

# Notes to the Financial Statements *For the year ended 31 March 2005*

## **1. GENERAL**

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

The Company acts an investment holding company. The principal activities of the Group are the manufacture and sales of consumer electronic products and property holding. Details of the principal activities of the principal subsidiaries, associates and jointly controlled entities are set out in notes 44, 19 and 20 respectively.

## **2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS**

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 "Business Combination". The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1 January 2005. The Group has not entered into any business combination for which the agreement date is on or after 1 January 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended 31 March 2005.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities 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 31 March each year.

**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Basis of consolidation** *(continued)*

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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 have been eliminated on consolidation.

**Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, an associate or a jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions prior to 1 April 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 April 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included in the carrying amount of the associate or jointly controlled entity.

On disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of unamortised goodwill/goodwill previously eliminated against reserves is included in the determination of the profit or loss on disposal.

**Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, an associate or a jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1 April 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary, associate or jointly controlled entity.

**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Negative goodwill** *(continued)*

Negative goodwill arising on acquisition of a subsidiary after 1 April 2001 is presented separately in the balance sheet as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity.

**Revenue recognition**

Sales of goods are recognised when goods are delivered and title has passed to ultimate customers.

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

Rental income, including rentals invoiced in advance under operating leases, is recognised on a straight-line basis over the terms of relevant leases.

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

Proceeds from sale of trading securities are recognised when the relevant sale contracts become unconditional.

**Property, plant and equipment**

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

Construction in progress is stated at cost which includes all development expenditure and the direct costs including borrowing costs capitalised attributable to such projects less impairment losses. Construction in progress is not depreciated or amortised until the completion of construction. Cost of completed construction work is transferred to the appropriate category of property, plant and equipment.

**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Property, plant and equipment** *(continued)*

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

Leasehold land and land use rights	Over the terms of the leases
Buildings	Over the shorter of the terms of the leases or 50 years
Other plant and equipment	2 to 5 years

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

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

**Investment properties**

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

Investment properties are stated at their open market value based on professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Investment properties** *(continued)*

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

**Research and development expenditure**

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

**Investments in subsidiaries**

A subsidiary is an enterprise in which the Company has control either directly or indirectly. Control is the power to govern the financial and operating policies of another enterprise so as to obtain benefits from its activities.

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

**Interests in associates**

An associate is an enterprise, other than a subsidiary or a jointly controlled entity, over which the Group is in a position to exercise significant influence in management, through participation in its financial and operating policy decisions of the investee.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill/less the negative goodwill in so far as it has not already been written off/amortised/released to income, less any identified impairment loss.

**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Interests in jointly controlled entities**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

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

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

**Investments in securities**

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

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

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the year.

**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are 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, but so 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.

**Inventories**

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

**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 foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas subsidiaries, associates and jointly controlled entities are translated at exchange 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.

**Taxation**

Taxation represents the sum of the tax currently payable and deferred tax.

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

**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Taxation** *(continued)*

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 goodwill (or negative goodwill) 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 and associates, and interests in jointly controlled entities 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.

**Retirement benefit scheme contributions**

Payments to the Group's defined contribution retirement benefit plans; state-managed retirement schemes and mandatory provident fund schemes are charged to the income statement.

**Operating leases**

Rentals payable under operating leases are charged as expense on a straight-line basis over the terms of the relevant leases.



#### 4. TURNOVER AND SEGMENT INFORMATION

Turnover represents the aggregate value of goods sold after goods returns and trade discounts, and rental income from leasing of investment properties for the year, and is analysed as follows:

	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Sales of goods	<b>10,431</b>	9,181
Property rental income	<b>35</b>	30
	<b>10,466</b>	9,211

##### **Business segments**

The Group is principally engaged in the design, manufacture and sales of colour televisions and audio visual products and property investment. The management considers that the profit from operations of the Group is mainly contributed by the design, manufacture and sales of colour televisions and audio visual products and accordingly, no business segment analysis is presented.

**4. TURNOVER AND SEGMENT INFORMATION** *(continued)*

**Geographical segments**

The Group's operations and assets are located in Hong Kong and elsewhere in the PRC. These geographical locations are the basis on which the Group reports its primary segment information.

Segment information of the Group by location of customers is presented as below:

*Income statement for the year ended 31 March 2005*

	<b>PRC</b> <i>HK\$ million</i>	<b>Other</b> <b>regions</b> <i>HK\$ million</i>	<b>Consolidated</b> <i>HK\$ million</i>
Revenue			
External sales and rental income	<b>8,952</b>	<b>1,514</b>	<b>10,466</b>
Result			
Segment results	<b>298</b>	<b>6</b>	<b>304</b>
Interest income			<b>25</b>
Unallocated corporate income			<b>3</b>
Unallocated corporate expenses			<b>(17)</b>
Profit from operations			<b>315</b>
Finance costs			<b>(22)</b>
Write off of interest in an associate			<b>(10)</b>
Share of results of jointly controlled entities	<b>(11)</b>	<b>–</b>	<b>(11)</b>
Profit before taxation			<b>272</b>
Taxation credit			<b>130</b>
Profit after taxation			<b>402</b>
Minority interests			<b>1</b>
Net profit for the year			<b>403</b>

**4. TURNOVER AND SEGMENT INFORMATION** *(continued)*

**Geographical segments** *(continued)*

*Balance sheet at 31 March 2005*

	<b>PRC</b>	<b>Other</b>	<b>Consolidated</b>
	<b>HK\$ million</b>	<b>regions</b>	<b>HK\$ million</b>
		<b>HK\$ million</b>	<b>HK\$ million</b>
Assets			
Segment assets	<b>7,084</b>	<b>620</b>	<b>7,704</b>
Interests in jointly controlled entities	<b>11</b>	–	<b>11</b>
Unallocated corporate assets			<b>46</b>
<b>Total assets</b>			<b>7,761</b>
Liabilities			
Segment liabilities	<b>3,802</b>	<b>154</b>	<b>3,956</b>
Unallocated corporate liabilities			<b>866</b>
<b>Total liabilities</b>			<b>4,822</b>

*Other information*

	<b>PRC</b>	<b>Other</b>	<b>Consolidated</b>
	<b>HK\$ million</b>	<b>regions</b>	<b>HK\$ million</b>
		<b>HK\$ million</b>	<b>HK\$ million</b>
Addition to property, plant and equipment	<b>123</b>	<b>13</b>	<b>136</b>
Depreciation and amortisation of property, plant and equipment	<b>93</b>	<b>11</b>	<b>104</b>
Allowance for doubtful debts	<b>8</b>	–	<b>8</b>
Impairment loss recognised in respect of other securities	<b>3</b>	–	<b>3</b>
Allowance for slow-moving inventories	<b>72</b>	–	<b>72</b>

**4. TURNOVER AND SEGMENT INFORMATION** *(continued)*

**Geographical segments** *(continued)*

*Income statement for the year ended 31 March 2004*

	PRC <i>HK\$ million</i>	Other regions <i>HK\$ million</i>	Consolidated <i>HK\$ million</i>
Revenue			
External sales and rental income	7,734	1,477	9,211
Result			
Segment results	361	28	389
Interest income			9
Unallocated corporate income			19
Unallocated corporate expenses			(6)
Profit from operations			411
Finance costs			(1)
Share of results of jointly controlled entities	(11)	–	(11)
Profit before taxation			399
Taxation charge			(47)
Profit after taxation			352
Minority interests			(10)
Net profit for the year			342

**4. TURNOVER AND SEGMENT INFORMATION** *(continued)*

**Geographical segments** *(continued)*

*Balance sheet at 31 March 2004*

	PRC <i>HK\$ million</i>	Other regions <i>HK\$ million</i>	Consolidated <i>HK\$ million</i>
<b>Assets</b>			
Segment assets	4,943	458	5,401
Interests in associates	10	–	10
Interests in jointly controlled entities	22	–	22
Unallocated corporate assets			92
			<hr/>
Total assets			5,525
<b>Liabilities</b>			
Segment liabilities	2,439	211	2,650
Unallocated corporate liabilities			295
			<hr/>
Total liabilities			2,945

*Other information*

	PRC <i>HK\$ million</i>	Other regions <i>HK\$ million</i>	Consolidated <i>HK\$ million</i>
Additions to property, plant and equipment	250	–	250
Depreciation and amortisation of property, plant and equipment	94	–	94
Allowance for doubtful debts	14	–	14
Allowance for loan to a jointly controlled entity	3	–	3
Impairment loss recognised in respect of other securities	2	–	2
Allowance for slow-moving inventories	–	3	3

## 5. COST OF SALES

The following items are included in cost of sales for the year ended 31 March 2005.

- (a) Adjustment of an accounting error amounted to HK\$26 million which is in relation to certain cash volume discounts. In May 2001, cash volume discounts in an aggregate amount of approximately HK\$26 million were received from three of the Group's raw material suppliers in the PRC. These purchase discounts were related to the Group's purchase in the year ended 31 March 2001 and were recorded as a reduction of the Group's cost of sales for the year ended 31 March 2001.

