

1. CORPORATE INFORMATION

During the period, the Group was involved in the design, manufacture, distribution and retail of optical products.

In the opinion of the directors, the ultimate holding company is KFL Holdings Limited, which is incorporated in the British Virgin Islands.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current period's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs, are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 35 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the period, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the period are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes are included in the accounting policy for "Foreign currencies" in note 3 and in note 36(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 34 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets and equity investments as further explained below.

During the period, the Company and the Group have changed their financial accounting year end date from 31 March to 31 December, with the first financial period after the change being from 1 April 2002 to 31 December 2002. As part of the Group's globalisation plan, this change will enhance financial reporting harmonisation with the Group's European subsidiaries and its new joint stock company in the People's Republic of China (the "PRC"), and the Group as a whole will be more comparable to its major global competitors. Accordingly, these financial statements are presented for a period of 9 months rather than for a period of 12 months as was adopted for the immediate past accounting year ended 31 March 2002. Consequently, the comparative amounts for the consolidated profit and loss account, cash flow statement and related notes are not directly comparable with those of the current 9 month accounting period.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period from 1 April 2002 to 31 December 2002. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

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

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

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years.

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

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

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

Impairment of assets

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

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

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

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

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the shorter of the remaining lease terms or 2%
Leasehold improvements	5% to 20%
Plant and machinery	15% to 25%
Tools and moulds	15% to 25%
Furniture, fixtures and equipment	20% to 25%
Motor vehicles	25%

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

Fixed assets and depreciation *(continued)*

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

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Leased assets

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

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

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

Intangible assets

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Web platform

A web platform for product development, workflow automation and inventory management, which supports the enterprise resources planning system, is stated at cost, including associated consultancy charges, and amortised on the straight-line basis over its estimated useful life of five years, commencing from the date when the web platform is put into use.

Trademarks

Trademarks for intellectual property rights, are stated at cost, including registration fees and associated legal costs, and amortised on the straight-line basis over their estimated useful lives up to 10 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Long term investments**

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

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Other long term investments in listed equity securities, intended to be held on a long term basis, are stated at their fair values at the balance sheet date, on an individual investment basis.

The fair values of such listed securities are their quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

Short term investments

Short term investments in listed and unlisted equity securities are stated at their fair values at the balance sheet date, on an individual investment basis. Listed securities are stated at their fair values based on their quoted market prices at the balance sheet date. Unlisted securities are stated at their fair values based on the directors' valuation, or where appropriate, the proceeds on disposal after the balance sheet date. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the period, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans, further details of which are included in note 36(a) to the financial statements.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

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

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

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

Prior to the adoption of the revised SSAPs 11 and 15 during the period, as explained in note 2 to the financial statements, the profit and loss accounts and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes in the format of the consolidated cash flow statement, further details of which are included in note 36(a) to the financial statements, but no material effect on the amounts of the previously-reported cash flows of the prior period.

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) from the rendering of subcontracting services, on completion of the transactions;
- (d) management fee income, when services are rendered; and
- (e) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Pension scheme and other post-employment benefits

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

The employees of the Group's subsidiaries which operate in the PRC, other than Hong Kong, are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

The employees of the Group's subsidiaries which operate outside Hong Kong and the PRC are covered by their respective local arrangements. In particular, certain of the Group's employees in Italy are entitled to post-employment benefits immediately upon their departure under any circumstances. The provision for such post-employment benefits is based on the remuneration earned by the employees for their lengths of service to the Group up to the balance sheet date.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, 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 are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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

Dividends

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

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

Related parties

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

4. SEGMENT INFORMATION

Segment information is presented by way of geographical segments. No further business segment analysis of the Group's revenues and results is presented as all the Group's revenue and results are generated from vertically integrated activities which include the design, manufacture, distribution and retailing of optical products.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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4. SEGMENT INFORMATION (continued)

Geographical segments

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

Group

	North America		PRC		Asia Pacific (including Hong Kong)		Europe		Corporate		Others		Consolidated	
	Period ended 31 December 2002 HK\$'000	Year ended 31 March 2002 HK\$'000	Period ended 31 December 2002 HK\$'000	Year ended 31 March 2002 HK\$'000	Period ended 31 December 2002 HK\$'000	Year ended 31 March 2002 HK\$'000	Period ended 31 December 2002 HK\$'000	Year ended 31 March 2002 HK\$'000	Period ended 31 December 2002 HK\$'000	Year ended 31 March 2002 HK\$'000	Period ended 31 December 2002 HK\$'000	Year ended 31 March 2002 HK\$'000	Period ended 31 December 2002 HK\$'000	Year ended 31 March 2002 HK\$'000
Segment revenue:														
Sales to external customers	198,707	204,975	185,701	264,230	83,933	107,938	417,295	534,653	—	—	3,117	3,003	888,753	1,114,799
Other revenue	939	1,094	950	1,770	1,763	1,448	26,521	14,050	418	2,194	47	—	30,638	20,556
Total	199,646	206,069	186,651	266,000	85,696	109,386	443,816	548,703	418	2,194	3,164	3,003	919,391	1,135,355
Segment results	18,013	36,509	46,396	88,602	17,977	12,470	43,411	(238)	5,278	6,541	1,252	1,130	132,327	145,014
Interest and dividend income													32,949	39,578
Profit from operating activities													165,276	184,592
Finance costs													(46,541)	(44,105)
Profit before tax													118,735	140,487
Tax													(17,001)	(19,915)
Profit before minority interests													101,734	120,572
Minority interests													(457)	22,784
Net profit from ordinary activities attributable to shareholders													101,277	143,356

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4. SEGMENT INFORMATION *(continued)*

Geographical segments *(continued)*

	North America		PRC		Asia Pacific (including Hong Kong)		Europe		Consolidated	
	31 December 2002	31 March 2002	31 December 2002	31 March 2002	31 December 2002	31 March 2002	31 December 2002	31 March 2002	31 December 2002	31 March 2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	133,015	85,617	1,067,418	1,102,993	1,321,778	1,112,740	453,693	698,927	2,975,904	3,000,277
Unallocated assets									4,503	1,943
Total assets									2,980,407	3,002,220
Segment liabilities	18,344	5,157	47,303	31,057	72,210	51,854	142,117	231,471	279,974	319,539
Unallocated liabilities									1,241,333	1,262,067
Total liabilities									1,521,307	1,581,606
Other segment information:										
Depreciation	1,133	13	29,194	32,957	13,563	18,024	17,654	18,771	61,544	69,765
Amortisation of intangible assets	—	—	—	—	969	237	6,344	1,513	7,313	1,750
Amortisation of goodwill	2,352	1,828	—	—	—	—	6,376	4,613	8,728	6,441
Provision for doubtful debts	938	357	27	63	5,885	7,112	5,293	4,320	12,143	11,852
Provision for slow moving and obsolete inventories	1,594	3,219	—	3,547	406	2,360	—	731	2,000	9,857
Write back of provision for slow moving and obsolete inventories	—	—	(7,626)	—	—	—	(4,776)	—	(12,402)	—
Capital expenditure	3,077	103	110,263	54,331	21,002	12,531	19,126	235,953	153,468	302,918

