

Notes to the Accounts

1. Principal accounting policies

The principal accounting policies adopted in the preparation of the accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention as modified by the revaluation of certain land and buildings.

In the current year, the Group adopted SSAP 12 (revised) "Income Taxes" which became effective for accounting periods commencing on or after 1 January 2003. The change to the Group's accounting policy for deferred taxation and the effect of adopting the revised policy are set out in Note 1(o).

Certain comparative figures have been reclassified to conform with the current year's presentation.

(b) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The consolidated accounts also include the Group's share of post-acquisition profits less losses, and reserves, of its associated companies and jointly controlled entities. The results of subsidiaries, associated companies and jointly controlled entities acquired and disposed of during the year are included in the consolidated profit and loss account from or up to their effective dates of acquisition or disposal respectively.

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

The gain or loss on the disposal of a subsidiary or an associated company and a jointly controlled entity represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognized in the consolidated profit and loss account and also any related accumulated exchange fluctuation.

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The

results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

(d) Jointly controlled entities

A jointly controlled entity is an entity which through a contractual arrangement is subject to joint control by two or more parties, and none of the parties has unilateral control over the economic activity of the entity. All the Group's jointly controlled entities are equity accounted for irrespective of the extent of the Group's equity interest therein. Accordingly, the consolidated profit and loss account includes the Group's share of results of jointly controlled entities for the year and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

(e) Goodwill / negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries or associated companies or jointly controlled entities at the date of acquisition.

Goodwill on acquisitions occurring on or after 1 April 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

Goodwill on acquisitions that occurred prior to 1 April 2001 was written off against retained earnings pursuant to the Group's previous accounting policies.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1 April 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognized in

the consolidated profit and loss account when the future losses and expenses are recognized. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognized in the consolidated profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognized in the consolidated profit and loss account immediately.

For acquisitions prior to 1 April 2001, negative goodwill was taken directly to retained earnings on acquisition pursuant to the Group's previous accounting policies.

The gain or loss on disposal of an investee entity includes the unamortised balance of goodwill/negative goodwill relating to the entity disposed of.

(f) Fixed assets

Fixed assets are stated at cost or valuation, less accumulated depreciation and impairment losses.

Effective from 31 March 1975 no further revaluations of the Group's land and buildings have been carried out. The Group has taken advantage of the transitional exemption stated in paragraph 80 of SSAP 17 which does not require regular revaluations for such assets be carried out.

Freehold land is not amortised. Cost less accumulated impairment losses of leasehold land is amortised over the remaining period of the relevant lease. Buildings are depreciated at the annual rate of 4%.

Plant and machinery and other fixed assets are depreciated at annual rates of 10% to 20% to write off their costs less accumulated impairment losses over their remaining estimated useful lives on a straight-line basis.

Repair and maintenance costs are charged to the profit and loss account. Improvements are capitalized and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that these fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognized to reduce the asset to its recoverable amount. Such impairment losses are recognized in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that asset, in which case it is treated as a revaluation decrease.

The gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the relevant assets and are recognized in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(g) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable on or receivable from such leases are charged or credited to the profit and loss account on a straight-line basis over the lease term.

(h) Investment securities

Investment securities are stated at cost less provision for impairment losses.

The carrying amount of individual investment is reviewed at each balance sheet date to assess whether the fair value has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such investment will be reduced to its fair value. The impairment loss is recognized as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(i) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realizable value. Cost is calculated on the first in first out basis or the weighted average basis. Cost of work in progress and finished goods comprises materials, direct labour and an appropriate proportion of production overhead expenditure. Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(j) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealized gains or losses arising from the changes in fair value of other investments are recognized in the profit and loss account. Profits or losses on disposal of other investments, representing the differences between the net sales proceeds and the carrying amounts, are recognized in the profit and loss account as they arise.

(k) Debtors

Provision is made against debtors to the extent that they are considered to be doubtful. Debtors in the balance sheet are stated net of such provision.

Notes to the Accounts

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment, bank overdrafts and loans repayable within three months from the date of advance.

(m) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

(n) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent assets are not recognized but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

(o) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred income taxation.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of SSAP 12 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 24, opening retained earnings at 1 April 2002 and 2003 have been increased by HK\$6,513,000 and HK\$5,581,000 respectively, which represent the net deferred tax assets not recognized prior to the respective dates under the previous policy. This change has resulted in an increase in deferred tax assets, a decrease in deferred tax liabilities and an increase in minority interests at 31 March 2003 by HK\$4,964,000, HK\$698,000 and HK\$81,000 respectively. The profit attributable to shareholders for the year ended 31 March 2003 has been reduced by HK\$932,000.