According to the PRC tax laws, the three raw material suppliers were required to issue credit value added tax ("VAT") invoices to the Group for the cash volume discounts. In May 2002, these three raw material suppliers, upon approval by the relevant tax authorities, issued credit VAT invoices to the Group. After receiving the credit VAT invoices, the Group committed an accounting error by recording, once again, the same amount of HK\$26 million as a reduction of cost of sales. To correct this accounting error, the same amount was, accordingly, charged to cost of sales of the Group during the year.

- (b) An underprovision of accrued purchases amounted to HK\$29 million as at 31 March 2004. The underprovision was resulted from the delay, for more than one year, in the issuance of invoices for raw materials by a supplier in respect of purchases took place in the year ended 31 March 2003.

## 6. OTHER OPERATING INCOME

	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Other operating income comprises:		
Dividend income	<b>3</b>	4
Interest income	<b>25</b>	9
Net exchange gain	<b>2</b>	–
Net realised gain on disposal of investments in securities	–	2
Unrealised gain on investments in securities	–	13
Write back of amount due to an associate ( <i>Note</i> )	<b>12</b>	–
Others	<b>34</b>	10
	<b>76</b>	38

*Note:* The Group's interest in the associate of HK\$10 million was also written off in the year, additional information of which are set out in note 19.

**7. REVERSAL OF PROVISION AGAINST VALUE ADDED TAX**

During the financial year ended 31 March 2003, certain input VAT invoices were utilised to set off against the output VAT invoices. However, due to the uncertainty of the impact resulting from a change of a local tax policy, a provision was made as if such set off could not be made pending clarifications from the relevant tax authorities.

Following the consultation with the relevant tax authorities about the appropriateness of such set off, the directors of the Company are of an opinion that the Group can utilise such input VAT invoices without incurring further liability and therefore have recognised the full amount of HK\$161 million as income for the current year which were included in other payables in the previous years' financial statements.

**8. REVERSAL OF PROVISION AGAINST THE PATENT RIGHTS LITIGATION**

In previous years, the Group had made a provision in an aggregate amount of HK\$33 million for an alleged infringement of the patent rights of RCA Thomson Licensing Corporation ("RCA") in the manufacture and sales of certain colour television sets exported by the Group. Details of the litigation on such alleged infringement had been set out in the Company's prospectus dated 28 March 2000.

During the year, the Group applied to the court for dismissing and striking out RCA's claims. The matter was subsequently settled by a consent order to the effect that the relevant court action be dismissed with an award of agreed costs of HK\$100,000 to the Group. The Group has received from RCA the agreed costs of HK\$100,000 on 23 February 2005. As a result, the Group had written back the associated provision of HK\$33 million.

## 9. PROFIT FROM OPERATIONS

	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Profit from operations has been arrived at after charging:		
Auditors' remuneration:		
Current year	<b>7</b>	3
Underprovision for prior years	<b>1</b>	–
Depreciation and amortisation of property, plant and equipment	<b>104</b>	94
Loss on disposal of property, plant and equipment	<b>1</b>	5
Operating lease rentals in respect of land and buildings	<b>50</b>	40
Allowance for doubtful debts	<b>8</b>	14
Allowance for slow-moving inventories	<b>72</b>	3
Net realised loss on disposal of investments in securities	<b>2</b>	–
Provision for surcharge in respect of value added tax	<b>24</b>	–
Staff costs excluding directors' remuneration:		
Research and development	<b>28</b>	17
Others	<b>531</b>	383

## 10. FINANCE COSTS

The amount represents interest on bank borrowings wholly repayable within five years.

## 11. DIRECTORS' REMUNERATION

	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Fees		
Executive directors	–	–
Non-executive directors	<b>1</b>	1
	<b>1</b>	1
Other emoluments	<b>14</b>	44
	<b>15</b>	45

No director waived any emoluments during each of the two years ended 31 March 2005.



**11. DIRECTORS' REMUNERATION** *(continued)*

Remuneration breakdown of each of the current and former directors of the Company for the year ended 31 March 2005, calculated with reference to their respective effective dates as directors of the Company and expressed to the nearest thousand Hong Kong dollars, are set out below:

	<b>Directors' fees</b> <i>HK\$ thousands</i>	<b>Basic salaries, allowances and benefits in kind</b> <i>HK\$ thousands</i> <i>(Note)</i>	<b>Retirement benefits scheme contributions/ Pension costs in the PRC</b> <i>HK\$ thousands</i>	<b>Performance related incentive payments</b> <i>HK\$ thousands</i>	<b>Total</b> <i>HK\$ thousands</i>
Current directors:					
Wang Dianfu	-	334	2	-	336
Ding Kai	-	1,769	-	-	1,769
Leung Chi Ching, Frederick	-	258	2	-	260
Zhang Xuebin	-	202	1	-	203
Wong Wang Sang, Stephen	-	8,495	364	-	8,859
So Hon Cheung, Stephen	308	-	-	-	308
Li Weibin	308	-	-	-	308
Xie Zhengcai	84	-	-	-	84
	700	11,058	369	-	12,127
Former directors:					
Ng Kam Fai	-	1,361	58	-	1,419
Wong Pui Sing	-	1,021	44	-	1,065
Cheng Kin Chung	-	638	3	-	641
	-	3,020	105	-	3,125
<b>Total directors' remuneration</b>	<b>700</b>	<b>14,078</b>	<b>474</b>	<b>-</b>	<b>15,252</b>

*Note:* Benefits in kind include deemed benefits arising from exercise of share options of the Company.

## 12. EMPLOYEES' REMUNERATION

Of the five individuals with the highest emoluments in the Group, two (2004: three) were directors of the Company, including a director appointed during the year, whose emoluments are included in note 11 above. The emoluments of all of the five individuals with the highest emoluments for the year ended 31 March 2005 (2004: the remaining two individuals) were as follows:

	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Basic salaries, allowances and benefits in kind including deemed benefits arising from exercise of share options	<b>23</b>	17
Retirement benefit scheme contributions/Pension costs in the PRC	<b>1</b>	–
Performance related incentive payments ( <i>Note</i> )	<b>2</b>	1
	<b>26</b>	18

*Note:* The performance related incentive payments are determined as percentage of net profit of the Group for the year ended 31 March 2004.

The above employees' remuneration were within the following bands:

	<b>Number of individuals</b>	
	<b>2005</b>	2004
HK\$3,000,001 to HK\$3,500,000	<b>1</b>	–
HK\$3,500,001 to HK\$4,000,000	<b>1</b>	–
HK\$4,000,001 to HK\$4,500,000	<b>1</b>	–
HK\$5,000,001 to HK\$5,500,000	<b>1</b>	–
HK\$5,500,001 to HK\$6,000,000	–	1
HK\$8,500,001 to HK\$9,000,000	<b>1</b>	–
HK\$11,000,001 to HK\$11,500,000	–	1

Save as disclosed in above and note 11, no emoluments were paid by the Group to the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office during each of the two years ended 31 March 2005.

**13. TAXATION CREDIT (CHARGE)**

	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
The credit (charge) comprises:		
Hong Kong Profits Tax		
Current year	<b>(1)</b>	(5)
Overprovision for previous years	<b>2</b>	3
	<b>1</b>	(2)
PRC income tax		
Current year	<b>(10)</b>	(37)
Underprovision for previous years	<b>(6)</b>	–
	<b>(16)</b>	(37)
Other PRC taxes		
Current year	<b>(17)</b>	(8)
Overprovision for previous years	<b>165</b>	–
	<b>148</b>	(8)
Deferred taxation ( <i>Note 32</i> )		
Current year	<b>(3)</b>	–
	<b>130</b>	(47)

Hong Kong Profits Tax is calculated at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the year.

PRC income tax is calculated at the rate prevailing in the areas in which the Group operates.

Other PRC taxes are calculated at the applicable rates of tax prevailing in the areas in which the Group operates, based on existing legislation, interpretations and practices in respect thereof, on the intra-group technical and other services related fees charged to a subsidiary of the Company registered in the PRC. Details of the overprovision for previous years are set out in note 43(c).

Certain subsidiaries of the Group operating in the PRC are eligible for certain tax holidays and concessions and were exempted from PRC income taxes for the year.

**13. TAXATION CREDIT (CHARGE)** *(continued)*

The taxation credit (charge) for the year can be reconciled to the profit before taxation as follows:

	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Profit before taxation	<b>272</b>	399
Tax charge at Hong Kong Profits Tax rate of 17.5% (2004: 17.5%)	<b>(48)</b>	(70)
Tax effect of expenses not deductible for tax purpose	<b>(46)</b>	(26)
Tax effect of income not taxable for tax purpose	<b>5</b>	4
Overprovision in respect of prior years	<b>161</b>	3
Tax effect of tax losses not recognised	<b>(18)</b>	(19)
Utilisation of tax losses previously not recognised	<b>13</b>	2
Effect of tax exemptions granted by the PRC tax authorities	<b>48</b>	56
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>12</b>	11
Others	<b>3</b>	(8)
Tax credit (charge) for the year	<b>130</b>	(47)

**14. DIVIDENDS**

	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Interim dividend – HK2.2 cents (2004: HK2 cents) per share:		
Declared on 29 June 2005 and paid on 29 July 2005	<b>50</b>	–
Cash payment	–	15
Share alternative	–	29
	<b>50</b>	44
Final dividend – HK3.3 cents (2004: HK5.5 cents) per share:		
Proposed dividend	<b>74</b>	–
Scrip dividend	–	70
Cash alternative	–	52
	<b>74</b>	122
	<b>124</b>	166

The final dividend of HK3.3 cents per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 15. EARNINGS PER SHARE

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

	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Earnings for the purposes of basic and diluted earnings per share:		
Net profit for the year	<b>403</b>	342

	<b>Number of shares</b>	
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>2,239,706,133</b>	2,163,704,263
Effect of dilutive potential ordinary shares:		
Share options	<b>80,398,575</b>	92,371,324
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>2,320,104,708</b>	2,256,075,587

The weighted average number of ordinary shares for the purposes of basic earnings per share has been adjusted for the shares issued under the share option schemes and the scrip dividend shares issue during the year in respect of the final dividend for the year ended 31 March 2004.

The computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices are higher than the average fair value per share.

## 16. PROPERTY, PLANT AND EQUIPMENT

	<b>Land and buildings</b> <i>HK\$ million</i>	<b>Construction in progress</b> <i>HK\$ million</i>	<b>Plant and machinery</b> <i>HK\$ million</i>	<b>Furniture, equipment and motor vehicles</b> <i>HK\$ million</i>	<b>Total</b> <i>HK\$ million</i>
<b>THE GROUP</b>					
COST					
At 1 April 2004	262	96	454	75	887
Additions	3	37	48	48	136
Disposals	–	–	(14)	(6)	(20)
<b>At 31 March 2005</b>	<b>265</b>	<b>133</b>	<b>488</b>	<b>117</b>	<b>1,003</b>
DEPRECIATION AND AMORTISATION					
At 1 April 2004	43	–	286	36	365
Provided for the year	10	–	76	18	104
Eliminated on disposals	–	–	(13)	(5)	(18)
<b>At 31 March 2005</b>	<b>53</b>	<b>–</b>	<b>349</b>	<b>49</b>	<b>451</b>
NET BOOK VALUES					
<b>At 31 March 2005</b>	<b>212</b>	<b>133</b>	<b>139</b>	<b>68</b>	<b>552</b>
At 31 March 2004	219	96	168	39	522

The net book value of the land and buildings comprises:

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Land and buildings situated on:		
Land in Hong Kong held under		
– long leases	<b>32</b>	32
Land in the PRC held under		
– long leases	<b>21</b>	22
– medium-term leases	<b>159</b>	165
	<b>212</b>	219

**16. PROPERTY, PLANT AND EQUIPMENT** *(continued)*

The construction in progress represents a research and development complex and a factory plant under construction situated on land in the PRC held under medium-term leases. The applicable cost for the land use right of the research and development complex of HK\$42 million (2004: HK\$37 million) was included in the amount of construction in progress.

**17. INVESTMENT PROPERTIES**

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
At beginning of the year	<b>128</b>	125
Revaluation increase	<b>2</b>	3
At end of the year	<b>130</b>	128

The investment properties are situated in the PRC and held under medium-term leases.

The investment properties were revalued at 31 March 2005 by Chesterton Petty Limited, an independent firm of professional valuers, on an open market value existing use basis. These valuation gave rise to a revaluation increase of HK\$2 million (2004: HK\$3 million ) which has been credited to investment property revaluation reserve. The investment properties are leased out for rental purposes under operating leases.

**18. INTERESTS IN SUBSIDIARIES**

	<b>THE COMPANY</b>	
	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Interests in subsidiaries – unlisted shares	<b>1,144</b>	1,144
Amounts due from subsidiaries	–	1,189
At end of the year	<b>1,144</b>	2,333

Particulars of the Company's principal subsidiaries at 31 March 2005 are set out in note 44.

The amounts due from subsidiaries as at 31 March 2004 were unsecured, interest free and in the opinion of the directors, the amounts would not be repayable within twelve months from 31 March 2004 and accordingly, the amounts were shown as non-current.



## 19. INTEREST IN AN ASSOCIATE

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Unlisted investments		
Share of net assets	–	10

As at 31 March 2004, the Group had 45% interest in a principal associate, 東莞創維電子有限公司 (the "Associate"), which was an equity joint venture, registered and operated in the PRC, and had an amount of HK\$12 million due to the Associate. The Associate was deregistered by the relevant PRC authority in January 2001, but, not until the current year, the Group has been able to obtain a confirmation from the joint venture partner of the Associate stating that it shall waive any of its claims against the Group for, among others, the amount of HK\$12 million due to the Associate. Accordingly, the interest in the Associate of HK\$10 million and the amount of HK\$12 million due to the Associate were written off and back respectively in the financial statements for the year ended 31 March 2005.

## 20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Unlisted investments		
Share of net assets	<b>11</b>	22

The amount of share of net assets includes a loan of HK\$21 million (2004: HK\$21 million) to a jointly controlled entity. The loan is unsecured, bearing interest at prevailing interest rate and has no fixed term of repayment. In the opinion of the directors, the loan is considered as part of the Group's investment cost in the jointly controlled entity and, accordingly, the loan is included in the share of net assets.

As at 31 March 2005, the Group had interests in the following jointly controlled entities:

Name of entity	Form of business structure	Place of registration and operation	Effective interest held by the Group	Principal business
江蘇國安創維信息產業 有限責任公司	Equity joint venture	PRC	45%	Development of internet technology and related products
深圳市創維群欣安防 科技有限公司	Equity joint venture	PRC	50%	Manufacture and sales of monitor system
廣州喜馬拉雅廣告 有限公司	Limited company	PRC	50%	Liaison of advertising services

## 21. INVESTMENTS IN SECURITIES

	Trading securities		Other securities		Total	
	2005 HK\$ million	2004 HK\$ million	2005 HK\$ million	2004 HK\$ million	2005 HK\$ million	2004 HK\$ million
<b>THE GROUP</b>						
Equity securities						
Listed in Hong Kong	-	15	5	-	5	15
Unlisted in the PRC	-	-	24	22	24	22
Debt securities						
Listed in overseas	-	26	-	-	-	26
Unit trust funds						
Unlisted in overseas	20	31	-	-	20	31
	20	72	29	22	49	94
Impairment loss recognised in respect of unlisted equity securities in the PRC	-	-	(5)	(2)	(5)	(2)
	20	72	24	20	44	92
Market value of listed securities	-	41	5	-	5	41
Carrying amount analysed for reporting purposes						
Non-current	-	-	24	20	24	20
Current	20	72	-	-	20	72
	20	72	24	20	44	92

During the year, the directors conducted a review of the Group's investments in securities and determined that the recoverable amounts of certain investments in unlisted equity securities in the PRC were less than their carrying amounts. Accordingly, impairment loss of HK\$3 million (2004: HK\$2 million) has been recognised in respect of the Group's other securities.

## 22. INVENTORIES

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Raw materials	<b>394</b>	334
Work in progress	<b>150</b>	120
Finished goods	<b>1,135</b>	882
	<b>1,679</b>	1,336

Included above are raw materials of HK\$173 million (2004: HK\$70 million), work in progress of HK\$1 million (2004: HK\$4 million) and finished goods of HK\$246 million (2004: HK\$175 million) which are carried at net realisable value.

## 23. TRADE AND OTHER RECEIVABLES

Sales in the PRC are generally made by payment on delivery or against bills issued by banks with maturity dates ranging from 30 to 180 days. Sales to certain wholesalers in the PRC are settled within one to two months after sales. Certain district sales managers in the PRC are authorised to make credit sales for payment at 30 to 60 days up to a limited amount which is determined on the basis of the sales volume of the respective offices.

Export sales of the Group are mainly settled by letters of credit with credit term ranging from 30 to 90 days.

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

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Within 30 days	<b>194</b>	178
31 to 60 days	<b>109</b>	48
61 to 90 days	<b>28</b>	10
91 days or over	<b>26</b>	12
Trade receivables	<b>357</b>	248
Deposits, prepayments and other receivables	<b>199</b>	336
	<b>556</b>	584

## 24. BILLS RECEIVABLE

The maturity dates of bills receivable at the balance sheet date are analysed as follows:

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Within 30 days	<b>124</b>	374
31 to 60 days	<b>57</b>	136
61 to 90 days	<b>105</b>	579
91 days or over	<b>1,108</b>	671
Bills endorsed to suppliers	<b>669</b>	606
Bills discounted with recourse	<b>765</b>	–
	<b>2,828</b>	2,366

## 25. AMOUNTS DUE FROM SUBSIDIARIES

### THE COMPANY

As at 31 March 2005, the amounts due from subsidiaries are unsecured, interest free and have no fixed term of repayment.

## 26. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

### THE GROUP

The amount due from a jointly controlled entity is unsecured, interest free and is repayable on demand, except for the amount of HK\$9 million (2004: HK\$13 million) which should be repaid by April 2006 by reference to the terms of agreement.

## 27. PLEDGED BANK DEPOSITS

### THE GROUP

At the balance sheet date, the pledged bank deposits of HK\$1,055 million (2004: nil) have been pledged to banks as part of the security for the banking facilities granted to the Group.