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5. TURNOVER, REVENUE AND GAINS

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

An analysis of the Group's turnover, other revenue and gains is as follows:

	<i>Note</i>	Period from 1 April 2002 to 31 December 2002 HK\$'000	Year ended 31 March 2002 HK\$'000
Turnover			
Sale of goods		<u>888,753</u>	<u>1,114,799</u>
Other revenue			
Interest income		32,704	39,482
Dividend income from investments		245	96
Subcontracting income		1,617	907
Management fee income		250	495
Others		<u>14,568</u>	<u>19,154</u>
		<u>49,384</u>	<u>60,134</u>
Gains			
Gain on disposal of subsidiaries	36(d)	12,897	—
Gain on disposal of short term listed investment		2	—
Waiver of trade payable		<u>1,304</u>	—
		<u>14,203</u>	—
Other revenue and gains		<u>63,587</u>	<u>60,134</u>

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6. PROFIT FROM OPERATING ACTIVITIES

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

	<i>Notes</i>	Period from 1 April 2002 to 31 December 2002 HK\$'000	Year ended 31 March 2002 HK\$'000
Cost of inventories sold	(i)	354,185	511,722
Auditors' remuneration		6,040	4,757
Depreciation	14	61,544	69,765
Minimum lease payments under operating leases on land and buildings	(i)	27,045	31,091
Amortisation of intangible assets	(ii), 15	7,313	1,750
Amortisation of goodwill	(ii), 16	8,728	6,441
Staff costs (excluding directors' remuneration — note 8):			
Wages and salaries	(i)	193,275	214,109
Pension scheme contributions		3,245	4,564
Less: Forfeited contributions		(272)	(447)
Net pension contributions	(iii)	2,973	4,117
Restructuring costs	(iv)	10,706	8,020
Provision for doubtful debts		12,143	11,852
Provision for slow moving and obsolete inventories		2,000	9,857
Write back of provision for slow moving and obsolete inventories		(12,402)	—
Exchange losses, net		1,156	4,026
Unrealised loss on revaluation of long and short term listed investments carried at fair value		—	20
Loss on disposal of intangible assets		926	2,773
Loss/(gain) on disposal of fixed assets		1,404	(701)
Loss on realisation of short term investments		—	3,759
		<u> </u>	<u> </u>

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6. PROFIT FROM OPERATING ACTIVITIES *(continued)*

Notes:

- (i) Cost of sales includes HK\$94,864,000 (year ended 31 March 2002: HK\$85,751,000) relating to staff costs, depreciation and operating lease rentals, which is also included in the respective total amounts disclosed separately above for each of these expenses.
- (ii) Amortisation of intangible assets and goodwill for the period are included in "Other operating expenses, net" on the face of the profit and loss account.
- (iii) At 31 December 2002, the Group had forfeited contributions of HK\$26,000 available to reduce its contributions to the pension scheme in future years (year ended 31 March 2002: Nil).
- (iv) Restructuring costs, comprising compensation for dismissal of workers and staff, removal costs and restructuring advisory fee, were incurred for the restructuring of the Group's distribution business in Europe and North America during the period.

7. FINANCE COSTS

	Group	
	Period from 1 April 2002 to 31 December 2002 HK\$'000	Year ended 31 March 2002 HK\$'000
Interest on bank loans and overdrafts wholly repayable:		
Within five years	39,460	32,841
Beyond five years	920	1,488
Interest on finance leases and hire purchase contracts	1,848	1,288
Interest on convertible notes	1,740	6,217
	<hr/>	<hr/>
Total interest	43,968	41,834
Bank charges	2,573	2,271
	<hr/>	<hr/>
	<u>46,541</u>	<u>44,105</u>

Notes To Financial Statements

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8. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	Period from 1 April 2002 to 31 December 2002 HK\$'000	Year ended 31 March 2002 HK\$'000
Executive directors:		
Fees	45	60
Other emoluments:		
Salaries, allowances and benefits in kind	8,928	12,520
Pension scheme contributions	54	84
	<u>8,982</u>	<u>12,604</u>
	<u>9,027</u>	<u>12,664</u>
Non-executive directors:		
Fees	—	470

The remuneration of all of the executive directors, amounting to HK\$9,027,000 for the current period (year ended 31 March 2002: HK\$12,664,000), was borne by the ultimate holding company, KFL Holdings Limited. As a result, the remuneration was not charged to the consolidated profit and loss account for both the current period and the year ended 31 March 2002.

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	Period from 1 April 2002 to 31 December 2002	Year ended 31 March 2002
Nil to HK\$1,000,000	7	8
HK\$1,000,001 to HK\$1,500,000	4	2
HK\$1,500,001 to HK\$2,000,000	1	—
HK\$2,000,001 to HK\$2,500,000	1	4
	<u>13</u>	<u>14</u>

8. DIRECTORS' REMUNERATION *(continued)*

In addition to the above remuneration, 19,500,000 share options granted to certain directors in respect of their services to the Group in the prior year, remained outstanding at 31 December 2002, further details of which are set out in note 34 to the financial statements. During the period, no further options were granted to the directors.

9. FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of the five (31 March 2002: five) non-director, highest paid employees are as follows:

	Group	
	Period from 1 April 2002 to 31 December 2002 HK\$'000	Year ended 31 March 2002 HK\$'000
Salaries, allowances and benefits in kind	6,191	5,170
Pension scheme contributions	—	483
	<u>6,191</u>	<u>5,653</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	Period from 1 April 2002 to 31 December 2002	Year ended 31 March 2002
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	3	3
HK\$1,500,001 to HK\$2,000,000	1	—
	<u>5</u>	<u>5</u>

During the period, no share options were granted to the five non-director, highest paid employees in respect of their services to the Group.

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10. TAX

Hong Kong profits tax has been provided at the rate of 16% (31 March 2002: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	Period from 1 April 2002 to 31 December 2002 HK\$'000	Year ended 31 March 2002 HK\$'000
Hong Kong	12,989	12,848
Elsewhere	881	2,373
Underprovision in prior year	249	194
Deferred (<i>note 31</i>)	2,882	4,500
	<hr/>	<hr/>
Tax charge for the period/year	17,001	19,915

In relation to the Group's distribution operations in the PRC, the Group has made arrangements with a PRC subcontractor under which all taxes incurred in connection with these sales in the PRC are to be borne by the PRC subcontractor. The Group has also received indemnities from the PRC subcontractor for any taxes in the PRC that may be levied on the Group in connection with the activities covered by these arrangements. Accordingly, the directors consider that there is no tax payable in the PRC in respect of these distribution operations.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is HK\$1,366,000 (year ended 31 March 2002: HK\$71,326,000).

12. DIVIDENDS

	Period from 1 April 2002 to 31 December 2002 HK\$'000	Year ended 31 March 2002 HK\$'000
Additional final dividend in respect of the year ended 31 March 2002	148	—
Interim — HK5.6 cents (31 March 2002 (restated): HK7.0 cents) per ordinary share	22,569	28,338
Proposed final — HK4.4 cents (31 March 2002 (restated): HK7.5 cents) per ordinary share	<u>17,673</u>	<u>30,100</u>
	<u><u>40,390</u></u>	<u><u>58,438</u></u>

The additional final dividend represents the additional payment of the prior year's final dividend of HK1.5 cents per ordinary share to the new shareholders of 9,903,500 shares registered as members between 31 March 2002 and 6 September 2002, the date upon which members were entitled to the dividend.