(p) Revenue recognition

Revenue from the sale of goods is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Operating lease rental income is recognized on a straight-line basis over the lease period.

Dividend income is recognized when the right to receive payment is established.

Interest income is recognized on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(q) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

Where a forward contract is used as a hedge of a net monetary asset or liability, the gain or loss on the contract and the discount or premium are taken to the profit and loss account.

On consolidating the accounts of certain overseas subsidiaries whose principal activities are investment holding, all assets,

liabilities, revenue and expenses are translated at rates of exchange ruling at the transaction dates. At the balance sheet date, monetary assets and liabilities are retranslated at the closing rates of exchange and any resulting exchange differences are taken to the profit and loss account.

The balance sheet of other subsidiaries, associated companies and jointly controlled entities expressed in foreign currencies is translated at the rate of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(r) Employee benefits

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

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in independently administered funds.

(s) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(t) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, investment securities, inventories, debtors, other investments and operating cash. Segment liabilities comprise operating liabilities and exclude corporate borrowings. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

Notes to the Accounts

2. Turnover, revenue and segment information

The Group is principally engaged in the manufacturing and trading of textiles and clothing and investment holding. Revenues recognized during the year are as follows:

	2004	2003
	HK\$'000	HK\$'000
Turnover		
Textiles and clothing	645,948	741,641
Dividend income from		
Listed investments	10,468	10,070
Unlisted investments	455	452
Others	12,328	11,035
	669,199	763,198
Other revenues		
Rental income from other properties less outgoings	2,234	2,163
Interest income	5,886	5,108
	8,120	7,271
Total revenues	677,319	770,469

The Group's main business segments and geographical areas of operations are set out below:

- Textiles and clothing – manufacturing and trading of textiles and clothing in Hong Kong, North America, Europe, Asia and other countries.
- Investments – holding of unlisted investments in associated companies, jointly controlled entities and investment securities covering a variety of businesses mainly in Hong Kong and Mainland China, and holding of listed securities in Hong Kong and North America.

Other operations of the Group comprise installation of television broadcasting systems and other minor operations, none of which is of a sufficient scale of operation to be reported separately.

There are no material sales or other transactions between the business segments and geographical segments.

2. Turnover, revenue and segment information (continued)

An analysis of turnover and profit by business and geographical segments is as follows:

Primary reporting format - business segments

	Year ended 31 March 2004			
	Textiles and clothing HK\$'000	Investments HK\$'000	Others HK\$'000	Group HK\$'000
Turnover	<u>645,948</u>	<u>10,923</u>	<u>12,328</u>	<u>669,199</u>
Segment results	<u>37,820</u>	<u>53,698</u>	<u>3,892</u>	95,410
Unallocated income less expenses				(3,288)
Loss on disposal of subsidiaries				<u>(211)</u>
Operating profit before interest				91,911
Interest income less finance costs				<u>3,525</u>
Operating profit				95,436
Share of profits less losses of				
Associated companies	(2,893)	16,258	—	13,365
Jointly controlled entities	(910)	2,599	—	<u>1,689</u>
Profit before taxation				110,490
Taxation				<u>(12,304)</u>
Profit after taxation				98,186
Minority interests				<u>(238)</u>
Profit attributable to shareholders				<u>97,948</u>
Segment assets	581,467	252,330	13,940	847,737
Investments in associated companies	26,939	63,883	—	90,822
Investments in jointly controlled entities	27,040	119,406	—	146,446
Unallocated assets				<u>4,332</u>
Total assets				<u>1,089,337</u>
Segment liabilities	105,471	2,448	8,491	116,410
Unallocated liabilities				116,562
Minority interest				<u>2,836</u>
Total liabilities				<u>235,808</u>
Capital expenditure	10,759	178	780	11,717
Depreciation	18,644	32	470	19,146

Notes to the Accounts

2. Turnover, revenue and segment information (continued)

Primary reporting format - business segments (continued)