## 28. TRADE AND OTHER PAYABLES

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

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Within 30 days	<b>405</b>	283
31 to 60 days	<b>239</b>	212
61 to 90 days	<b>274</b>	132
91 days or over	<b>206</b>	121
Trade payables under endorsed bills	<b>669</b>	606
Trade payables	<b>1,793</b>	1,354
Deposits in advance, accruals and other payables	<b>1,180</b>	1,112
	<b>2,973</b>	2,466

## 29. BILLS PAYABLE

The maturity dates of bills payable at the balance sheet date are analysed as follows:

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Within 30 days	<b>330</b>	36
31 to 60 days	<b>236</b>	7
61 to 90 days	<b>199</b>	84
91 days or over	<b>216</b>	43
	<b>981</b>	170

## 30. AMOUNT DUE TO AN ASSOCIATE/A JOINTLY CONTROLLED ENTITY

### THE GROUP

The amounts are unsecured, interest free and have no fixed terms of repayment.

### 31. SECURED BANK BORROWINGS

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Secured bank borrowings comprise the following:		
Mortgage loans	<b>4</b>	6
Short-term bank loans	–	1
Other bank loans ( <i>Note</i> )	<b>765</b>	–
	<b>769</b>	7
The bank borrowings are repayable as follows:		
Within one year or on demand	<b>766</b>	3
More than one year, but not exceeding two years	<b>2</b>	1
More than two years, but not exceeding five years	<b>1</b>	3
	<b>769</b>	7
Less: Amount due within one year or on demand included in current liabilities	<b>(766)</b>	(3)
Amount due after one year	<b>3</b>	4

*Note:* Since the bills receivable are discounted with recourse, the associated financial liabilities were recognised as secured bank borrowings.

### 32. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior reporting periods:

	<b>Revaluation of properties</b> <i>HK\$ million</i>	<b>Accelerated tax depreciation</b> <i>HK\$ million</i>	<b>Tax losses</b> <i>HK\$ million</i>	<b>Total</b> <i>HK\$ million</i>
<b>THE GROUP</b>				
At 1 April 2003	–	2	–	2
Charge to equity	1	–	–	1
Charge (credit) to income statement for the year	–	1	(1)	–
At 31 March 2004	1	3	(1)	3
Charge to income statement for the year	–	3	–	3
<b>At 31 March 2005</b>	<b>1</b>	<b>6</b>	<b>(1)</b>	<b>6</b>

At the balance sheet date, the Group has unutilised tax losses of HK\$309 million (2004: HK\$279 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$3 million (2004: HK\$3 million) of such losses. No deferred tax asset has been recognised in respect of the remaining unutilised tax losses of HK\$306 million (2004: HK\$276 million) due to the unpredictability of future profit streams. Included in unrecognised tax losses are HK\$153 million (2004: HK\$205 million) that will expire as follows:

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Unrecognised tax losses will expire in:		
2004	–	23
2005	1	39
2006	39	45
2007	12	18
2008	80	80
2009	21	–
	<b>153</b>	205

Other losses may be carried forward indefinitely.

### 33. SHARE CAPITAL

	<b>Number of shares</b>	<b>Share capital</b> <i>HK\$ million</i>
Ordinary shares of HK\$0.1 each:		
<b>Authorised</b>		
At 1 April 2003, 31 March 2004 and 31 March 2005	10,000,000,000	1,000
<b>Issued and fully paid</b>		
At 1 April 2003	2,138,836,000	214
Issue of shares under share option schemes	60,220,000	6
Issue of shares pursuant to scrip dividend scheme for 2003/04 interim dividends	16,152,170	2
At 31 March 2004	2,215,208,170	222
Issue of shares under share option schemes	14,241,000	1
Issue of shares pursuant to scrip dividend scheme for 2003/04 final dividends	33,123,221	3
<b>At 31 March 2005</b>	<b>2,262,572,391</b>	<b>226</b>

Details of the exercise of share options during the two years ended 31 March 2005 are set out in note 34.

On 30 September 2004, the Company issued and allotted 33,123,221 ordinary shares to the shareholders who are eligible for the final scrip dividend of HK5.5 cents per share for the year ended 31 March 2004 and did not elect to receive cash in lieu of the scrip dividend. These shares rank pari passu in all respects with other shares in issue.



### 34. SHARE OPTIONS

(a) The Company adopted two share option schemes mainly for the purpose of providing incentives to directors and eligible employees. Particulars of the share option schemes are detailed below:

(i) Pursuant to a resolution passed on 27 March 2000, the Company adopted a share option scheme under which the directors of the Company may grant options to eligible employees, including executive directors of the Company, any of its subsidiaries and associates, to subscribe for shares in the Company (the "Old Scheme").

Options granted must be taken up within a period of 30 days from the date of grant, upon payment of HK\$1 per grant. Options may be exercised in portions and in the exercisable period determined by the directors of the Company at the date of grant. All of the options, if not otherwise exercised, amended or cancelled, will lapse on 27 March 2010.

Under the Old Scheme, the exercise price is determined by the directors of the Company at a price not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or the nominal value of the shares, whichever is the higher.

With effect from 1 September 2001, in accordance with the amended Chapter 17 of the Listing Rules, the exercise price of any share options granted by the Company must be at least the higher of the closing price of the Company's shares on the date of grant, and the average closing prices of the shares for the five business days immediately preceding the date of grant. Unless the grants of share options under the Old Scheme complies with the amended rules in the Listing Rules governing share option schemes, no further option can be granted under the Old Scheme from 1 September 2001. Nevertheless, options previously granted under the Old Scheme will continue to be exercisable in accordance with the Old Scheme.

(ii) Pursuant to a special resolution passed on 28 August 2002, the Company adopted a new share option scheme under which the directors of the Company may grant options to eligible person, including any directors, whether executive or non-executive (including any independent non-executive directors), and any employee, whether full time or part time, of any member of the Group (the "New Scheme").

**34. SHARE OPTIONS** *(continued)*

Options granted must be taken up within a period of 30 days from the date of grant, upon payment of HK\$1 per grant. Options may be exercised in portions and in the exercisable period determined by the directors of the Company at the date of grant. All of the options, if not otherwise exercised, amended or cancelled, will lapse on 28 August 2012.

Each grant of an option to a director, chief executive or substantial shareholder of the Company (or any of their respective associates) must be approved by the independent non-executive directors, excluding any independent non-executive director who is the grantee of the option.

Under the New Scheme, the maximum number of shares issuable upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company as from the commencement of the scheme period, excluding those options which have lapsed in accordance with the terms of the New Scheme or any other share option schemes of the Company, must not in aggregate exceed 10% of the Company's shares in issue as at the date of adoption of the New Scheme or exceed any of the refreshed limit.

No Option shall be granted to an eligible person which would cause the aggregate number of shares already issued and to be issued upon exercise of options granted to such eligible person under the New Scheme and any other share option schemes of the Company (including cancelled, exercised and outstanding options) in any 12-month period up to the date of grant exceeding 1% of the shares in issue. Any further grant of options in excess of this limit may be made only with the separate approval of the shareholders in general meeting with that eligible person and his associates abstaining from voting.

The total number of shares available for issue under the share option schemes of the Company is approximately 215,525,000 representing approximately 9.53% of the issued share capital of the Company as at the date of this report.

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.

**34. SHARE OPTIONS** *(continued)*

**2005**

The following table shows movements in the Company's share options granted under the Old Scheme during the year ended 31 March 2005:

<b>Date of grant</b>	<b>Exercisable period</b>	<b>Exercise price</b> <i>HK\$</i>	<b>Outstanding at 1 April 2004</b>	<b>Exercised during the year</b> <i>(Note b)</i>	<b>Cancelled during the year</b>	<b>Outstanding at 31 March 2005</b>
25 November 2000	25 November 2001 to 27 March 2010	0.336	484,000	(54,000)	–	430,000
	25 November 2002 to 27 March 2010	0.336	648,000	(108,000)	–	540,000
	25 November 2003 to 27 March 2010	0.336	690,000	(654,000)	–	36,000
	25 November 2004 to 27 March 2010	0.336	29,685,000	–	–	29,685,000
2 April 2001	2 April 2004 to 27 March 2010	0.292	500,000	(500,000)	–	–
	2 April 2005 to 27 March 2010	0.292	500,000	–	–	500,000
23 January 2002	23 January 2005 to 27 March 2010	0.420	3,750,000	–	–	3,750,000
	23 January 2006 to 27 March 2010	0.420	3,750,000	–	–	3,750,000
25 March 2002	25 March 2004 to 27 March 2010	0.520	966,000	(966,000)	–	–
	25 March 2005 to 27 March 2010	0.520	868,000	–	–	868,000
8 August 2002	8 August 2004 to 27 March 2010	0.750	500,000	(500,000)	–	–
	8 August 2005 to 27 March 2010	0.750	500,000	–	–	500,000
	8 August 2006 to 27 March 2010	0.750	500,000	–	–	500,000
			43,341,000	(2,782,000)	–	40,559,000

*Notes:*

- (a) No share option was granted under the Old Scheme during the year ended 31 March 2005.
- (b) The weighted average closing prices of the Company's shares immediately before the dates of which the share options were exercised during the year ended 31 March 2005 was HK\$2.44.

