SHARE OPTION SCHEMES

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

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

Notes to the Financial Statements

for the year ended 30 June 2004

30. SHARE OPTION SCHEMES (continued)

(a) Old SO Scheme

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

Name or category of participant	Number of share option			Date of grant of share options (note (i))	Exercise period of share options	Exercise price of share options HK\$	Price of Company's shares (note (ii))	
	At 1 July 2003	Exercise of share options	At 30 June 2004				At grant date of options HK\$	At exercise date of options HK\$
Director								
Mr. Ng Leung Ho	7,200,000	-	7,200,000	1 February 1999	1 May 1999 – 24 October 2008	0.1	0.330	N/A

Notes:

- (i) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- (ii) The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the actual exercises of share options within the disclosure category.
- (iii) During the year, no share options were lapsed or cancelled.

At 30 June 2004, the Company had 7,200,000 share options outstanding under the Old SO Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 7,200,000 additional ordinary shares of the Company and additional share capital of HK\$720,000.

Notes to the Financial Statements

for the year ended 30 June 2004

30. SHARE OPTION SCHEMES (continued)

(b) New SO Scheme

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

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

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

The offer of a grant of share options may be accepted within the date specified in the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of the Company, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the New SO Scheme, if earlier.

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

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

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for the year ended 30 June 2004

31. RESERVES

Company

	Share premium account <i>HK\$'000</i>	Subscription right reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2002	43	–	6,147	6,190
Arising on exercise of share options	869	–	–	869
Arising on issue of warrants	–	25,200	–	25,200
Warrant issue expenses	–	(657)	–	(657)
Premium paid on repurchases of own shares	(912)	–	(786)	(1,698)
Net profit for the year	–	–	4,049	4,049
Proposed final dividend	–	–	(4,725)	(4,725)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2003 and 1 July 2003	–	24,543	4,685	29,228
Arising on exercise of warrants – note 29	26,239	–	–	26,239
Net profit for the year – note 11	–	–	4,521	4,521
Proposed final dividend – note 12	–	–	(4,919)	(4,919)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2004	<u>26,239</u>	<u>24,543</u>	<u>4,287</u>	<u>55,069</u>

32. CONTINGENT LIABILITIES

The Company has given guarantees in favour of certain banks to the extent of HK\$16,800,000 (2003: HK\$16,800,000) in respect of banking facilities granted to certain subsidiaries of the Company. At 30 June 2004, the banking facilities utilised by these subsidiaries amounted to approximately HK\$2,431,000 (2003: HK\$2,969,000).

Notes to the Financial Statements

for the year ended 30 June 2004

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

At 30 June 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	249	239
In the second to fifth years, inclusive	662	847
	<u>911</u>	<u>1,086</u>

(b) As lessee

At 30 June 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	54	71
In the second to fifth years, inclusive	86	-
	<u>140</u>	<u>71</u>

34. RELATED PARTIES TRANSACTIONS

During the year, the Group has entered into joint venture with Zhongke Nanotech Engineering Center Company Limited, a jointly-controlled entity of the Group, in connection with the set up of Zhongke Nanotech (Suzhou) Co., Limited. At 30 June 2004, included in interests in jointly-controlled entities on the consolidated balance sheet is a total amount of HK\$5.9 million (2003: Nil) representing the Group's equity contribution in this jointly-controlled entity less share of loss.

35. COMMITMENTS

In respect to the establishment of a jointly-controlled entity as mentioned in note 34, the Group had capital commitment of approximately HK\$7.6 million (2003: HK\$35 million) as at 30 June 2004.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 October 2004.