	Year ended 31 March 2003, as restated			
	Textiles and clothing HK\$'000	Investments HK\$'000	Others HK\$'000	Group HK\$'000
Turnover	<u>741,641</u>	<u>10,522</u>	<u>11,035</u>	<u>763,198</u>
Segment results	<u>52,370</u>	<u>(1,618)</u>	<u>(1,747)</u>	49,005
Unallocated income less expenses				(4,109)
Gain on disposal of land and buildings	1,756	—	—	1,756
Loss on disposal of associated companies				<u>(334)</u>
Operating profit before interest				46,318
Interest income less finance costs				<u>443</u>
Operating profit				46,761
Share of profits less losses of				
Associated companies	(15,791)	18,597	—	2,806
Jointly controlled entities	1,226	832	—	<u>2,058</u>
Profit before taxation				51,625
Taxation				<u>(9,561)</u>
Profit after taxation				42,064
Minority interests				<u>(405)</u>
Profit attributable to shareholders				<u>41,659</u>
Segment assets	595,574	238,697	18,709	852,980
Investments in associated companies	31,872	51,409	—	83,281
Investments in jointly controlled entities	22,484	124,718	—	147,202
Unallocated assets				<u>5,791</u>
Total assets				<u>1,089,254</u>
Segment liabilities	123,909	1,864	10,138	135,911
Unallocated liabilities				163,539
Minority interest				<u>2,689</u>
Total liabilities				<u>302,139</u>
Capital expenditure	7,827	—	728	8,555
Depreciation	18,851	16	462	19,329
Impairment of land and buildings	1,886	—	—	1,886

Notes to the Accounts

3. Operating profit

Operating profit is stated after crediting and charging the following:

	2004 HK\$'000	2003 HK\$'000
Crediting:		
Gain on disposal of land and buildings	—	1,756
Gain on disposal of other fixed assets	483	—
Gain on disposal of investment securities	25,771	—
Write back of provision of investment securities	4,784	—
Realized gain on disposal of other investments	3,556	1,227
Unrealized gain on other investments	7,492	—
Exchange gain	<u>5,495</u>	<u>4,952</u>
Charging:		
Cost of inventories sold	503,907	593,886
Depreciation of fixed assets	19,146	19,329
Impairment of land and buildings	—	1,886
Loss on disposal of other fixed assets	—	449
Loss on disposal of subsidiaries	211	—
Loss on disposal of associated companies	—	334
Loss on disposal of investment securities	—	2,192
Provision for investment securities	—	1,393
Unrealized loss on other investments	—	9,413
Staff costs, including Directors' emoluments (<i>Note 6</i>)	153,841	172,566
Operating leases rental in respect of land and buildings	2,027	1,950
Auditors' remuneration	<u>1,400</u>	<u>1,664</u>

4. Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments paid by the Group to Directors of the Company during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Fees	285	297
Other emoluments:		
Salaries	5,826	6,603
Bonuses	6,822	5,001
Contribution to provident fund	44	44
	<u>12,977</u>	<u>11,945</u>

Directors' fees disclosed above include HK\$150,000 (2003: HK\$162,000) paid to Independent Non-Executive Directors of the Company.

The emoluments of the Directors of the Company fell within the following bands:

Emolument bands	Number of Directors	
	2004	2003
HK\$Nil – HK\$1,000,000	5	6
HK\$1,000,001 – HK\$1,500,000	2	1
HK\$1,500,001 – HK\$2,000,000	2	3
HK\$2,000,001 – HK\$2,500,000	1	2
HK\$3,000,001 – HK\$3,500,000	1	—
	<u>11</u>	<u>12</u>

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year were Directors of the Company (2003: five) and whose emoluments are disclosed above.

5. Finance costs

	2004 HK\$'000	2003 HK\$'000
Interest expense		
Bank loans and overdrafts	2,290	4,452
Other loans wholly repayable within five years	71	213
	<u>2,361</u>	<u>4,665</u>

Notes to the Accounts

6. Staff costs, including Directors' emoluments

	2004 HK\$'000	2003 HK\$'000
Wages and salaries		
Included in inventories and cost of inventories sold	78,166	91,331
Others	<u>71,812</u>	<u>70,141</u>
	149,978	161,472
Termination benefits paid	2,976	2,494
Retirement benefits costs	2,704	3,352
(Write back of provision)/provision for long service payments	<u>(1,817)</u>	<u>5,248</u>
	<u>153,841</u>	<u>172,566</u>

The Group contributes to a defined contribution mandatory provident fund scheme for those employees in Hong Kong under the age of 65. Certain subsidiaries operate in countries which have central government administered retirement schemes. Contributions are made by the Group at a percentage of employees' relevant salaries according to the statutory requirements.

Contributions totaling HK\$355,000 (2003: HK\$102,000) were payable to the schemes at the end of the year and are included in creditors and accruals.

7. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits for the year. In 2003, the Hong Kong Government enacted a change in profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Overseas taxation has been provided on the estimated assessable profits at rates prevailing in the countries in which the subsidiaries, associated companies and jointly controlled entities operate.

The amount of taxation charged to the consolidated profit and loss account represents:

	2004 HK\$'000	2003 HK\$'000
Current taxation:		
Hong Kong profits tax	6,373	6,024
Overseas taxation	148	2,373
Over provisions in prior years	(919)	(3,639)
Deferred taxation (<i>Note 27</i>)	<u>1,609</u>	<u>1,519</u>
	<u>7,211</u>	<u>6,277</u>
Share of taxation attributable to:		
Associated companies	3,173	2,851
Jointly controlled entities	<u>1,920</u>	<u>433</u>
	<u>5,093</u>	<u>3,284</u>
Taxation charges	<u>12,304</u>	<u>9,561</u>

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

Profit before taxation	<u>110,490</u>	<u>51,625</u>
Calculated at a taxation rate of 17.5% (2003: 16%)	19,335	8,260
Effect of different taxation rates in other countries	(385)	1,053
Income not subject to taxation	(11,966)	(5,451)
Expenses not deductible for taxation purposes	2,714	1,609
Utilisation of previously unrecognized tax losses	(659)	(205)
Temporary differences not recognized	131	341
Unrecognized tax losses	5,094	7,303
Over provisions in prior years	(919)	(3,639)
Increase in opening net deferred tax assets resulting from an increase in tax rate	—	(506)
Tax relief of a jointly controlled entity	—	(1,192)
Others	<u>(1,041)</u>	<u>1,988</u>
Taxation charges	<u>12,304</u>	<u>9,561</u>

8. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$90,518,000 (2003: HK\$42,811,000).

Notes to the Accounts

9. Dividends

	2004 HK\$'000	2003 HK\$'000
Interim dividend, paid, of HK\$0.05 (2003: HK\$0.05) per share	12,984	12,984
Final dividend, proposed, of HK\$0.08 (2003: HK\$0.08) per share	20,775	20,775
Special dividend, proposed, of HK\$0.10 (2003: Nil) per share	25,969	—
	<u>59,728</u>	<u>33,759</u>

At a meeting held on 15 July 2004, the Directors of the Company recommended a final dividend of HK\$0.08 per share and a special dividend of HK\$0.10 per share. The proposed final dividend and special dividend are not reflected as dividends payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 March 2005.

10. Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$97,948,000 (2003: HK\$41,659,000, as restated) and 259,685,289 (2003: 259,685,289) shares in issue during the year.

Diluted earnings per share is not presented as the Company has no dilutive potential shares as at 31 March 2004 (2003: Nil).

11. Related party and connected transactions

- (a) The following is a summary of significant related party transactions which, in the opinion of the Directors of the Company, were carried out in the ordinary and usual course of the Group's business on terms no less favourable to the Group than terms available to or from independent third parties:

	2004 HK\$'000	2003 HK\$'000
Rental and storage expenses paid to Winsor Properties Holdings Limited ("WPHL") Group	2,279	2,614
Rental income charged to WPHL Group	685	1,171
Sharing of administrative services with the WPHL Group	1,517	2,657
Sharing of administrative services with associated companies	886	877
Purchases from associated companies	575	8,953
Sales to associated companies	1,493	13,291
Contracting fee paid to jointly controlled entities	<u>1,884</u>	<u>2,358</u>

The Group and the WPHL Group are considered to be related by virtue of the fact that certain Directors of the Company are also directors of WPHL.

- (b) PCD Broadcast Engineering Limited ("PCD") is owned as to 60% by the Group and 40% by a minority shareholder. Trade financing facilities to the extent of HK\$16,200,000 granted under normal commercial terms by a bank to PCD were secured by a joint and several guarantee issued by the Company and the minority shareholder. There were no amounts outstanding under the said facilities as at 31 March 2004 (2003: Nil). The minority shareholder and all its directors have jointly and severally provided a deed of indemnity to indemnify the Company to the extent of 40% of the guaranteed liability of PCD. The issue of the said guarantee by the Company constituted a Connected Transaction as defined under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

