



Notes to the Financial Statements

For the year ended 30 June 2005

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Talent Crown Investment Limited, incorporated in the British Virgin Islands ("BVI").

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

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 combinations". The Group has not early adopted these new HKFRSs in the financial statements for the year ended 30 June 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 30 June 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 and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in subsidiaries

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

Turnover

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

Revenue recognition

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

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

Property, plant and equipment

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

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

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

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



Notes to the Financial Statements

For the year ended 30 June 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The gain or loss arising from 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.

Research expenditure

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Operating leases

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

Foreign currencies

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

Convertible notes

Convertible notes are separately disclosed and regarded as liabilities. The costs incurred in connection with the issue of convertible notes are deferred and are amortised over the period of the convertible notes so as to produce a constant periodic rate of charge on the remaining balances of the convertible notes for each accounting period. If any of the notes are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the share premium account.

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from 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, 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.



Notes to the Financial Statements

For the year ended 30 June 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Inventories

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

Retirement benefit costs

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

4. SEGMENT INFORMATION

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

Notes to the Financial Statements

For the year ended 30 June 2005

5. OTHER OPERATING INCOME

	2005 HK\$'000	2004 HK\$'000
Bank interest income	1,625	864
Exchange gain	–	420
Others	35	–
	1,660	1,284

6. PROFIT FROM OPERATIONS

	2005 HK\$'000	2004 HK\$'000
Profit from operating activities is arrived at after charging (crediting):		
Auditors' remuneration	730	752
Staff costs		
– directors' emoluments (<i>note 8</i>)	5,229	4,545
– other staff cost	10,104	6,978
– other staff's retirement benefit scheme contributions	1,678	1,044
	17,011	12,567
Allowances for doubtful debts	366	127
Allowances for (write-back of) inventories	50	(1,004)
Cost of inventories recognised in the income statement	373,540	232,490
Depreciation and amortisation on property, plant and equipment	18,333	13,042
Exchange loss	137	–
Loss on disposal of property, plant and equipment	14	181
Research costs	771	1,261

Research costs include staff costs of HK\$163,000 (2004: HK\$159,000), which are also included in the staff costs disclosed separately above.

Notes to the Financial Statements

For the year ended 30 June 2005

7. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest on:		
– Bank borrowings wholly repayable within five years	1,770	1,773
– Convertible notes	664	–
Amortisation of deferred expenditure on convertible notes	518	–
	2,952	1,773

8. DIRECTORS' EMOLUMENTS

	2005 HK\$'000	2004 HK\$'000
Directors' fees	159	80
Other emoluments		
– Salaries and other benefits	5,040	4,432
– Retirement benefits scheme contributions	30	33
	5,229	4,545

Details of emoluments of individual directors are set out as follows:

	2005				2004			
	Directors' fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000	Directors' fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Mr. Chen Dong	–	1,800	6	1,806	–	1,511	8	1,519
Mr. Chen Jinyan	–	1,440	6	1,446	–	1,211	8	1,219
Ms. Kong Ping	–	600	12	612	–	500	10	510
Mr. Chen Qinzhi	–	1,200	6	1,206	–	1,210	7	1,217
Mr. Huang Yongfeng	36	–	–	36	30	–	–	30
Mr. Yu Zhong Ming	30	–	–	30	–	–	–	–
Mr. Lo Kin Chung	83	–	–	83	–	–	–	–
Mr. Tong Lap Hong	10	–	–	10	50	–	–	50
	159	5,040	30	5,229	80	4,432	33	4,545

During the two years ended 30 June 2005, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no directors waived any emoluments for the two years ended 30 June 2005.

Notes to the Financial Statements

For the year ended 30 June 2005

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the Group included four (2004: four) directors of the Company, details of whose emoluments are included in note 8 above. The emoluments of the remaining one (2004: one) individual are as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and other benefits	547	263
Retirement benefits scheme contributions	6	–
	553	263

10. INCOME TAX EXPENSE

	2005 HK\$'000	2004 HK\$'000
PRC Enterprise Income Tax ("EIT"):		
Current tax	42,617	19,528
Underprovision in the prior year	254	–
	42,871	19,528

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

Fuzhou Huaguan Knitting and Springing Co., Ltd. ("Fuzhou Huaguan") and Fuzhou Huasheng Textile Co., Ltd. ("Fuzhou Huasheng") are subsidiaries established in the PRC which are exempted from the EIT for two years starting from its first profit-making year of operations and thereafter is eligible for 50% relief from EIT for the following three years under the income tax law of the PRC. The first profit-making year of Fuzhou Huaguan was the year ended 31 December 1999. The tax relief period was expired on 31 December 2003 and the tax rate applicable to Fuzhou Huaguan was 27% for the year ended 30 June 2005. Fuzhou Huasheng did not generate any assessable profits in current year; accordingly, no provision for income tax has been made in the financial statements.