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

As a result of the consolidation of shares, as detailed in note 33 to the financial statements, the comparative amounts of the dividends per ordinary share have been restated as if the consolidation of shares detailed in note 33 to the financial statements, had occurred at the beginning of the year ended 31 March 2002.

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13. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on:

	Period from 1 April 2002 to 31 December 2002 HK\$'000	Year ended 31 March 2002 HK\$'000
Earnings		
Net profit attributable to shareholders, used in the basic and diluted earnings per share calculations	101,277	143,356
Increase in earnings arising from a saving in interest cost, net of tax (assuming the convertible notes had been converted into shares in the Company at their date of issue)	<u>655</u>	<u>4,914</u>
Adjusted profit attributable to shareholders	<u><u>101,932</u></u>	<u><u>148,270</u></u>
Number of shares		
	31 December 2002	31 March 2002 (restated)
Weighted average number of ordinary shares in issue during the period/year used in basic earnings per share calculation	402,535,166	405,759,695
Weighted average number of ordinary shares assumed issued at no consideration on deemed exercise of all convertible notes outstanding during the period/year	<u>3,563,218</u>	<u>26,724,138</u>
Weighted average number of ordinary shares used in diluted earnings per share calculation	<u><u>406,098,384</u></u>	<u><u>432,483,833</u></u>

The above weighted average number of ordinary shares amounts for the current and prior periods have been restated as if the consolidation of shares detailed in note 33 to the financial statements had occurred at the beginning of the year ended 31 March 2002.

In the calculations of the diluted earnings per share, the effect of the share options outstanding during the period was not taken into account as the average market price of the Company's ordinary shares was lower than the exercise price of the share options and, accordingly, the share option has an anti-dilutive effect on the basic earning per share for these years.

14. FIXED ASSETS

Group	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Tools and moulds HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation:								
At beginning of period	531,610	133,096	279,722	27,900	121,854	43,281	34,705	1,172,168
Additions	88,275	5,280	27,583	7,801	12,844	549	—	142,332
Disposal of subsidiaries (note 36(d))	(58,138)	—	(56,696)	(6,919)	(52,446)	(1,537)	—	(175,736)
Disposals	(12,302)	—	(11,824)	(9)	(1,639)	(13,425)	—	(39,199)
Reclassification	34,705	(953)	—	3,653	13,073	(15,773)	(34,705)	—
Exchange realignment	13,071	156	12,467	1,958	9,031	3,726	—	40,409
At 31 December 2002	<u>597,221</u>	<u>137,579</u>	<u>251,252</u>	<u>34,384</u>	<u>102,717</u>	<u>16,821</u>	<u>—</u>	<u>1,139,974</u>
Analysis of cost or valuation:								
At cost	527,921	137,579	251,252	34,384	102,717	16,821	—	1,070,674
At 31 March 1993 valuation	69,300	—	—	—	—	—	—	69,300
	<u>597,221</u>	<u>137,579</u>	<u>251,252</u>	<u>34,384</u>	<u>102,717</u>	<u>16,821</u>	<u>—</u>	<u>1,139,974</u>
Accumulated depreciation:								
At beginning of period	57,260	33,263	168,471	20,744	87,585	34,179	—	401,502
Provided during the period	8,781	12,161	19,204	6,577	12,178	2,643	—	61,544
Disposal of subsidiaries (note 36(d))	(15,255)	—	(38,748)	(3,072)	(44,309)	(1,393)	—	(102,777)
Disposals	(523)	—	(9,068)	(9)	(1,291)	(13,415)	—	(24,306)
Reclassification	—	(666)	—	—	10,703	(10,037)	—	—
Exchange realignment	2,294	109	7,546	1,873	7,183	2,595	—	21,600
At 31 December 2002	<u>52,557</u>	<u>44,867</u>	<u>147,405</u>	<u>26,113</u>	<u>72,049</u>	<u>14,572</u>	<u>—</u>	<u>357,563</u>
Net book value:								
At 31 December 2002	<u>544,664</u>	<u>92,712</u>	<u>103,847</u>	<u>8,271</u>	<u>30,668</u>	<u>2,249</u>	<u>—</u>	<u>782,411</u>
At 31 March 2002	<u>474,350</u>	<u>99,833</u>	<u>111,251</u>	<u>7,156</u>	<u>34,269</u>	<u>9,102</u>	<u>34,705</u>	<u>770,666</u>
Net book value of the Group's fixed assets held under finance leases or hire purchase contracts:								
At 31 December 2002	<u>—</u>	<u>—</u>	<u>21,669</u>	<u>—</u>	<u>10,413</u>	<u>634</u>	<u>—</u>	<u>32,716</u>
At 31 March 2002	<u>—</u>	<u>—</u>	<u>21,016</u>	<u>—</u>	<u>10,139</u>	<u>2,431</u>	<u>—</u>	<u>33,586</u>

Certain of the Group's leasehold land and buildings were revalued at 31 March 1993 by C.Y. Leung & Company Limited, independent professionally qualified surveyors. The land and buildings were revalued at open market value, based on their existing use. Since then, no further revaluations of the Group's leasehold land and buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions of SSAP 17, "Property, plant and equipment", from the requirement to carry out future revaluations of its fixed assets which were stated at valuation at the time that SSAP 17 was adopted.

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14. FIXED ASSETS (continued)

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK\$29,809,000 (31 March 2002: HK\$30,363,000).

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

	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000
At cost:			
Long term leases	—	127,748	127,748
Medium term leases	82,704	90,188	172,892
Short term leases	—	24,205	24,205
No specified terms of leases	—	203,076	203,076
	<u>82,704</u>	<u>445,217</u>	<u>527,921</u>
At valuation:			
Medium term leases	<u>69,300</u>	<u>—</u>	<u>69,300</u>
	<u>152,004</u>	<u>445,217</u>	<u>597,221</u>

Certain of the Group's leasehold land and buildings situated in Hong Kong were pledged to secure general banking facilities granted to the Group, as detailed in note 27 to the financial statements.