12. Fixed assets

	Group				Company
	Land and buildings HK\$'000	Plant and machinery HK\$'000	Others HK\$'000	Total HK\$'000	Others HK\$'000
At cost or valuation					
At 1 April 2003	204,369	115,368	42,054	361,791	152
Translation differences	—	—	14	14	—
Additions	—	7,210	4,507	11,717	178
Disposal of subsidiaries	(9,643)	(689)	(425)	(10,757)	—
Disposals	(1,022)	(4,016)	(2,994)	(8,032)	—
At 31 March 2004	193,704	117,873	43,156	354,733	330
Accumulated depreciation					
At 1 April 2003	74,174	73,505	28,530	176,209	123
Translation differences	—	—	13	13	—
Charge for the year	5,725	9,616	3,805	19,146	32
Disposal of subsidiaries	(4,056)	(442)	(217)	(4,715)	—
Disposals	(680)	(3,759)	(2,927)	(7,366)	—
At 31 March 2004	75,163	78,920	29,204	183,287	155
Net book value					
At 31 March 2004	118,541	38,953	13,952	171,446	175
At 31 March 2003	130,195	41,863	13,524	185,582	29
Analysis of cost or valuation:					
At professional valuation in 1975 and earlier	15,098	—	—	15,098	—
At cost	178,606	117,873	43,156	339,635	330
	193,704	117,873	43,156	354,733	330

Net book value of land and buildings is analysed as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Held in Hong Kong:		
On long-term leases	25,095	26,188
On medium-term leases	34,940	36,133
Held outside Hong Kong:		
Freehold	4,222	4,527
On medium-term leases	54,284	63,347
	118,541	130,195

Certain land and buildings were revalued on an open market value basis in 1975 and earlier by independent professional valuers and are stated at such valuation. Their aggregate net book value is HK\$7,594,000 (2003: HK\$7,777,000) but would have been HK\$1,994,000 (2003: HK\$2,115,000) had they been stated at cost less accumulated depreciation.

Notes to the Accounts

13. Subsidiaries

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares – at cost	249,742	249,742
Loans and amounts due from subsidiaries	<u>332,353</u>	<u>275,791</u>
	<u>582,095</u>	<u>525,533</u>

The loans and amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are set out on pages 42 to 43.

14. Associated companies

	Group	
	2004 HK\$'000	2003 HK\$'000
Group's share of net assets/(liabilities)	1,458	(7,005)
Loans and amounts due from associated companies	89,364	90,379
Amount due to an associated company	<u>—</u>	<u>(93)</u>
	<u>90,822</u>	<u>83,281</u>
Investments at cost – unlisted shares	<u>31,865</u>	<u>31,869</u>

Loans and amounts due from and due to associated companies are unsecured, interest free and have no fixed terms of repayment.

Particulars of the principal associated companies are set out on page 44.

15. Jointly controlled entities

	Group	
	2004 HK\$'000	2003 HK\$'000
Group's share of net assets	127,034	135,171
Loans and amounts due from jointly controlled entities	19,412	15,321
Amount due to a jointly controlled entity	<u>—</u>	<u>(3,290)</u>
	<u>146,446</u>	<u>147,202</u>
Investments at cost – unlisted shares	<u>170,729</u>	<u>172,307</u>

Loans and amounts due from and due to jointly controlled entities are unsecured, interest free and have no fixed terms of repayment.

Particulars of the principal jointly controlled entities are set out on page 44.

16. Investment securities

	Group	
	2004	2003
	HK\$'000	HK\$'000
Unlisted equity investments – at cost	5,025	12,896
Loans due from unlisted equity investments	155,213	159,810
Provision	(60,284)	(69,862)
	<u>99,954</u>	<u>102,844</u>
Equity investments listed in Hong Kong – at cost	38,725	60,049
Provision	(2,528)	(15,568)
	<u>36,197</u>	<u>44,481</u>
	<u>136,151</u>	<u>147,325</u>
Market value of listed equity investments	<u>465,391</u>	<u>324,631</u>

The loans due from unlisted equity investments are unsecured, interest free and have no fixed terms of repayment.

17. Inventories

	Group	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	64,842	58,832
Work in progress	27,060	33,065
Finished goods	9,032	5,004
Stores	1,463	9,414
	<u>102,397</u>	<u>106,315</u>

At 31 March 2004, the carrying amount of inventories that are carried at net realizable value amounted to HK\$4,218,000 (2003: HK\$4,580,000).