**34. SHARE OPTIONS** *(continued)*

During the year ended 31 March 2003, the Old Scheme of the Company was replaced by the New Scheme pursuant to a special resolution passed on 28 August 2002. The following table shows the movements in the Company's share options granted under the New Scheme during the year ended 31 March 2005:

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1 April 2004	Granted during the year <i>(Note c)</i>	Exercised during the year <i>(Note d)</i>	Cancelled during the year	Outstanding at 31 March 2005
5 October 2002	5 October 2004 to 28 August 2012	0.840	11,900,000	-	(7,800,000)	-	4,100,000
	5 October 2005 to 28 August 2012	0.840	11,900,000	-	-	-	11,900,000
	5 October 2006 to 28 August 2012	0.840	11,900,000	-	-	-	11,900,000
14 February 2003	14 February 2005 to 28 August 2012	0.874	366,000	-	-	-	366,000
	14 February 2006 to 28 August 2012	0.874	368,000	-	-	-	368,000
18 March 2003	18 March 2004 to 28 August 2012	0.800	250,000	-	(250,000)	-	-
	18 March 2005 to 28 August 2012	0.800	250,000	-	-	-	250,000
	18 March 2006 to 28 August 2012	0.800	250,000	-	-	-	250,000
	18 March 2007 to 28 August 2012	0.800	250,000	-	-	-	250,000
28 March 2003	28 March 2004 to 28 August 2012	0.776	76,000	-	(76,000)	-	-
	28 March 2005 to 28 August 2012	0.776	76,000	-	-	-	76,000
	28 March 2006 to 28 August 2012	0.776	76,000	-	-	-	76,000
	28 March 2007 to 28 August 2012	0.776	72,000	-	-	-	72,000

**34. SHARE OPTIONS** *(continued)*

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1 April 2004	Granted during the year <i>(Note c)</i>	Exercised during the year <i>(Note d)</i>	Cancelled during the year	Outstanding at 31 March 2005
9 June 2003	9 June 2004 to 28 August 2012	0.752	500,000	-	(500,000)	-	-
	9 June 2005 to 28 August 2012	0.752	500,000	-	-	-	500,000
	9 June 2006 to 28 August 2012	0.752	500,000	-	-	-	500,000
	9 June 2007 to 28 August 2012	0.752	500,000	-	-	-	500,000
27 June 2003	27 June 2004 to 28 August 2012	0.742	250,000	-	(250,000)	-	-
	27 June 2005 to 28 August 2012	0.742	250,000	-	-	-	250,000
	27 June 2006 to 28 August 2012	0.742	250,000	-	-	-	250,000
	27 June 2007 to 28 August 2012	0.742	250,000	-	-	-	250,000
16 October 2003	16 October 2004 to 28 August 2012	1.660	32,330,000	-	(2,583,000)	-	29,747,000
	16 October 2005 to 28 August 2012	1.660	32,330,000	-	-	-	32,330,000
	16 October 2006 to 28 August 2012	1.660	35,430,000	-	-	-	35,430,000
	16 October 2007 to 28 August 2012	1.660	42,030,000	-	-	-	42,030,000
	16 October 2008 to 28 August 2012	1.660	11,000,000	-	-	-	11,000,000

**34. SHARE OPTIONS** *(continued)*

<b>Date of grant</b>	<b>Exercisable period</b>	<b>Exercise price HK\$</b>	<b>Outstanding at 1 April 2004</b>	<b>Granted during the year <i>(Note c)</i></b>	<b>Exercised during the year <i>(Note d)</i></b>	<b>Cancelled during the year</b>	<b>Outstanding at 31 March 2005</b>
26 February 2004	26 February 2005 to 28 August 2012	2.575	2,600,000	-	-	-	2,600,000
	26 February 2006 to 28 August 2012	2.575	2,600,000	-	-	-	2,600,000
	26 February 2007 to 28 August 2012	2.575	2,600,000	-	-	-	2,600,000
	26 February 2008 to 28 August 2012	2.575	2,600,000	-	-	-	2,600,000
16 April 2004	16 April 2005 to 28 August 2012	2.740	-	132,500	-	-	132,500
	16 April 2006 to 28 August 2012	2.740	-	132,500	-	-	132,500
	16 April 2007 to 28 August 2012	2.740	-	132,500	-	-	132,500
	16 April 2008 to 28 August 2012	2.740	-	132,500	-	-	132,500
28 July 2004	28 July 2004 to 28 August 2012	2.275	-	1,000,000	-	-	1,000,000
	28 July 2005 to 28 August 2012	2.275	-	5,000,000	-	-	5,000,000
	28 July 2006 to 28 August 2012	2.275	-	5,000,000	-	-	5,000,000
	28 July 2007 to 28 August 2012	2.275	-	5,000,000	-	-	5,000,000
	28 July 2008 to 28 August 2012	2.275	-	5,000,000	-	-	5,000,000

**34. SHARE OPTIONS** *(continued)*

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1 April 2004	Granted during the year <i>(Note c)</i>	Exercised during the year <i>(Note d)</i>	Cancelled during the year	Outstanding at 31 March 2005
30 September 2004	30 September 2005 to 28 August 2012	2.175	-	80,000	-	-	80,000
	30 September 2006 to 28 August 2012	2.175	-	80,000	-	-	80,000
	30 September 2007 to 28 August 2012	2.175	-	80,000	-	-	80,000
	30 September 2008 to 28 August 2012	2.175	-	80,000	-	-	80,000
5 October 2004	5 October 2005 to 28 August 2012	2.200	-	1,250,000	-	-	1,250,000
	5 October 2006 to 28 August 2012	2.200	-	1,250,000	-	-	1,250,000
	5 October 2007 to 28 August 2012	2.200	-	1,250,000	-	-	1,250,000
	5 October 2008 to 28 August 2012	2.200	-	1,250,000	-	-	1,250,000
11 October 2004	11 October 2005 to 28 August 2012	2.225	-	250,000	-	-	250,000
	11 October 2006 to 28 August 2012	2.225	-	250,000	-	-	250,000
	11 October 2007 to 28 August 2012	2.225	-	250,000	-	-	250,000
	11 October 2008 to 28 August 2012	2.225	-	250,000	-	-	250,000
			204,254,000	27,850,000	(11,459,000)	-	220,645,000

### 34. SHARE OPTIONS *(continued)*

Notes:

- (c) During the year ended 31 March 2005, 27,850,000 share options were granted to eligible persons as defined in the New Scheme. The closing share prices of the Company on 15 April 2004, 27 July 2004, 28 September 2004, 4 October 2004 and 8 October 2004, the trading days preceding the date of grant of the share options were HK\$2.7, HK\$2.275, HK\$2.1, HK\$2.125 and HK\$2.225 respectively.
- (d) The weighted average closing prices of the Company's shares immediately before the dates of which the share options were exercised during the year ended 31 March 2005 was HK\$2.46.

Other than the options stated above, no options had been granted by the Company to the other participants pursuant to the New Scheme.

#### 2004

The following table shows movements in the Company's share options granted under the Old Scheme during the year ended 31 March 2004:

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1 April 2003	Reclassified during the year <i>(Note b)</i>	Exercised during the year <i>(Note c)</i>	Cancelled during the year	Outstanding at 31 March 2004
25 November 2000	25 November 2001 to 27 March 2010	0.336	2,192,000	-	(1,528,000)	(180,000)	484,000
	25 November 2002 to 27 March 2010	0.336	7,242,000	132,000	(5,898,000)	(828,000)	648,000
	25 November 2003 to 27 March 2010	0.336	39,168,000	(66,000)	(34,062,000)	(4,350,000)	690,000
	25 November 2004 to 27 March 2010	0.336	34,189,000	(66,000)	-	(4,438,000)	29,685,000
2 April 2001	2 April 2003 to 27 March 2010	0.292	500,000	-	(500,000)	-	-
	2 April 2004 to 27 March 2010	0.292	500,000	-	-	-	500,000
	2 April 2005 to 27 March 2010	0.292	500,000	-	-	-	500,000



**34. SHARE OPTIONS** *(continued)*

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1 April 2003	Reclassified during the year <i>(Note b)</i>	Exercised during the year <i>(Note c)</i>	Cancelled during the year	Outstanding at 31 March 2004
23 January 2002	23 January 2003 to 27 March 2010	0.420	750,000	-	(750,000)	-	-
	23 January 2004 to 27 March 2010	0.420	3,750,000	-	(3,750,000)	-	-
	23 January 2005 to 27 March 2010	0.420	3,750,000	-	-	-	3,750,000
	23 January 2006 to 27 March 2010	0.420	3,750,000	-	-	-	3,750,000
25 March 2002	25 March 2003 to 27 March 2010	0.520	966,000	-	(966,000)	-	-
	25 March 2004 to 27 March 2010	0.520	966,000	-	-	-	966,000
	25 March 2005 to 27 March 2010	0.520	868,000	-	-	-	868,000
5 June 2002	5 June 2003 to 27 March 2010	0.840	250,000	-	-	(250,000)	-
	5 June 2004 to 27 March 2010	0.840	250,000	-	-	(250,000)	-
	5 June 2005 to 27 March 2010	0.840	250,000	-	-	(250,000)	-
	5 June 2006 to 27 March 2010	0.840	250,000	-	-	(250,000)	-
8 August 2002	8 August 2003 to 27 March 2010	0.750	500,000	-	(500,000)	-	-
	8 August 2004 to 27 March 2010	0.750	500,000	-	-	-	500,000
	8 August 2005 to 27 March 2010	0.750	500,000	-	-	-	500,000
	8 August 2006 to 27 March 2010	0.750	500,000	-	-	-	500,000
			102,091,000	-	(47,954,000)	(10,796,000)	43,341,000

### 34. SHARE OPTIONS *(continued)*

Notes:

- (a) No share option was granted under the Old Scheme during the year ended 31 March 2004.
- (b) During the year ended 31 March 2004, the exercisable period of certain share options granted had been changed.
- (c) The weighted average closing prices of the Company's shares immediately before the dates of which the share options were exercised during the year ended 31 March 2004 was HK\$1.77.