15. INTANGIBLE ASSETS

Group	Development costs HK\$'000	Web platform HK\$'000	Trademarks HK\$'000	Total HK\$'000
Cost:				
At beginning of period	13,936	4,945	8,152	27,033
Additions	8,101	2,984	51	11,136
Disposal of subsidiaries (<i>note 36(d)</i>)	(1,399)	—	(50)	(1,449)
Disposal	(3,226)	—	(1,632)	(4,858)
Exchange realignment	2,425	—	1,087	3,512
At 31 December 2002	<u>19,837</u>	<u>7,929</u>	<u>7,608</u>	<u>35,374</u>
Accumulated amortisation:				
At beginning of period	8,855	—	5,158	14,013
Provided during the period	5,942	847	524	7,313
Disposal of subsidiaries (<i>note 36(d)</i>)	(37)	—	(33)	(70)
Disposal	(2,484)	—	(1,448)	(3,932)
Exchange realignment	2,135	—	584	2,719
At 31 December 2002	<u>14,411</u>	<u>847</u>	<u>4,785</u>	<u>20,043</u>
Net book value:				
At 31 December 2002	<u>5,426</u>	<u>7,082</u>	<u>2,823</u>	<u>15,331</u>
At 31 March 2002	<u>5,081</u>	<u>4,945</u>	<u>2,994</u>	<u>13,020</u>

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16. GOODWILL

The amount of goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries, is as follows:

Group

	Goodwill HK\$'000
Cost:	
At beginning of period	228,061
Additions	7,859
Disposal of subsidiaries (<i>note 36(d)</i>)	(48,324)
Exchange realignment	9,850
	<hr/>
At 31 December 2002	197,446
	<hr/>
Accumulated amortisation and impairment:	
At beginning of period	27,262
Amortisation provided during the period	8,728
Disposal of subsidiaries (<i>note 36(d)</i>)	(3,103)
Exchange realignment	747
	<hr/>
At 31 December 2002	33,634
	<hr/>
Net book value:	
At 31 December 2002	<u>163,812</u>
	<hr/>
At 31 March 2002	<u>200,799</u>
	<hr/>

17. INTERESTS IN SUBSIDIARIES

	Company	
	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Unlisted shares, at cost	<u>92,714</u>	<u>92,714</u>
Current accounts:		
Due from subsidiaries	507,693	639,607
Due to subsidiaries	<u>(22,532)</u>	<u>(15,883)</u>
	<hr/>	<hr/>
	485,161	623,724
	<hr/>	<hr/>
	<u>577,875</u>	<u>716,438</u>
	<hr/>	<hr/>

The amounts due from/to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

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17. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Active Sino Group Limited	British Virgin Islands	The People's Republic of China	US\$1,000	—	82.5	Investment holding
Allied Industrial Limited	Hong Kong	The People's Republic of China	HK\$10,000	—	100	Distribution of optical products
B.M. Optical Parts Company Limited	Hong Kong	Hong Kong	HK\$500,000	—	80	Trading of optical products
Bold Ware Optical (Metal) Manufactory Limited	Hong Kong	The People's Republic of China	HK\$100	—	80	Manufacture and trading of spectacles accessories
Chaoyang City Taixingshen Optical Company Limited <i>(notes d and e)</i>	The People's Republic of China	The People's Republic of China	HK\$3,000,000	—	80	Investment holding
Creative Eyewear Limited	British Virgin Islands	The People's Republic of China	US\$2,000,000	—	75	Manufacture and trading of optical products
Filos North America Inc. <i>(note e)</i>	United States of America	United States of America	US\$500,000	—	78.22	Distribution of optical products
Infinite Eyewear Limited	Hong Kong	Hong Kong	HK\$3	—	100	Distribution of optical products
Leadkeen Industrial Limited	Hong Kong	The People's Republic of China	HK\$100,000	—	100	Manufacture and trading of optical products

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17. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Liberty Optical, Inc. <i>(note e)</i>	United States of America	United States of America	US\$8	—	100	Distribution of optical products
M.D. Creation Limited	Hong Kong	Hong Kong	HK\$10,000	—	100	Provision of design and marketing services of optical products
Metzler International (Philippines) Inc. <i>(formerly known as Martin Philippines, Inc.) (note e)</i>	The Philippines	The Philippines	Peso 5,000,000	—	39.89 <i>(note a)</i>	Distribution of optical products
Metzler International (Asia) Limited <i>(formerly known as Moulin Optical (Far East) Limited)</i>	Hong Kong	Hong Kong	HK\$4,000,000	—	78.22	Distribution of optical products
Metzler International (M) SDN. BHD. <i>(formerly known as MonOptic (M) SDN. BHD.)</i>	Malaysia	Malaysia	RM100	—	78.22	Trading of optical products
Metzler International (S'pore) Pte. Limited <i>(formerly known as MonOptic (S'pore) Pte Limited)</i>	Singapore	Singapore	S\$100	—	78.22	Trading of optical products
Metzler International (USA) Inc. <i>(note e)</i>	United States of America	United States of America	US\$11,500	—	78.22	Distribution of optical frames
Metzler International AG <i>(note e)</i>	Germany	Germany	Euro247,374	—	78.22	Investment holding

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17. INTERESTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Metzler International (Italia) S.p.A. (formerly known as Filos S.p.A.)	Italy	Italy	Euro 8,904,289	—	78.22	Distribution of optical products
MonOptic GmbH Brillen (note e)	Germany	Germany	DM250,000	—	100	Distribution of optical products
Moulin (HK) Logistics Company Limited	Hong Kong	Hong Kong	HK\$10,000	—	100	Provision of logistic services
Moulin Holdings (H.K.) Company Limited	Hong Kong	Hong Kong	HK\$2	—	100	Investment holding
Moulin Optical Manufactory Limited	Hong Kong	Hong Kong	HK\$1,000,000	—	100	Manufacture, marketing and distribution of optical products
Mounthill Group Limited	British Virgin Islands	Hong Kong	US\$1,000	—	100	Licences holding
N.G.A. Optical Manufactory Limited	Hong Kong	The People's Republic of China	HK\$6,500,000	—	50 (note a)	Manufacture and trading of optical products
Opti-Fashion Inc. (note e)	United States of America	United States of America	US\$2,400,000	—	78.22	Distribution of optical products
Peace City Investment Limited	Hong Kong	Hong Kong	HK\$3	—	100	Property investment
Shanghai Hillman's Spectacles Limited (note b)	The People's Republic of China	The People's Republic of China	US\$700,000	—	82.5	Retail trading of optical products
Shanghai Hillman Trading Limited (note b)	The People's Republic of China	The People's Republic of China	RMB300,000	—	57.75	Retail trading of optical products

Notes To Financial Statements

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17. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Shanghai Moulin International Holdings Limited <i>(notes c and e)</i>	The People's Republic of China	The People's Republic of China	RMB60,000,000	—	76.8	Manufacture and trading of optical products
Sino Concept Industrial Limited	Hong Kong	The People's Republic of China	HK\$10,000	—	100	Provision of electroplating services
Sintesi S.r.l. <i>(note e)</i>	Italy	Italy	Euro 4,080,000	—	78.22	Manufacture of optical products
United Optical S.p.A. <i>(note e)</i>	Italy	Italy	Euro 2,452,621	—	78.22	Distribution of optical products

Notes:

- (a) Metzler International (Philippines) Inc. and N.G.A. Optical Manufactory Limited are accounted for as subsidiaries of the Group because the Group has control of more than half of the voting power of the company.
- (b) Shanghai Hillman's Spectacles Limited ("SH Spectacles") and Shanghai Hillman Trading Limited ("SH Trading") are co-operative joint venture companies established in the People's Republic of China (the "PRC"). SH Spectacles and SH Trading obtained business registration certificates on 9 December 1994 and 24 April 1997, respectively, and are licensed to conduct business for 15 years and 10 years, respectively, from the date of their business registration.
- (c) Shanghai Moulin International Holdings Limited is a Sino-foreign joint stock company established in the PRC which obtained its business registration certificate on 28 October 2002.
- (d) Chaoyang City Taixingshen Optical Company Limited is a Sino-foreign investment enterprise established in the PRC which obtained its business registration certificate on 16 September 1999 and are licensed to conduct business for 12 years.
- (e) Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

During the period, the Group disposed certain subsidiaries in Europe. Further details of this disposal is included in notes 36(d) to the financial statements.