18. Debtors and other receivables

Trade debtors are included under debtors and other receivables. The majority of the Group's sales are on the terms of letters of credit at sight or documents against payment. Open accounts or longer credit terms are granted to a few customers with long business relationship and strong financial position. The ageing analysis of trade debtors is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current – 30 days	56,389	51,267
31 – 60 days	17,089	12,954
Over 60 days	9,778	6,985
	<u>83,256</u>	<u>71,206</u>

Notes to the Accounts

19. Other investments

	Group	
	2004	2003
	HK\$'000	HK\$'000
Equity securities:		
Listed in Hong Kong	12,543	5,865
Listed outside Hong Kong	67,186	53,202
Market linked deposits	—	15,015
Equity linked notes	11,694	—
Managed funds	<u>16,620</u>	<u>4,299</u>
Market value	<u>108,043</u>	<u>78,381</u>

20. Creditors and accruals

Trade creditors are included in creditors and accruals. The ageing analysis of trade creditors is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current – 30 days	26,530	33,124
31 – 60 days	1,975	3,170
Over 60 days	<u>1,957</u>	<u>11,214</u>
	<u>30,462</u>	<u>47,508</u>

21. Bank loans and overdrafts

	Group	
	2004	2003
	HK\$'000	HK\$'000
Unsecured, repayable on demand or within one year	115,879	162,272
Current portion of long term bank loans (<i>Note 25</i>)	<u>—</u>	<u>760</u>
	<u>115,879</u>	<u>163,032</u>

22. Share capital

	Ordinary shares of HK\$0.50 each	
	No. of shares	HK\$'000
Authorised:		
At 31 March 2003 and 2004	<u>600,000,000</u>	<u>300,000</u>
Issued and fully paid:		
At 31 March 2003 and 2004	<u>259,685,289</u>	<u>129,843</u>

23. Reserves

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Share premium				
At 31 March	<u>306,211</u>	<u>306,211</u>	<u>306,211</u>	<u>306,211</u>
Capital redemption reserve				
At 31 March	<u>775</u>	<u>775</u>	<u>775</u>	<u>775</u>
Land and buildings revaluation reserve				
At 31 March	<u>22,267</u>	<u>22,267</u>	<u>—</u>	<u>—</u>
General reserve				
At 1 April of the previous year	11,845	11,845	—	—
Realized on disposal of subsidiaries	<u>(221)</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31 March	<u>11,624</u>	<u>11,845</u>	<u>—</u>	<u>—</u>
Capital reserve				
At 31 March	<u>26,878</u>	<u>26,878</u>	<u>17,966</u>	<u>17,966</u>
Exchange fluctuation account				
At 1 April of the previous year	(634)	6,979	—	—
Realized on disposal of subsidiaries	2,342	—	—	—
Arising from translation of accounts	104	(472)	—	—
Written back from retained earnings	<u>(1,586)</u>	<u>(7,141)</u>	<u>—</u>	<u>—</u>
At 31 March	<u>226</u>	<u>(634)</u>	<u>—</u>	<u>—</u>
	<u>367,981</u>	<u>367,342</u>	<u>324,952</u>	<u>324,952</u>

	Group	
	2004 HK\$'000	2003 HK\$'000
The Group's share of the undistributed post-acquisition reserves of associated companies comprises:		
Land and buildings revaluation reserve	15,932	15,932
Capital reserve	1,651	1,651
Exchange fluctuation account	<u>9,604</u>	<u>11,334</u>
	<u>27,187</u>	<u>28,917</u>
The Group's share of the undistributed post-acquisition reserves of jointly controlled entities comprises:		
Exchange fluctuation account	<u>1,190</u>	<u>1,184</u>

Notes to the Accounts

24. Retained earnings

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At 1 April of the previous year, as previously reported	284,349	268,376	70,049	60,997
Change in accounting policy - recognition of net deferred tax assets (<i>Note 1(o)</i>)	5,581	6,513	—	—
At 1 April of the previous year, as restated	289,930	274,889	70,049	60,997
Profit for the year	97,948	41,659	90,518	42,811
Prior year final dividend paid	(20,775)	(20,775)	(20,775)	(20,775)
Interim dividend paid (<i>Note 9</i>)	(12,984)	(12,984)	(12,984)	(12,984)
Write back of exchange fluctuation account	1,586	7,141	—	—
At 31 March	<u>355,705</u>	<u>289,930</u>	<u>126,808</u>	<u>70,049</u>
Represented by:				
Retained earnings	308,961	269,155	80,064	49,274
Final dividend proposed (<i>Note 9</i>)	20,775	20,775	20,775	20,775
Special dividend proposed (<i>Note 9</i>)	25,969	—	25,969	—
	<u>355,705</u>	<u>289,930</u>	<u>126,808</u>	<u>70,049</u>