The following table shows the movements in the Company's share options granted under the New Scheme during the year ended 31 March 2004:

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1 April 2003	Granted during the year <i>(Note d)</i>	Exercised during the year <i>(Note e)</i>	Cancelled during the year	Outstanding at 31 March 2004
5 October 2002	5 October 2003 to 28 August 2012	0.840	12,000,000	-	(11,900,000)	(100,000)	-
	5 October 2004 to 28 August 2012	0.840	12,000,000	-	-	(100,000)	11,900,000
	5 October 2005 to 28 August 2012	0.840	12,000,000	-	-	(100,000)	11,900,000
	5 October 2006 to 28 August 2012	0.840	12,000,000	-	-	(100,000)	11,900,000
14 February 2003	14 February 2004 to 28 August 2012	0.874	366,000	-	(366,000)	-	-
	14 February 2005 to 28 August 2012	0.874	366,000	-	-	-	366,000
	14 February 2006 to 28 August 2012	0.874	368,000	-	-	-	368,000
18 March 2003	18 March 2004 to 28 August 2012	0.800	250,000	-	-	-	250,000
	18 March 2005 to 28 August 2012	0.800	250,000	-	-	-	250,000
	18 March 2006 to 28 August 2012	0.800	250,000	-	-	-	250,000
	18 March 2007 to 28 August 2012	0.800	250,000	-	-	-	250,000

**34. SHARE OPTIONS** *(continued)*

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1 April 2003	Granted during the year <i>(Note d)</i>	Exercised during the year <i>(Note e)</i>	Cancelled during the year	Outstanding at 31 March 2004
28 March 2003	28 March 2004 to 28 August 2012	0.776	76,000	-	-	-	76,000
	28 March 2005 to 28 August 2012	0.776	76,000	-	-	-	76,000
	28 March 2006 to 28 August 2012	0.776	76,000	-	-	-	76,000
	28 March 2007 to 28 August 2012	0.776	72,000	-	-	-	72,000
9 June 2003	9 June 2004 to 28 August 2012	0.752	-	500,000	-	-	500,000
	9 June 2005 to 28 August 2012	0.752	-	500,000	-	-	500,000
	9 June 2006 to 28 August 2012	0.752	-	500,000	-	-	500,000
	9 June 2007 to 28 August 2012	0.752	-	500,000	-	-	500,000
27 June 2003	27 June 2004 to 28 August 2012	0.742	-	250,000	-	-	250,000
	27 June 2005 to 28 August 2012	0.742	-	250,000	-	-	250,000
	27 June 2006 to 28 August 2012	0.742	-	250,000	-	-	250,000
	27 June 2007 to 28 August 2012	0.742	-	250,000	-	-	250,000

**34. SHARE OPTIONS** *(continued)*

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1 April 2003	Granted during the year <i>(Note d)</i>	Exercised during the year <i>(Note e)</i>	Cancelled during the year	Outstanding at 31 March 2004
16 October 2003	16 October 2004 to 28 August 2012	1.660	–	32,350,000	–	(20,000)	32,330,000
	16 October 2005 to 28 August 2012	1.660	–	32,350,000	–	(20,000)	32,330,000
	16 October 2006 to 28 August 2012	1.660	–	35,450,000	–	(20,000)	35,430,000
	16 October 2007 to 28 August 2012	1.660	–	42,050,000	–	(20,000)	42,030,000
	16 October 2008 to 28 August 2012	1.660	–	11,000,000	–	–	11,000,000
26 February 2004	26 February 2005 to 28 August 2012	2.575	–	2,600,000	–	–	2,600,000
	26 February 2006 to 28 August 2012	2.575	–	2,600,000	–	–	2,600,000
	26 February 2007 to 28 August 2012	2.575	–	2,600,000	–	–	2,600,000
	26 February 2008 to 28 August 2012	2.575	–	2,600,000	–	–	2,600,000
			50,400,000	166,600,000	(12,266,000)	(480,000)	204,254,000

*Notes:*

- (d) During the year ended 31 March 2004, 166,600,000 share options were granted to eligible persons as defined in the New Scheme. The closing share prices of the Company on 6 June 2003, 26 June 2003, 15 October 2003 and 25 February 2004, the trading days preceding the date of grant of the share options were HK\$0.75, HK\$0.74, HK\$1.64 and HK\$2.475 respectively.
- (e) The weighted average closing prices of the Company's shares immediately before the dates of which the share options were exercised during the year ended 31 March 2004 was HK\$2.05.

Other than the options stated above, no options had been granted by the Company to the other participants pursuant to the New Scheme during the year ended 31 March 2004.

At the balance sheet date, outstanding share options above of 38,500,000 (2004: 17,500,000) are held by the directors. Details of the share options held by the directors are disclosed in the section headed "Directors' interests in shares and options" of the directors' report.

**34. SHARE OPTIONS** *(continued)*

- (b) Pursuant to the employment contract entered into between the Group and an individual, the then executive director of the Group's certain principal subsidiaries, dated 3 November 2000, the Group granted an option at a consideration of HK\$1 to the individual to subscribe for 25% interest in the shares of the subsidiaries managed by the individual, provided that the shares of those subsidiaries would be successfully listed on the Stock Exchange. During the year ended 31 March 2005, the individual resigned and left the Group. Consequently, such option was automatically terminated upon his resignation.

**35. SHARE PREMIUM AND RESERVES**

	<b>Share premium</b> <i>HK\$ million</i>	<b>Contributed surplus</b> <i>HK\$' million</i>	<b>Accumulated profits</b> <i>HK\$ million</i>	<b>Total</b> <i>HK\$ million</i>
<b>THE COMPANY</b>				
Balance at 1 April 2003	1,059	1,001	–	2,060
Issue of shares at premium under share option schemes	22	–	–	22
Net profit for the year	–	–	143	143
Issue shares at premium pursuant to scrip dividend scheme for 2003/2004 interim dividend	27	–	(29)	(2)
Dividend paid	–	–	(112)	(112)
Balance at 31 March 2004	1,108	1,001	2	2,111
Issue of shares at premium under share option schemes	11	–	–	11
Net profit for the year	–	–	127	127
Issue shares at premium pursuant to scrip dividend scheme for 2003/2004 final dividend	67	–	(70)	(3)
Dividend paid	–	–	(52)	(52)
<b>Balance at 31 March 2005</b>	<b>1,186</b>	<b>1,001</b>	<b>7</b>	<b>2,194</b>

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of Skyworth Digital Group Limited, and the nominal amount of the share capital of the Company issued for the acquisition at the time of Group Reorganisation prior to the listing of the Company's shares in 2000.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is also available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

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

**35. SHARE PREMIUM AND RESERVES** *(continued)*

In the opinion of the directors, the Company's reserves available for distribution to shareholders were as follows:

	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Contributed surplus	<b>1,001</b>	1,001
Accumulated profits	<b>7</b>	2
	<b>1,008</b>	1,003

**36. PLEDGE OF ASSETS**

At 31 March 2005, the Group's land and buildings with an aggregate net book value of HK\$19 million (2004: HK\$19 million) and bank deposits of HK\$1,055 million (2004: nil) were pledged to banks to secure certain facilities granted to the Group.

At 31 March 2004, the Group also pledged a piece of land included in construction in progress with carrying amount of HK\$37 million to a bank to secure short-term bank loans granted to the Group. The short-term bank loans were fully repaid during the year and accordingly, the pledged asset was released.

**37. OPERATING LEASE ARRANGEMENTS**

**The Group as lessee**

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancelable operating leases in respect of land and building which fall due as follows:

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Within one year	<b>22</b>	12
In the second to fifth year inclusive	<b>33</b>	22
Over five years	<b>8</b>	–
	<b>63</b>	34

**37. OPERATING LEASE ARRANGEMENTS** *(continued)*

Operating lease payments represent rentals payable by the Group for certain of its offices and factory premises. Leases are negotiated for an average term of three years and rentals are fixed over the term of the relevant leases.

**The Group as lessor**

Property rental income earned during the year was HK\$35 million (2004: HK\$30 million). The investment properties are expected to generate rental yield of 26.9% per annum on an ongoing basis. The Group's investment properties held have committed tenants ranging from two to five years.