Notes to the Financial Statements

For the year ended 30 June 2005

10. INCOME TAX EXPENSE (continued)

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

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	137,666	94,882
Tax at the income tax rate of 27%	37,170	25,618
Tax effect of expenses not deductible for tax purpose	5,646	4,334
Tax effect of income not taxable for tax purpose	(199)	(1,464)
Effect of tax exemptions granted to a PRC subsidiary	–	(8,960)
Underprovision in respect of the prior year	254	–
Tax expense for the year	42,871	19,528

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant. (2004: Nil)

11. DIVIDENDS

	2005 HK\$'000	2004 HK\$'000
Ordinary shares:		
Interim, paid – HK1.0 cent per share (2004: HK1.0 cent per share)	8,766	8,750
Final, proposed – HK1.5 cents per share (2004: HK1.5 cents per share)	13,148	13,148
	21,914	21,898

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

Notes to the Financial Statements

For the year ended 30 June 2005

12. EARNINGS PER SHARE

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

	2005	2004
	HK\$'000	HK\$'000
Earnings:		
Profit for the year and earnings for the purposes of basic earnings per share	94,795	75,354
Effect of dilutive potential ordinary shares in respect of convertible notes	1,182	–
Earning for the purpose of diluted earnings per share	95,977	75,354
Number of shares:	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	876,529	841,384
Effect of dilutive potential ordinary shares in respect of:		
Share options	2,573	2,372
Convertible notes	102,608	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	981,710	843,756

Notes to the Financial Statements

For the year ended 30 June 2005

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Plant and machinery	Leasehold improvements	Furniture, fixtures, office equipment and motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group						
COST						
At 1 July 2004	76,406	100,293	1,933	3,809	11,132	193,573
Additions	–	6,730	7	184	30,680	37,601
Transfer	23,639	11,098	–	–	(34,737)	–
Disposals	–	(18)	–	(483)	–	(501)
At 30 June 2005	100,045	118,103	1,940	3,510	7,075	230,673
DEPRECIATION AND AMORTISATION						
At 1 July 2004	13,906	25,035	232	1,991	–	41,164
Provided during the year	6,700	10,511	388	734	–	18,333
Eliminated on disposals	–	(16)	–	(374)	–	(390)
At 30 June 2005	20,606	35,530	620	2,351	–	59,107
NET BOOK VALUES						
At 30 June 2005	79,439	82,573	1,320	1,159	7,075	171,566
At 30 June 2004	62,500	75,258	1,701	1,818	11,132	152,409

Notes to the Financial Statements

For the year ended 30 June 2005

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold improvements HK\$'000	Furniture, fixtures, office equipment and motor vehicles HK\$'000	Total HK\$'000
The Company			
COST			
At 1 July 2004	312	186	498
Additions	7	18	25
At 30 June 2005	319	204	523
DEPRECIATION AND AMORTISATION			
At 1 July 2004	16	9	25
Provided during the year	64	39	103
At 30 June 2005	80	48	128
NET BOOK VALUES			
At 30 June 2005	239	156	395
At 30 June 2004	296	177	473

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

At 30 June 2005, the Group has pledged certain of the land and buildings and plant and machinery with aggregate net book values of HK\$73,571,000 (2004: HK\$55,859,000) and HK\$26,572,000 (2004: HK\$37,635,000), respectively, to banks to secure banking facilities granted to the Group.

14. INTERESTS IN SUBSIDIARIES

	The Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted investment, at cost	172,770	172,770
Amounts due from subsidiaries	140,972	93,214
	313,742	265,984

Notes to the Financial Statements

For the year ended 30 June 2005

14. INTERESTS IN SUBSIDIARIES (continued)

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

Details of the Company's principal subsidiaries at 30 June 2005 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Fuzhou Huaguan *	PRC	RMB41,280,530	–	100	Manufacture and sale of finished woven fabrics
Fuzhou Huasheng *	PRC	US\$4,000,000	–	100	Manufacture and sale of finished woven fabrics
Global Art International Limited	BVI	US\$1 Ordinary share	–	100	Investment holding
Good Fame Group Limited	BVI	US\$1 Ordinary share	–	100	Investment holding
Multi Jet International Trading Limited	Hong Kong	HK\$2 Ordinary shares	–	100	Trading of finished woven fabrics
Right Lane International Limited ("Right Lane")	BVI	US\$30,000 Ordinary shares	100	–	Investment holding

* Fuzhou Huaguan and Fuzhou Huasheng are established as wholly foreign-owned enterprises under the relevant PRC law and regulations with an operating period up to 26 July 2010 and 6 December 2054, respectively.