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

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18. LONG TERM INVESTMENTS

	Group	
	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Unlisted equity investments, at cost:		
Hong Kong	—	40,000
Elsewhere	3,708	—
	<u>3,708</u>	<u>40,000</u>
Provision for impairment	—	(4,500)
	<u>3,708</u>	<u>35,500</u>
Listed equity investments in Hong Kong, at market value	47	47
	<u>3,755</u>	<u>35,547</u>

Last year's long term investments of HK\$35,500,000, net of impairment, were reclassified as short term investments in note 24 to the financial statements as the investments were realised at approximately the carrying amount subsequent to the balance sheet date.

19. PROMISSORY NOTES

	Group	
	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Settlement of trade debts (<i>note a</i>)	44,961	62,919
Refund of a deposit (<i>note b</i>)	—	17,699
Advances to a PRC subcontractor (<i>note c</i>)	18,519	18,519
	<u>63,480</u>	<u>99,137</u>
Portion classified as current assets (<i>note 23</i>):		
Settlement of trade debts	(33,559)	(40,843)
Refund of a deposit	—	(17,699)
Advances to a PRC subcontractor	(9,259)	—
	<u>(42,818)</u>	<u>(58,542)</u>
	<u>20,662</u>	<u>40,595</u>

Notes To Financial Statements

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19. PROMISSORY NOTES *(continued)*

Notes:

- (a) Included in the promissory notes for the settlement of trade debts were:
- (i) an outstanding amount of HK\$18,302,000, net of a provision of HK\$8,500,000, arising during the year ended 31 March 1999. The original notes of HK\$36,552,000 were unsecured, interest-free and were repayable by a first payment of HK\$3,900,000 in June 1999, followed by 35 equal monthly instalments of HK\$390,000 commencing on 1 August 1999 and a final payment of HK\$19,002,000 on 1 August 2002. The notes were overdue at the balance sheet date, but the balance of HK\$18,302,000 was received subsequent to the balance sheet date;
 - (ii) an outstanding amount of HK\$22,076,000 arising during the year ended 31 March 2001. The notes are unsecured, bear interest at 9% per annum and are repayable by four equal semi-annual instalments commencing from April 2003;
 - (iii) a remaining amount of HK\$6,365,000 receivable for a subsidiary acquired in the year ended 31 March 2002. The original notes were secured by a licensing agreement, bore interest at the US prime rate and were repayable by quarterly instalments of HK\$2,437,000 commencing on 1 December 1999 with a final payment on 30 September 2002. During the period, notes amounting to HK\$1,782,000 were repaid. For the remaining overdue balance, a new instalment agreement has been agreed subsequently, of which HK\$780,000 was settled in January 2003 with the remaining amount being repayable by equal monthly instalments until January 2004; and
 - (iv) an amount of HK\$10,676,000 arising during the year ended 31 March 2002. The notes were unsecured, bore interest at 6.25% per annum and were repayable by five monthly instalments of HK\$1,783,000 commencing on 1 June 2002 with a final payment of HK\$1,760,000 on 1 November 2002. The notes were repaid in full during the period.
- (b) The promissory notes were received in respect of a refund of a deposit of HK\$51,852,000 paid for a project in the PRC during the year ended 31 March 1999 and as dividend income of HK\$4,735,000 earned from the project. The project related to the purchase of an interest in an entity which engaged in the manufacture of plastic sheets in the PRC. During the year ended 31 March 2000, the Group withdrew from the project and the deposit, together with the dividend income, were repayable by three annual instalments on 5 April of 2000, 2001 and 2002, respectively. The notes were repaid in full during the period.
- (c) The promissory notes were received for advances to a PRC subcontractor. The notes are unsecured, interest-free and are repayable by half yearly instalments commencing from 30 April 2003.

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20. STAFF LOANS

	Group	
	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Staff loans	8,224	8,224
Portion classified as current assets (<i>note 23</i>)	<u>(1,410)</u>	<u>(2,610)</u>
	<u>6,814</u>	<u>5,614</u>

Included in staff loans were:

- (i) balances totalling HK\$810,000 (31 March 2002: HK\$810,000) which are unsecured, interest-free and have no fixed terms of repayment; and
- (ii) a balance of HK\$7,414,000 (31 March 2002: HK\$7,414,000) which is partially secured, interest-free and has specified repayment terms which have been revised during the period.

21. PREPAYMENTS FOR FRAME BOARD SPACE

	Group	
	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Prepayments for frame board space	53,511	63,654
Portion classified as current assets (<i>note 23</i>)	<u>(13,524)</u>	<u>(13,524)</u>
	<u>39,987</u>	<u>50,130</u>

Prepayments for frame board space were made to optical retail chains to secure continuous purchases from these retail chains and to reserve a certain minimum percentage of frame board space for display in each retail outlet in accordance with contractual agreements.

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22. INVENTORIES

	Group	
	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Raw materials	157,813	153,436
Work in progress	44,097	121,802
Finished goods	<u>223,286</u>	<u>253,876</u>
	425,196	529,114
Provision for slow moving and obsolete inventories	<u>(31,444)</u>	<u>(79,606)</u>
	<u><u>393,752</u></u>	<u><u>449,508</u></u>

The carrying amounts of raw materials and finished goods carried at net realisable value included in the above balances were nil (31 March 2002: HK\$1,269,000) and HK\$25,433,000 (31 March 2002: HK\$61,897,000), respectively, as at the balance sheet date.

23. TRADE AND OTHER RECEIVABLES

	Notes	Group		Company	
		31 December 2002 HK\$'000	31 March 2002 HK\$'000	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Trade debtors and bills receivable	(a)	488,180	472,970	—	—
Other debtors and prepayments		373,540	310,226	—	5,515
Promissory notes	19	42,818	58,542	—	—
Staff loans	20	1,410	2,610	—	—
Due from a PRC subcontractor	(b)	213,797	181,551	—	—
Prepayments for frame board space	21	13,524	13,524	—	—
Due from the ultimate holding company	(c)	<u>29,148</u>	<u>15,063</u>	<u>26,691</u>	<u>12,664</u>
		<u><u>1,162,417</u></u>	<u><u>1,054,486</u></u>	<u><u>26,691</u></u>	<u><u>18,179</u></u>

23. TRADE AND OTHER RECEIVABLES (continued)

Notes:

- (a) The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period from 60 to 90 days, but is 120 days for major customers, and each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management.