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

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Within one year	<b>27</b>	30
In the second to fifth year inclusive	<b>21</b>	29
	<b>48</b>	59

**38. CAPITAL COMMITMENTS**

At the balance sheet date, the Group had the following capital commitments:

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Contracted but not provided for, in respect of:		
Purchase of other property, plant and equipment	<b>6</b>	12
Investment in unlisted equity securities in the PRC	<b>4</b>	2
Factory buildings under development	<b>258</b>	13
	<b>268</b>	27
Authorised but not contracted for, in respect of:		
Factory buildings under development	<b>57</b>	–
	<b>57</b>	–

In addition to the above, as at 31 March 2004, the Group had shared the capital commitments of its jointly controlled entity in respect of the purchase of property, plant and equipment authorised but not contracted for in its financial statements, amounting to HK\$5 million.

### **39. LITIGATION AND CONTINGENT LIABILITIES**

- (a) On 5 August 2003, the Group received a writ of summons issued by Digital Theater Systems, Inc. ("DTS") from the High Court of Hong Kong (the "Court") against two wholly-owned subsidiaries of the Company (the "Subsidiaries"), in respect of the alleged claims in connection with the use of certain logos and technology of DTS by the Subsidiaries. The Subsidiaries had subsequently provided more information to the Court for assessment of the alleged claims.

On 17 November 2004, DTS issued a summons applying for summary judgment and interim payment against the Subsidiaries (the "Summons"). On 23 February 2005, one of the Subsidiaries consented to making an interim payment which DTS applied for under the Summons. On 4 May 2005, DTS had counter signed a settlement agreement among DTS and the Subsidiaries as of 29 April 2005 whereby a full and final settlement of the claims and any possible counterclaims was reached. The total sum of the settlement, which has been fully provided for by the Group as at 31 March 2005, has already been settled prior to the approval of these financial statements.

- (b) At 31 March 2005, the Company has executed certain corporate guarantees in favour of banks in respect of credit facilities granted to subsidiaries to the extent of HK\$263 million (2004: HK\$254 million).

### **40. RETIREMENT BENEFITS SCHEMES**

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Certain employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme remained with the ORSO Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employee's basic salary. The pension costs charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.



**40. RETIREMENT BENEFITS SCHEMES** *(continued)*

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The aggregate retirement benefit scheme contributions and pension costs for the Group's employees, net of forfeited contributions, which have been dealt with in the income statement of the Group, are as follows:

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$ million</i>	2004 <i>HK\$ million</i>
Retirement benefit scheme contributions made by the Group	<b>1</b>	1
Pension costs in the PRC	<b>8</b>	4
<b>Total retirement benefit scheme contributions</b>	<b>9</b>	5

At 31 March 2005, there were no forfeited contributions available to offset future employers' contributions to the schemes.

**41. MAJOR NON-CASH TRANSACTION**

During the year, 33,123,221 shares (2004: 16,152,170 shares) of HK\$0.1 each in the Company were issued at HK\$2.1043 (2004: HK\$1.8088) per share as scrip dividend amounting to HK\$70 million (2004: HK\$29 million).

**42. RELATED PARTY TRANSACTIONS**

The Group had entered into the following significant related party transactions during the year:

- (a) The Group incurred sub-contracting charges of approximately HK\$2 million (2004: HK\$3 million) and sold raw materials of approximately HK\$5 million (2004: HK\$4 million) to 深圳市創維群欣安防科技有限公司 ("群欣安防"), a jointly controlled entity of the Group. The sub-contracting charges were based on pre-determined rates agreed by the parties involved and the prices of raw materials sold were determined at cost.

**42. RELATED PARTY TRANSACTIONS** *(continued)*

- (b) The Group transferred plant and equipment with net book value of approximately HK\$1 million to 群欣安防 at a consideration of HK\$1 million.
- (c) The Group incurred advertising and promotional expenses of approximately HK\$31 million (2004: HK\$12 million) during the year. Such advertising and promotional activities were arranged by 廣州喜馬拉雅廣告有限公司, a jointly controlled entity of the Group, and the terms were mutually agreed by both parties.
- (d) The Group acquired certain land and buildings from the minority shareholder of Shenzhen Chuangwei-RGB Electronics Co., Limited ("Skyworth-RGB") at an aggregate consideration of approximately HK\$20 million in fiscal 2004. The purchase consideration of the land and buildings was determined by both parties involved.

**43. OTHER MATTERS**

**(a) Incident occurred on 30 November 2004**

*Background*

On 30 November 2004, officers from the Independent Commission Against Corruption ("ICAC") searched and seized documents from the head office and principal place of business of the Company in Hong Kong and other related offices in connection with an investigation being undertaken by the ICAC. As set out in the ICAC's website, [www.icac.org.hk](http://www.icac.org.hk), on 2 December 2004, Mr. Wong Wang Sang, Stephen ("Mr. Stephen Wong"), then an executive director and executive chairman of the Company until 5 December 2004, and Mr. Wong Pui Sing ("Mr. P.S. Wong"), then an executive director of the Company until 5 December 2004, were charged with allegedly misappropriating funds belonging to the Group of about HK\$48 million (the "Funds") during the period from November 2000 to April 2003. Subsequently, on 2 March 2005, additional charges of conspiracy with others to steal money from the Group and conspiracy to defraud the Company in the grant of certain share options (together with the misappropriation of Funds collectively known as "Charges") were pressed.

Besides, according to a press released by the ICAC dated 30 November 2004, there was an allegation that the company chairman might have secured the corrupt assistance of a former accountant of a certified public accountant firm in falsifying accounting records to assist the listing of the Company with the Stock Exchange of Hong Kong (the "Allegation").

The Company is neither a party to any Charges nor is it in any way implicated under the Charges. Except for the above, there are no other legal proceedings known to the Company that might involve or concern the Company, nor its present or past officers in relation to the above events.

**43. OTHER MATTERS** *(continued)*

**(a) Incident occurred on 30 November 2004** *(continued)*

*Background (continued)*

As a result, the Stock Exchange directed a suspension in the trading of the Company's shares with effect from 9:44 a.m. on 30 November 2004. Further details of the above have been disclosed in the announcements dated 22 December 2004 and 4 March 2005 published by the Company.

*Measures taken by the Company*

With a view to restoring the creditability of the board of directors of the Company (the "Board") and safeguarding the interests of the Company, the Board has implemented the following measures:

1. Changes in directorships and company secretary
  - (a) On 6 December 2004, Mr. P.S. Wong, Mr. Ng Kam Fai and Mr. Cheng Kin Chung resigned as executive directors of the Company;
  - (b) On 6 December 2004, Mr. Stephen Wong was re-designated from an executive director of the Company to a non-executive director of the Company;
  - (c) On 7 December 2004, Mr. Wang Dianfu ("Mr. Wang") was appointed as Chief Executive Officer of the Company and on 14 January 2005, Mr. Wang was appointed as executive director and executive chairman of the Board;
  - (d) With effect from 17 December 2004, Mr. Leung Chi Ching, Frederick ("Mr. Frederick Leung") was appointed as the company secretary of the Company. On 20 December 2004, Mr. Frederick Leung was appointed as Director of Finance of the Company and on 14 January 2005, Mr. Frederick Leung was appointed as executive director of the Company; and
  - (e) On 14 January 2005, Mr. Zhang Xuebin was appointed as executive director of the Company. Further, on 29 June 2005, Mr. Zhang Xuebin was appointed as Chief Executive Officer of the Company and Mr. Wang remains as the executive chairman of the Company.

Details of the above appointments, resignations and changes in duties and positions of other officers have been disclosed in the announcements dated 22 December 2004, 25 January 2005 and 29 June 2005 published by the Company.

**43. OTHER MATTERS** *(continued)*

**(a) Incident occurred on 30 November 2004** *(continued)*

*Measures taken by the Company (continued)*

2. Formation of Independent Committee

On 8 December 2004, an independent committee (the "Independent Committee") comprising Mr. Cheong Ying Chew, Henry and Mr. Ip Shing Hing was constituted, with Mr. Heng Kwoong Seng joining as an additional member on 9 December 2004. The Independent Committee is delegated with duties and power to deal with matters relating to, among others, risk management, corporate governance and safeguard and control of assets of the Group as set out in detail in the announcement dated 22 December 2004 published by the Company.

3. Control over the Group's assets

The Company has also appointed Grant Thornton, a firm of certified public accountants, as a financial monitor to provide assistance to the Independent Committee to safeguard and control the assets of the Group. The scope of work of Grant Thornton has also been described in the announcement dated 22 December 2004 published by the Company.

4. Audit of the interim results

Despite that the Hong Kong Companies Ordinance or any other applicable rules and regulations do not require audit to be undertaken on interim results, the Company engaged its auditors to perform an audit on the interim results of the Group for the six months ended 30 September 2004.

5. Responses to the Charges

In respect of the Charges laid by the ICAC, as the proceedings are still ongoing, the Company considers it inappropriate to make any comment thereon at this stage. If and when the Company obtains further information on the Charges, it will seek legal advice as to what appropriate steps should be taken, taking into account all relevant factors including the status of any legal proceedings ongoing at that time.

Based on the information available to the Company as at the date of this report, the directors of the Company believe that the Charges would not have a significant adverse impact to the financial and trading position of the Group.

**43. OTHER MATTERS** *(continued)*

**(a) Incident occurred on 30 November 2004** *(continued)*

*Measures taken by the Company (continued)*

6. Responses to the Allegation

The Company undertook, in its announcement dated 22 December 2004, with the Stock Exchange that it would look into this matter so far as practicable. In this respect, the current management is monitoring the position in conjunction with the financial and legal advisers of the Company to determine what steps are feasible and appropriate to be taken.