	Group	
	2004 HK\$'000	2003 HK\$'000
Company and subsidiaries	426,536	362,813
Associated companies	(48,884)	(59,079)
Jointly controlled entities	(21,947)	(13,804)
	<u>355,705</u>	<u>289,930</u>
Profit for the year retained by:		
Company and subsidiaries	62,137	22,039
Associated companies	10,195	(7,645)
Jointly controlled entities	(8,143)	(6,494)
	<u>64,189</u>	<u>7,900</u>

Reserves available for distribution to shareholders by the Company (as calculated under the provisions of section 79B of the Hong Kong Companies Ordinance) as at 31 March 2004 amounted to HK\$126,808,000 (2003: HK\$70,049,000).

25. Long term bank loans

	Group	
	2004 HK\$'000	2003 HK\$'000
Unsecured, wholly repayable within five years	—	3,331
Less: Amount repayable within one year included under current liabilities (<i>Note 21</i>)	—	(760)
	<u>—</u>	<u>2,571</u>
The long term bank loans are repayable as follows:		
Within one year	—	760
In the second year	—	795
In the third to fifth years inclusive	—	1,776
	<u>—</u>	<u>3,331</u>

26. Provision for long service payments

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At 1 April of the previous year	26,606	26,204	200	—
(Write back of)/additional provisions	(1,817)	5,248	29	200
Less: Amounts utilized	<u>(954)</u>	<u>(4,846)</u>	<u>(84)</u>	<u>—</u>
At 31 March	<u>23,835</u>	<u>26,606</u>	<u>145</u>	<u>200</u>

The Group has made provision for long service payments based on a calculation of the statutory payment required for each employee, by applying the relevant legal provisions, as at the balance sheet date. The calculation is re-performed at each balance sheet date and the provision is adjusted accordingly to reflect the obligation at that date.

The above policy for determining the provision for long service payments does not accord with SSAP 34 (revised) "Employee Benefits" which requires such provision be based on actuarial valuation of these obligations. However, the Directors are of the opinion that because the provision represents the maximum statutory liability of the long service payments required as at the balance sheet date, there is therefore no material departure from the SSAP requirement in terms of financial effect.

Notes to the Accounts

27. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%)

	<u>Group</u>	
	2004 HK\$'000	2003 HK\$'000
Net deferred tax charged to profit and loss account	<u>1,609</u>	<u>1,519</u>

The movement in the deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets	<u>Group</u>						<u>Company</u>	
	Tax losses		Provisions		Total		2004 HK\$'000	2003 HK\$'000
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000		
At 1 April of the previous year	4,315	6,077	3,037	2,975	7,352	9,052	—	—
Credited/(charged) to profit and loss account	<u>(1,137)</u>	<u>(1,762)</u>	<u>(532)</u>	<u>62</u>	<u>(1,669)</u>	<u>(1,700)</u>	—	—
At 31 March	<u>3,178</u>	<u>4,315</u>	<u>2,505</u>	<u>3,037</u>	<u>5,683</u>	<u>7,352</u>	—	—

Deferred tax liabilities

	<u>Accelerated depreciation</u>			
	<u>Group</u>		<u>Company</u>	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At 1 April of the previous year	2,500	2,681	3	5
(Credited)/charged to profit and loss account	<u>(60)</u>	<u>(181)</u>	<u>15</u>	<u>(2)</u>
At 31 March	<u>2,440</u>	<u>2,500</u>	<u>18</u>	<u>3</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown separately on the balance sheet.

	<u>Group</u>		<u>Company</u>	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Deferred tax assets	3,953	4,964	—	—
Deferred tax liabilities	<u>(710)</u>	<u>(112)</u>	<u>18</u>	<u>3</u>
	<u>3,243</u>	<u>4,852</u>	<u>18</u>	<u>3</u>

Deferred tax assets of HK\$25,013,000 (2003: HK\$23,455,000) arising from unused tax losses of HK\$142,930,000 (2003: HK\$134,028,000) has not been recognized and this tax losses have no expiry date.

28. Capital commitments

The Group and the Company did not have material capital commitments at 31 March 2004 (2003: Nil).