An aged analysis of the trade debtors and bills receivable as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Current	164,367	161,291
1 to 3 months	121,864	157,360
4 to 6 months	141,757	27,825
7 to 12 months	70,189	144,289
Over 12 months	43,434	29,791
	<u>541,611</u>	<u>520,556</u>
Provision for doubtful debts	(53,431)	(47,586)
	<u>488,180</u>	<u>472,970</u>

- (b) The amount due from a PRC subcontractor is unsecured, bears interest at 11.825% per annum and has no fixed terms of repayment.
- (c) The amounts due from the ultimate holding company are unsecured, interest-free and have no fixed terms of repayment. The Company's balance as at 31 December 2002 comprised the outstanding amount of the executive directors' remuneration during the current and prior years borne by the ultimate holding company as set out in note 8.

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24. SHORT TERM INVESTMENTS

	Group	
	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Listed equity investments, at market value:		
Hong Kong	—	357
Elsewhere	1,657	1,657
	<u>1,657</u>	<u>2,014</u>
Unlisted equity investments in Hong Kong, at fair value	40,000	—
Provision for impairment	(4,500)	—
	<u>35,500</u>	<u>—</u>
	<u><u>37,157</u></u>	<u><u>2,014</u></u>

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	31 December 2002 HK\$'000	31 March 2002 HK\$'000	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Cash and bank balances	122,637	66,410	30	53
Time deposits	227,169	311,488	—	—
	<u>349,806</u>	<u>377,898</u>	<u>30</u>	<u>53</u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$157,585,000 (31 March 2002: HK\$91,193,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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26. TRADE AND OTHER PAYABLES AND ACCRUALS

	Notes	Group		Company	
		31 December 2002 HK\$'000	31 March 2002 HK\$'000	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Trade creditors and bills payable	(a)	177,272	193,947	—	—
Other creditors and accruals		77,012	97,678	658	3,324
Due to a minority shareholder of a subsidiary	(b)	4,086	—	—	—
Due to a related company	(c)	2,531	3,584	—	—
		<u>260,901</u>	<u>295,209</u>	<u>658</u>	<u>3,324</u>

Notes:

- (a) An aged analysis of the trade creditors and bills payable as at the balance sheet date, based on payment due date, is as follows:

	Group	
	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Current	74,050	88,313
1 to 3 months overdue	48,247	68,340
Over 3 months	54,975	37,294
	<u>177,272</u>	<u>193,947</u>

- (b) The amount due to a minority shareholder of a subsidiary is unsecured, interest-free and has no fixed terms of repayment.
- (c) The amount due to a related company is unsecured, interest-free and has no fixed terms of repayment.

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27. INTEREST-BEARING BANK BORROWINGS

	Group	
	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Bank overdrafts:		
Secured	—	13,077
Unsecured	108,673	86,338
	<u>108,673</u>	<u>99,415</u>
Bank loans:		
Secured	10,668	285,556
Unsecured	1,031,270	714,510
	<u>1,041,938</u>	<u>1,000,066</u>
	<u>1,150,611</u>	<u>1,099,481</u>
Bank overdrafts repayable within one year or on demand	<u>108,673</u>	<u>99,415</u>
Bank loans repayable:		
Within one year or on demand	371,807	307,763
In the second year	68,298	34,246
In the third to fifth years, inclusive	132,970	131,972
Beyond five years	28,863	148,085
	<u>601,938</u>	<u>622,066</u>
Syndicated loan repayable:		
Within one year or on demand	19,800	88,000
In the second year	79,200	290,000
In the third to fifth years, inclusive	341,000	—
	<u>440,000</u>	<u>378,000</u>
	1,150,611	1,099,481
Portion classified as current liabilities	<u>(500,280)</u>	<u>(495,178)</u>
Long term portion	<u>650,331</u>	<u>604,303</u>

Certain of the Group's bank loans, other than those of the European subsidiaries, are secured by mortgages over certain of the Group's leasehold land and buildings, which had an aggregate net book value at the balance sheet date of approximately HK\$36,274,000 (31 March 2002: HK\$73,426,000).

27. INTEREST-BEARING BANK BORROWINGS *(continued)*

Last year's bank loans of the European subsidiaries amounted to HK\$368,480,000, of which HK\$283,467,000 were secured by:

- (a) leasehold land and buildings of the corresponding subsidiaries, which had an aggregate net book value at 31 March 2002 of approximately HK\$38,312,000;
- (b) fixed assets, excluding leasehold land and buildings, of the corresponding subsidiaries, which had an aggregate net book value at 31 March 2002 of approximately HK\$27,942,000;
- (c) collateralising inventories and accounts receivables of HK\$99,581,000 and HK\$194,972,000, respectively, of the corresponding subsidiaries; and
- (d) the pledge of certain shares of an European subsidiary.

The secured loans of certain of the European subsidiaries were released with the disposal of the subsidiaries.

28. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its plant and machinery, furniture, fixtures and equipment and motor vehicles for its business. These leases are classified as finance leases or hire purchase contracts and have remaining lease terms up to three years.

At the balance sheet date, the total future minimum lease payments under finance leases and hire purchase contract payables and their present values, were as follows:

Group	Minimum lease	Minimum lease	Present value of	Present value of
	payments	payments	minimum lease	minimum lease
	31 December	31 March	31 December	31 March
	2002	2002	2002	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	15,200	18,375	14,461	17,462
In the second year	9,391	9,710	9,046	9,238
In the third to fifth years, inclusive	5,227	8,398	4,887	7,666
Total minimum finance lease payments	29,818	36,483	<u>28,394</u>	<u>34,366</u>
Future finance charges	<u>(1,424)</u>	<u>(2,117)</u>		
Total net finance lease and hire				
purchase contract payables	28,394	34,366		
Portion classified as current liabilities	<u>(14,461)</u>	<u>(17,462)</u>		
Long term portion	<u>13,933</u>	<u>16,904</u>		

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29. PROVISIONS

Group	Post-employment	Restructuring
	benefits	HK\$'000
	HK\$'000	HK\$'000
At beginning of period	17,520	6,810
Charge for the period	2,457	—
Amounts utilised during the period	(4,654)	(6,810)
Exchange realignment	3,750	—
	<u>19,073</u>	<u>—</u>
At 31 December 2002	<u>19,073</u>	<u>—</u>

The provision for restructuring was estimated based on the costs required under the restructuring plan of the subsidiaries acquired in the previous year to eliminate product lines and compensate redundant staff.

Certain subsidiaries of the Group in Italy provide for employee benefits for services performed to date which are payable immediately upon employees departure under the Italian civil and labour laws. The provision is based on the remuneration earned by the employees according to the lengths of their service to the Group up to the balance sheet date, and is recognised as long term liability as there is no indication of a material outflow of resources from the Group in the near future.

30. CONVERTIBLE NOTES

Pursuant to a Subscription Agreement dated 13 August 1999 and a Supplemental Agreement dated 5 February 2001, the Company issued unsecured convertible notes with a principal amount of US\$15,000,000 on 2 September 1999. The notes bear interest at the rate of 5% per annum, which is payable semi-annually in arrears on 30 April and 31 October in each year, together with additional interest, representing the dividend yield (equivalent to the dividends declared by the Company, divided by the weighted average closing price of the Company's shares calculated according to the Subscription Agreement) of the Company's shares less 5%, which is payable in arrears on 31 October each year. The notes are convertible into ordinary shares in the Company, at the option of the holders at any time during the 54 months after the issue of the notes, at the conversion price of HK\$0.87 per share (subject to adjustment). The shares to be issued on any exercise of the conversion rights attaching to the notes rank pari passu in all respects with the Company's shares already in issue.