Based on the information available to the Company as at the date of this report, the directors of the Company are not aware of any evidence that can substantiate the Allegation.

In the absence of further information about the Charges and the Allegation, the directors of the Company are however unable to determine, on a reasonable and proper basis, the financial impact that might arise in respect of the Charges and the Allegation.

**(b) Syndicated loan facility of US\$60 million**

On 25 October 2004, Skyworth TV Holdings Limited ("Skyworth TV"), as borrower, entered into a loan facility agreement with several banks under syndication arrangement in relation to a three-year term loan facility of amount up to US\$60 million (equivalent to approximately HK\$465 million) (the "Facility"), which was secured by parental guarantee and interest bearing of at a rate of LIBOR plus 0.80%. Details of the Facility has been disclosed in the announcement dated 25 October 2004 published by the Company.

On 12 November 2004, Skyworth TV made a drawdown of US\$10 million from the Facility for working capital. The entire amount together with accrued interest was subsequently repaid on 6 December 2004. After such repayment, Skyworth TV, on 10 December 2004, served a cancellation notice to cancel the entire Facility.

**43. OTHER MATTERS** *(continued)*

**(c) Tax inspection carried out by the tax authorities of the PRC**

On 29 March 2005, the tax authorities of the PRC (the "Tax Authorities") visited certain major subsidiaries of the Company in the PRC (the "Inspected PRC Subsidiaries") to carry out tax inspections (the "Tax Inspections"). Certain documents and accounting records were collected from the Group by the Tax Authorities on the same date. As at the date of approval of these financial statements, those documents and accounting records were returned.

The Tax Authorities have finalised and issued their reports on two of the Inspected PRC Subsidiaries (the "Finalised Tax Inspection Reports").

The Finalised Tax Inspection Reports stated that:

- (i) certain tax deductible items claimed in previous years and current year should not be allowed under the then and current prevailing tax rules, including obsolete inventory claims; and
- (ii) certain non-strict compliances with the then and current prevailing tax rules in the previous years and for the current year, including stamp duties, individual income tax and value added taxes, should be conformed.

Based on the Finalised Tax Inspection Reports, a total sum of approximately HK\$74 million has been levied and fully settled by the Group in July 2005 for different tax categories levied by the Tax Authorities.

The Tax Inspections on the remaining Inspected PRC Subsidiary are substantially completed pending the respective tax inspection reports.

However, the Group had continuously reviewed its tax position in each year and based on the understanding of the then prevailing tax rules making certain provisions against different categories of taxation. After taking into account the corresponding provisions made in the previous years, an additional provision of HK\$76 million has been made against the relevant tax items and surcharges in fiscal 2005 in accordance with the Finalised Tax Inspection Reports and based on the management's estimation of the outcomes from the Tax Inspections on the remaining Inspected PRC Subsidiary at the date of approval of these financial statements. According to the nature of taxes and surcharges paid, provisions of HK\$10 million, HK\$15 million, HK\$37 million, HK\$6 million and HK\$8 million have been made and included in cost of sales, selling and distribution expenses, general and administrative expenses, PRC income tax and other PRC taxes respectively.

**43. OTHER MATTERS** *(continued)*

**(c) Tax inspection carried out by the tax authorities of the PRC** *(continued)*

The Group also operated through selling offices in various provinces in the PRC. The directors of the Company again have reviewed the respective positions of these offices and are satisfied that as at 31 March, 2005 sufficient tax provisions have been made.

In addition, the Group had a provision for other PRC taxes, amounting to HK\$207 million, as at 31 March 2004 in respect of the technical and other service related fees (the "Fees") and other expense reimbursements received by Skyworth TV from Skyworth-RGB for the years 1995 to 2000 included in the balance of tax liabilities.

During the year ended 31 March 2005, the Group has agreed the basis of assessment with the PRC tax authority on various PRC taxes in connection with such Fees and HK\$28 million have been settled. Judging from the agreed basis of assessment and following the completion of the Tax Inspections in July 2005, the management is of the view that the Group has overprovision of tax liabilities for such Fees and, therefore, has reversed the related provision of HK\$173 million in the financial statements for the year ended 31 March 2005.

Pending the finalisation of the Tax Inspections, the directors of the Company believe that the Group has made sufficient tax provisions as at 31 March 2005.

#### 44. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following lists the subsidiaries of the Company as at 31 March 2005 which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/Paid up registered capital	Effective interest held by the Company % (Note c)	Principal activities
深圳創維 - RGB電子有限公司 Shenzhen Chuangwei - RGB Electronics Co., Ltd.	PRC (Note a)	Registered capital RMB200,000,000	100	Manufacture and sale of consumer electronic products
創維數字技術(深圳)有限公司	PRC (Note b)	Registered capital US\$1,500,000	100	Manufacture and sale of consumer electronic products and research and products development
創維光電科技(深圳)有限公司	PRC (Note b)	Registered capital US\$1,500,000	100	Manufacture and sale of consumer electronic products and research and products development
Skyworth Digital Group Limited	British Virgin Islands	Ordinary shares HK\$893 Preference shares HK\$990	100	Investment holding
新創維電器(深圳)有限公司 Skyworth Electrical Appliances (Shenzhen) Co., Ltd.	PRC (Note b)	Registered capital US\$16,672,000	100	Manufacture of consumer electronic products and property holding
Skyworth TV Holdings Limited 創維電視控股有限公司	Hong Kong	Ordinary shares HK\$30,600,000 Non-voting deferred shares HK\$2,500,000 (Note d)	100	Procurement of raw materials and investment holding
創維網絡通訊(深圳)有限公司	PRC (Note b)	Registered capital HK\$50,000,000	100	Investment holding



**44. PARTICULARS OF PRINCIPAL SUBSIDIARIES** *(continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/Paid up registered capital	Effective interest held by the Company % <i>(Note c)</i>	Principal activities
Skyworth Multimedia International Limited 創維多媒體國際有限公司	Hong Kong	Ordinary shares HK\$10,000	100	Manufacture and sale of consumer electronic products
Skyworth Overseas Development Limited 創維海外發展有限公司	Hong Kong	Ordinary shares HK\$10,000	100	Manufacture and sale of consumer electronic products
Skyworth Moulds Industrial Company Limited	British Virgin Islands	Ordinary shares US\$10	100	Investment holding
創維多媒體(深圳)有限公司	PRC <i>(Note b)</i>	Registered capital US\$3,500,000	100	Manufacture and sale of consumer electronic products
Skyworth Sales (Hong Kong) Co., Limited 創維集團香港銷售有限公司	Hong Kong	Ordinary shares HK\$2	100	Trading of consumer electronic products
Skyworth Macao Commercial Offshore Company Limited 創維澳門離岸商業服務 有限公司	Macau	Ordinary shares MOP100,000	100	Research and development
Winform Inc.	British Virgin Islands/ Hong Kong	Ordinary share US\$1	100	Property holding
創維數碼置業(南京)有限公司	PRC <i>(Note b)</i>	Registered capital US\$950,000	100	Property holding
創維平面顯示科技(深圳) 有限公司	PRC <i>(Note b)</i>	Registered capital US\$6,900,000	100	Property holding

**44. PARTICULARS OF PRINCIPAL SUBSIDIARIES** *(continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/Paid up registered capital	Effective interest held by the Company %	Principal activities
			<i>(Note c)</i>	
Skyworth Mobile Communication Limited	British Virgin Islands	Ordinary share US\$1	100	Trading of mobile communication related products and investment holding
創維移動通信技術(深圳) 有限公司	PRC <i>(Note b)</i>	Registered capital US\$1,500,000	100	Research and product development
創維液晶器件(深圳)有限公司	PRC <i>(Note b)</i>	Registered capital HK\$3,750,000	100	Manufacture and sale of consumer electronic products and research and products development
創維應用電子(深圳)有限公司	PRC <i>(Note b)</i>	Registered capital US\$1,200,000	94	Trading of consumer electronic products

*Notes:*

- (a) The subsidiary is a sino-foreign equity joint venture registered in the PRC.
- (b) The subsidiaries are wholly foreign owned enterprises registered in the PRC.
- (c) The Company directly holds the entire interest in Skyworth Digital Group Limited. The interests of all other companies are indirectly held by the Company.
- (d) The non-voting deferred shares carry practically no rights to dividends nor receive notice of nor to attend or vote at any general meeting of the relevant company nor to participate in any distribution on winding up.

東莞市創維電器發展有限公司 (“東莞創維”), a limited company established in the PRC, is principally engaged in the trading of consumer electronic products supplied by the Group. The Company does not, directly or indirectly, own any of the registered capital of 東莞創維. However, since both the business activities and decision making of 東莞創維 are managed and determined by the Group and the Group retains the majority of the residual or ownership risks related to 東莞創維 or its assets in order to obtain benefits from the activities of 東莞創維, in the opinion of the directors, 東莞創維 is considered as a special purpose entity of the Group. Accordingly, 東莞創維 was consolidated in the financial statements of the Group for each of the two years ended 31 March 2005.

None of the subsidiaries had any debt securities outstanding at 31 March 2005 or at any time during the year.