29. Lease commitments

	Group	
	2004	2003
	HK\$'000	HK\$'000
The future aggregate minimum lease payments under non-cancelable operating leases for land and buildings are payable as follows:		
Not later than one year	1,464	1,588
Later than one year and not later than five years	<u>146</u>	<u>654</u>
	<u>1,610</u>	<u>2,242</u>

30. Future lease receipts

	Group	
	2004	2003
	HK\$'000	HK\$'000
The future minimum lease receipts under non-cancelable operating leases in respect of other properties are receivable as follows:		
Not later than one year	1,069	198
Later than one year and not later than five years	<u>1,942</u>	<u>132</u>
	<u>3,011</u>	<u>330</u>

31. Contingent liabilities

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bills discounted with recourse	2,075	4,729	—	—
Guarantees given in respect of banking facilities granted to:				
Subsidiaries	—	—	763,341	753,341
Associated companies and a jointly controlled entity	33,850	31,850	32,850	30,850
Unlisted investee companies, in proportion to the Group's equity interests in such companies	<u>14,038</u>	<u>14,038</u>	<u>14,038</u>	<u>14,038</u>
	<u>49,963</u>	<u>50,617</u>	<u>810,229</u>	<u>798,229</u>

Notes to the Accounts

32. Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow generated from operations

	2004 HK\$'000	2003 HK\$'000
Operating profit	95,436	46,761
Depreciation	19,146	19,329
Gain on disposal of fixed assets	(483)	(1,307)
Impairment of land and buildings	—	1,886
Loss on disposal of subsidiaries	211	—
Loss on disposal of associated companies	—	334
(Gain)/loss on disposal of investment securities	(25,771)	2,192
(Write back of provision)/provision for investment securities	(4,784)	1,393
Interest income	(5,886)	(5,108)
Interest expenses	2,361	4,665
Exchange translation differences	(4,309)	(8,852)
Operating profit before working capital changes	75,921	61,293
Decrease/(increase) in inventories	929	(3,294)
Decrease/(increase) in debtors and other receivables	6,966	(15,307)
Increase in other investments	(29,662)	(18,292)
Decrease in creditors and accruals	(4,875)	(6,260)
(Decrease)/increase in provision for long service payments	(2,771)	402
Net cash inflow generated from operations	<u>46,508</u>	<u>18,542</u>

(b) Disposal of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of		
Fixed assets	6,042	—
Inventories	2,989	—
Debtors and other receivables	2,718	—
Cash and bank balance	1,238	—
Creditors and accruals	(9,099)	—
Minority interests	(91)	—
	<u>3,797</u>	<u>—</u>
Realization of exchange fluctuation reserve on disposal	2,342	—
Realization of general reserve on disposal	(221)	—
Loss on disposal of subsidiaries	(211)	—
	<u>3,797</u>	<u>—</u>
Cash consideration	5,707	—
Cash and bank balances of the subsidiaries disposed of	(1,238)	—
Net inflow of cash and cash equivalents	<u>4,469</u>	<u>—</u>

32. Notes to the consolidated cash flow statement (continued)

(c) Analysis of changes in financing

	Minority interests		Bank loans	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At 1 April of the previous year, as previously reported	2,608	2,197	48,331	68,000
Change in accounting policy – recognition of net deferred tax assets (Note 1(o))	81	87	—	—
At 1 April of the previous year, as restated	2,689	2,284	48,331	68,000
Minority interests in share of profits	238	405	—	—
Disposal of subsidiaries	(91)	—	—	—
Cash outflow from financing	—	—	(28,331)	(19,669)
At 31 March	2,836	2,689	20,000	48,331

(d) Analysis of bank loans

	2004 HK\$'000	2003 HK\$'000
Bank loans and overdrafts (Note 21)	115,879	162,272
Less: Amount included under cash and cash equivalents	(95,879)	(117,272)
	20,000	45,000
Long term bank loans (Note 25)	—	3,331
	20,000	48,331

33. Subsequent event

On 23 June 2004, Pearlite Properties Limited, an indirect wholly-owned subsidiary of the Company, completed the disposal of the entire building known as Winner Building, 9 Yuk Yat Street, To Kwa Wan, Kowloon, Hong Kong (“the Property”) to an independent third party.

The Property is an industrial development with a total gross floor area of about 108,000 sq. ft. and has been vacant for some time. The consideration for the disposal in the sum of HK\$55 million payable in cash has been received in full. The profit from the disposal attributable to shareholders is expected to be about HK\$50 million and will be recognized in the year ending 31 March 2005.

The proceeds from the disposal have been retained as the Group’s working capital.

34. Ultimate holding company

The Directors of the Company regard Super-Rich Finance Limited, a company incorporated in the British Virgin Islands, as the ultimate holding company of the Company.

35. Approval of accounts

The accounts set out on pages 13 to 44 were approved by the Board of Directors on 15 July 2004.