The above table lists the subsidiaries of the Group 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.

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For the year ended 30 June 2005

15. INVENTORIES

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Raw materials	5,956	4,363
Work in progress	13,622	10,658
Finished goods	9,597	9,052
	29,175	24,073

16. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period ranges from 45 days to 180 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	The Group	
	2005	2004
	HK\$'000	HK\$'000
0 – 60 days	59,389	45,202
61 – 90 days	222	236
Over 90 days	691	155
Trade receivables	60,302	45,593
Other receivables	1,806	2,169
	62,108	47,762

Notes to the Financial Statements

For the year ended 30 June 2005

17. TRADE AND OTHER PAYABLES

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

	The Group	
	2005 HK\$'000	2004 HK\$'000
0 – 60 days	43,278	22,595
Other payables	14,032	11,612
	57,310	34,207

18. BANK BORROWINGS, SECURED

At 30 June 2005, the Group's bank borrowings are wholly repayable within one year and are secured by the following:

- (i) certain leasehold land and buildings as set out in note 13;
- (ii) certain plant and machinery as set out in note 13; and
- (iii) bank deposits of HK\$6,226,000.

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For the year ended 30 June 2005

19. SHARE CAPITAL

	Notes	Number of shares	Nominal value HK\$'000
Ordinary shares of HK\$0.01 each			
Authorised:			
At 1 July 2003	(i)	1,000,000	10
Increase in authorised share capital	(ii)	1,999,000,000	19,990
At 30 June 2004, 1 July 2004 and 30 June 2005		2,000,000,000	20,000
Issued and fully paid:			
At 1 July 2003	(i)	1,000,000	–
Issue of shares pursuant to group reorganisation			
– nil paid shares credited as fully paid	(ii) (a)	–	10
– consideration shares issued	(ii) (b)	1,000,000	10
Issue of shares through initial public offer	(iii)	175,000,000	1,750
Capitalisation issue	(iv)	698,000,000	6,980
Exercise of share options	(v)	1,500,000	15
At 30 June 2004 and 1 July 2004		876,500,000	8,765
Issue of shares as scrip final dividend	(vi)	57,583	1
At 30 June 2005		876,557,583	8,766

The following changes in the share capital of the Company took place during the period from 1 July 2003 to 30 June 2005:

- (i) At 1 July 2003, the Company had authorised share capital of HK\$10,000 divided into 1,000,000 shares of HK\$0.01 each and all of which were allotted and issued at nil paid.
- (ii) Pursuant to the written resolutions of all shareholders of the Company passed on 15 August 2003, the authorised share capital of the Company was increased from HK\$10,000 to HK\$20,000,000 by the creation of additional 1,999,000,000 shares of HK\$0.01 each; and the directors of the Company were authorised:
 - (a) to credit as fully paid at par the 1,000,000 shares of HK\$0.01 each allotted and issued nil paid on 5 June 2003 as set out in (i) above; and

Notes to the Financial Statements

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19. SHARE CAPITAL (continued)

- (b) to further allot and issue 1,000,000 shares of HK\$0.01 each, credited as fully paid;
- as consideration of and in exchange for the entire issued share capital of Right Lane.
- (iii) On 10 September 2003, 175,000,000 ordinary shares of HK\$0.01 each were issued at HK\$0.50 per share for cash through an initial public offering by way of placement and public offer. The net proceeds from the placing were used to provide working capital to the Group.
- (iv) Pursuant to a written resolution of all shareholders of the Company passed on 16 August 2003 and conditional on the share premium account of the Company being credited as a result of the placement and public offer on 10 September 2003, an amount of HK\$6,980,000 was capitalised and applied to pay up in full at par 698,000,000 shares of HK\$0.01 each on a pro-rata basis to the Company's shareholders whose names appeared in the register of the Company on 16 August 2003.
- (v) During the year ended 30 June 2004, 1,500,000 share options had been exercised at a price of HK\$0.612 to convert to an aggregate of 1,500,000 ordinary shares of HK\$0.01 each of the Company. The shares issued rank pari passu with the then existing shares in all respects.
- (vi) During the year ended 30 June 2005, 57,583 shares had been issued as scrip final dividend for the year ended 30 June 2004. The shares issued rank pari passu with the then existing shares in all respects.