Prior to the Company entering into the Supplemental Agreement, all outstanding notes were to be mandatorily converted on maturity. Under the terms of the Supplemental Agreement, unless previously converted or redeemed, the Company is required to redeem the notes on 2 March 2004. In addition, the Company now has the right to voluntarily redeem the notes at any time under certain conditions.

Upon such redemption, in addition to the principal amount outstanding and any accrued but unpaid interest under the notes, the Company is required to pay an additional amount calculated as provided in the conditions of the notes which would give the holders of the notes a total internal rate of return of 6% and 10%, for redemption at maturity and voluntary redemption, respectively, with reference to the market rate.

30. CONVERTIBLE NOTES *(continued)*

During the period, no notes were converted into shares in the Company. On 13 September 2002, the Company entered into a deed of early redemption with a note holder, Vintage Year Limited ("VYL") for the purpose of enabling the Company to redeem the convertible notes held by VYL in an aggregate amount of US\$13,000,000 (the "VYL Notes"). The VYL Notes were redeemed by the Company on 29 November 2002.

The remaining notes of US\$2,000,000 as at 31 December 2002 have been classified as current liabilities as the Group is in negotiation with the note holder concerning the early redemption of the convertible notes.

31. DEFERRED TAX

	Group	
	31 December 2002 HK\$'000	31 March 2002 HK\$'000
At beginning of period/year	4,500	—
Charge for the period/year (<i>note 10</i>)	<u>2,882</u>	<u>4,500</u>
At end of period/year	<u><u>7,382</u></u>	<u><u>4,500</u></u>

The principal components of the Group's provision for deferred tax, and the net deferred tax asset position not recognised in the financial statements are as follows:

	Provided		Not provided	
	31 December 2002 HK\$'000	31 March 2002 HK\$'000	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Accelerated depreciation allowances	9,210	6,308	197	323
Tax losses	(1,828)	(1,808)	(27,832)	(8,572)
Others	<u>—</u>	<u>—</u>	<u>(158)</u>	<u>(2,129)</u>
	<u><u>7,382</u></u>	<u><u>4,500</u></u>	<u><u>(27,793)</u></u>	<u><u>(10,378)</u></u>

The Company had no unprovided deferred tax as at the balance sheet date (31 March 2002: Nil).

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32. MINORITY INTERESTS

Minority interests included a recoverable amount as one of the minority shareholders of the European subsidiaries has a binding obligation to make good losses in proportion to its shareholding and, to the extent that such losses exceed its contributed capital, to a maximum of HK\$14,697,000 (equivalent to Euro1,800,000). The comparative amount for this minority shareholder at 31 March 2002 amounted to a receivable of HK\$8,172,000 (equivalent to Euro1,200,000).

33. SHARE CAPITAL

	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Shares		
Authorised:		
1,200,000,000 (31 March 2002: 6,000,000,000) ordinary shares of HK\$0.50 each (31 March 2002: HK\$0.10 each)	<u>600,000</u>	<u>600,000</u>
Issued and fully paid:		
401,767,562 (31 March 2002: 2,006,648,314) ordinary shares of HK\$0.50 each (31 March 2002: HK\$0.10 each)	<u>200,884</u>	<u>200,665</u>

33. SHARE CAPITAL (continued)

During the period, the movements in share capital were as follows:

- (a) The subscription rights attaching to 13,093,500 shares options were exercised at a subscription price of HK\$0.62 per share (note 34), resulting in the issue of 13,093,500 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$8,117,970.
- (b) The Company repurchased 3,414,000 shares of HK\$0.10 each through the Hong Kong Stock Exchange. Further details of this repurchase are set out as below.
- (c) Pursuant to a special resolution passed on 6 September 2002, every five issued and unissued ordinary shares of HK\$0.10 each of the Company were consolidated into one ordinary share of HK\$0.50 each (the "Consolidated Share").
- (d) The Company repurchased 1,498,000 Consolidated Shares of HK\$0.50 each through the Hong Kong Stock Exchange. Further details of this repurchase are set out as below.

A summary of the transactions during the period/year with reference to the above movements in the Company's issued ordinary share capital is as follows:

		Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
	<i>Notes</i>				
At 1 April 2001		2,051,274,314	205,127	184,246	389,373
Repurchase and cancellation of own shares		<u>(44,626,000)</u>	<u>(4,462)</u>	<u>(20,468)</u>	<u>(24,930)</u>
At 31 March 2002 and beginning of period		2,006,648,314	200,665	163,778	364,443
Share options exercised	(a)	13,093,500	1,309	6,809	8,118
Repurchase and cancellation of own shares	(b)	<u>(3,414,000)</u>	<u>(341)</u>	<u>(1,669)</u>	<u>(2,010)</u>
Consolidation of shares	(c)	<u>(1,613,062,252)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Repurchase and cancellation of own shares	(d)	<u>(1,498,000)</u>	<u>(749)</u>	<u>(3,171)</u>	<u>(3,920)</u>
At 31 December 2002		<u>401,767,562</u>	<u>200,884</u>	<u>165,747</u>	<u>366,631</u>

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33. SHARE CAPITAL (continued)

During the period, the Company repurchased its own shares through the Hong Kong Stock Exchange as follows:

Month of purchase	Number of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
August 2002	3,190,000	0.590	0.580	1,880
September 2002 (before consolidation of shares on 9 September 2002)	224,000	0.580	0.580	130
	<u>3,414,000</u>			<u>2,010</u>

Month of purchase	Number of ordinary shares of HK\$0.50 each	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
September 2002 (after consolidation of shares on 9 September 2002)	402,000	2.875	2.700	1,124
October 2002	886,000	2.700	2.475	2,275
November 2002	210,000	2.500	2.450	521
	<u>1,498,000</u>			<u>3,920</u>

The above shares were cancelled upon repurchase and accordingly the issued share capital was decreased by the nominal value of these shares. The premium payable on repurchase was charged against the share premium account.

Share options

Details of the Company's share option scheme are included in note 34 to the financial statements.

Convertible notes

At 31 December 2002, the Group had outstanding convertible notes which can be converted to a maximum of approximately 3,563,000 additional shares of HK\$0.50 each in the Company. Further details of the convertible notes are set out in note 30 to the financial statements.