20. CONVERTIBLE NOTES

	The Group and the Company	
	2005 HK\$'000	2004 HK\$'000
Convertible notes due 2007	78,000	—
Less: unamortised deferred expenditure	(2,223)	—
	75,777	—

On 6 December 2004, the Company issued the 1.5% original tranche 1 convertible notes (the "CB One") of US\$10,000,000 to Credit Suisse First Boston (Hong Kong) Limited ("CSFB"), an independent investor.

The CB One bears interest at 1.5% per annum, which is payable semi-annually in arrears, and is repayable on 6 December 2007.

20. CONVERTIBLE NOTES (continued)

CSFB has an option to convert the CB One into ordinary shares of the Company either at floating price or fixed price. Details of the CB One are set out in an announcement made by the Company on 8 December 2004. The ordinary shares to be issued upon such conversion rank *pari passu* in all respects with the ordinary shares of the Company in issue on the relevant conversion date.

21. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity"). Eligible participants of the Scheme include the directors and employees of the Company, its subsidiaries or any Invested Entity, suppliers and customers, of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity, and any shareholder of any members of the Group or any Invested Entity or any holder of any securities issued by any members of the Group or any Invested Entity. The Scheme became effective on 10 September 2003 (the "Listing date") and, unless otherwise terminated or amended, will remain in force for 10 years.

At 30 June 2005, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 38,250,000, representing approximately 4% of the shares of the Company in issue at that date. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Group shall not exceed such number of Company's shares as equal to 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the Company's shares in issue as at the Listing date. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

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

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21. SHARE OPTION SCHEME (continued)

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

Category	Date of grant	Exercise period	Exercise price HK\$	Outstanding at 1.7.2003	Granted during the year	Exercised during the year	Outstanding at 1.7.2004	Granted during the year	Lapsed during the year	Outstanding at 30.6.2005
Directors	23.12.2003	23.12.2003 – 22.12.2013	0.612	-	8,000,000	-	8,000,000	-	(4,000,000)	4,000,000
Employees	23.12.2003	23.12.2003 – 22.12.2013	0.612	-	35,750,000	(1,500,000)	34,250,000	-	-	34,250,000
				-	43,750,000	(1,500,000)	42,250,000	-	(4,000,000)	38,250,000

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

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22. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
The Company					
Capital reserve arising on group reorganisation	–	172,750	–	–	172,750
Premium arising on issue of shares	85,750	–	–	–	85,750
Capitalisation issue	(6,980)	–	–	–	(6,980)
Share issue expenses	(10,344)	–	–	–	(10,344)
Exercise of share options	903	–	–	–	903
Net profit for the year	–	–	–	22,059	22,059
Proposed interim dividend	–	–	8,750	(8,750)	–
Interim dividend paid	–	–	(8,750)	–	(8,750)
Proposed final dividend	–	–	13,148	(13,148)	–
At 30 June 2004 and 1 July 2004	69,329	172,750	13,148	161	255,388
Issue of shares as scrip					
final dividend	40	–	(41)	–	(1)
Net profit for the year	–	–	–	33,761	33,761
Final dividend paid	–	–	(13,107)	–	(13,107)
Proposed interim dividend	–	–	8,766	(8,766)	–
Interim dividend paid	–	–	(8,766)	–	(8,766)
Proposed final dividend	–	–	13,148	(13,148)	–
At 30 June 2005	69,369	172,750	13,148	12,008	267,275

Capital reserve of the Company represents the difference between underlying net assets of the subsidiaries which were acquired by the Company and the nominal value of the share capital issued by the Company to acquire the assets under a group reorganisation on 15 August 2003.

The Company has reserve amounting to HK\$25,156,000 (2004: HK\$13,309,000), which comprises of dividend reserve and retained profits of the Company, available for distribution to shareholders at 30 June 2005.

Notes to the Financial Statements

For the year ended 30 June 2005

23. AMOUNTS DUE TO SUBSIDIARIES

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

24. OPERATING LEASE ARRANGEMENTS

The Group and the Company as lessees

	The Group		The Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Minimum lease payments paid under operating leases during the year in respect of rented premises	2,569	1,689	223	118

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

	The Group		The Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Within one year	1,587	964	93	223
In the second to fifth years, inclusive	2,455	1,498	–	74
	4,042	2,462	93	297

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

Notes to the Financial Statements

For the year ended 30 June 2005

25. COMMITMENTS

	The Group	
	2005 HK\$'000	2004 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of construction of land and buildings	3,679	472
Capital expenditure authorised but not contracted for in respect of land and plant and machinery	17,218	–

At 30 June 2005, the Group had commitments for future research costs of HK\$531,000 (2004: HK\$672,000) payable under a non-cancellable consultancy agreement which will expire on 31 March 2009.

The Company did not have any commitments as at 30 June 2005.