34. SHARE OPTION SCHEME

SSAP 34 was adopted during the period, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme (the "Old Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, and employees of the Group. The Old Scheme became effective on 6 September 1993 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Old Scheme is an amount equivalent, upon their exercise, to 5% of the shares of the Company in issue at any time. At 31 December 2002, the number of shares issuable under share options granted under the Old Scheme was 47,026,000, which represented approximately 2.34% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Old Scheme within any 12-month period, is limited to 25% of the share options of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, with no consideration being payable by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the nominal value of the Company's shares; and (ii) an amount not less than 80% of the average closing price of the Company's shares on the Hong Kong Stock Exchange for the five business days immediately preceding the date of the offer to grant an option.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 23 August 2001, the Hong Kong Stock Exchange announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in relation to share option schemes. The amendments took effect on 1 September 2001 and set out the revised requirements for share option schemes operated by listed companies. With a view to bringing the Company's share option scheme in line with the new requirements of Chapter 17 of the Listing Rules, the operation of the Old Scheme was terminated upon the adoption of a new share option scheme (the "New Scheme" detailed below). No further options will be granted under the Old Scheme. However, all options granted prior to such termination and not yet exercised will continue to be valid and exercisable subject to and in accordance with the Old Scheme.

On 6 September 2002, at the annual general meeting, the Company adopted the New Scheme. The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's executive directors and non-executive directors, and other directors and employees of the Group. The Scheme became effective on 6 September 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Other details of the New Scheme were disclosed in a circular dated 12 August 2002.

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34. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Old Scheme during the period:

Name or category of participant	Number of share options					At 31 December 2002 (2)	Date of grant of share options (3)	Exercise period of share options	Exercise price of share options HK\$ (4)	Price of Company's shares at exercise date of options HK\$ (5)
	At 1 April 2002	Exercised during the period	Lapsed during the period (1)	Cancelled during the period	At 31 December 2002 (2)					
Directors										
Ma Bo Kee	5,000,000	(1,250,000)	—	—	3,750,000	27-12-2000	6 September 2002 to 5 September 2003	0.62	0.79	
Ma Bo Fung	5,000,000	(1,250,000)	—	—	3,750,000	27-12-2000	6 September 2002 to 5 September 2003	0.62	0.79	
Ma Bo Lung	5,000,000	(1,250,000)	—	—	3,750,000	27-12-2000	6 September 2002 to 5 September 2003	0.62	0.79	
Ma Lit Kin, Cary	5,000,000	(1,250,000)	—	—	3,750,000	27-12-2000	6 September 2002 to 5 September 2003	0.62	0.79	
Ma Hon Kin, Dennis	3,000,000	(750,000)	—	—	2,250,000	27-12-2000	6 September 2002 to 5 September 2003	0.62	0.79	
Wong Piu Lung, Peter	3,000,000	—	(750,000)	(2,250,000)	—	27-12-2000	6 September 2002 to 5 September 2003	0.62	—	
Tong Ka Wai, Dicky	3,000,000	(750,000)	—	—	2,250,000	27-12-2000	6 September 2002 to 5 September 2003	0.62	0.77	
	<u>29,000,000</u>	<u>(6,500,000)</u>	<u>(750,000)</u>	<u>(2,250,000)</u>	<u>19,500,000</u>					
Other employees										
Managerial level in aggregate	27,100,000	(4,564,500)	(2,210,500)	(2,100,000)	18,225,000	27-12-2000/ 30-5-2001	1 January 2002 to 5 September 2003	0.62	0.78	
Others in aggregate	12,230,000	(2,029,000)	—	(900,000)	9,301,000	27-12-2000/ 30-5-2001	1 January 2002 to 5 September 2003	0.62	0.76	
	<u>39,330,000</u>	<u>(6,593,500)</u>	<u>(2,210,500)</u>	<u>(3,000,000)</u>	<u>27,526,000</u>					
	<u>68,330,000</u>	<u>(13,093,500)</u>	<u>(2,960,500)</u>	<u>(5,250,000)</u>	<u>47,026,000</u>					

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34. SHARE OPTION SCHEME *(continued)*

Notes:

- (1) 2,960,500 share options lapsed during the period.
- (2) With effective on 9 September 2002, every five issued and unissued shares of HK\$0.10 each in the capital of the Company were consolidated into one ordinary share of HK\$0.50 each in the Company. Accordingly, upon the exercise of the share options granted under the Old Scheme, every five share options shall be subscribed for one Consolidated Share.
- (3) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- (4) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. The share consolidation as detailed in note 33 has resulted in an adjustment to the exercise price of the outstanding share options. The adjusted exercise price for one Consolidated Share is HK\$3.10, which took effect from 9 September 2002.
- (5) The price of Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Hong Kong Stock Exchange closing price over all of the exercises of options within the disclosure category.

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34. SHARE OPTION SCHEME (continued)

At 31 December 2002, the Company had 47,026,000 share options outstanding under the Scheme, which entitled the holders to subscribe for shares of the Company as follows:

	Number of shares options	Exercisable period (both dates inclusive)
Managerial level or above	37,725,000	6 September 2002 to 5 September 2003
Assistant manager level or below		
Portion 1	3,636,000	1 January 2002 to 5 September 2003
Portion 2	5,665,000	On 5 September 2003
	<u>9,301,000</u>	
	<u>47,026,000</u>	

The subscription price payable upon the exercise of the above options was HK\$3.10 per Consolidated Share, subject to adjustment.

Portion 2 is only exercisable on 5 September 2003.

The 13,093,500 share options of the Old Scheme exercised during the period resulted in the issue of 13,093,500 ordinary shares, which is equivalent to 2,618,700 Consolidated Shares, of the Company and new share capital of HK\$1,309,000 and share premium of HK\$6,809,000 (before issue expenses), as detailed in note 33 to the financial statements.

At the balance sheet date, the Company had 47,026,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 9,405,200 additional Consolidated Shares of the Company and additional share capital of HK\$4,702,600 and share premium of approximately HK\$24,454,000 (before issue expenses).

35. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current period and prior year are presented in the consolidated statement of changes in equity on page 35 of the financial statements.

(b) Company

	<i>Notes</i>	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2001:					
As previously reported		184,246	92,613	184,727	461,586
Prior year adjustment#:					
SSAP 18 (Revised) —					
Net year-on-year effect of dividends from subsidiaries no longer recognised as income for the year					
		—	—	(70,000)	(70,000)
As restated		184,246	92,613	114,727	391,586
Repurchase and cancellation of own shares	33	(20,468)	—	—	(20,468)
Net profit for the year		—	—	71,326	71,326
Interim dividend for the year ended					
31 March 2002	12	—	—	(28,338)	(28,338)
Proposed final dividend for the year ended					
31 March 2002	12	—	—	(30,100)	(30,100)
At 31 March 2002 and beginning of period		163,778	92,613	127,615	384,006
Repurchase and cancellation of own shares	33	(4,840)	—	—	(4,840)
Share options exercised	33	6,809	—	—	6,809
Net profit for the period		—	—	1,366	1,366
Additional final dividend					
in respect of prior year	12	—	—	(148)	(148)
Interim dividend for the period ended					
31 December 2002	12	—	—	(22,569)	(22,569)
Proposed final dividend for the period ended					
31 December 2002	12	—	—	(17,673)	(17,673)
At 31 December 2002		<u>165,747</u>	<u>92,613</u>	<u>88,591</u>	<u>346,951</u>

The prior year adjustment represented a change in accounting policy with respect to revenue recognition which was disclosed in the Group's annual report for the year ended 31 March 2002.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation at the time of the Company's listing becoming effective, over the nominal value of the Company's shares issued in exchange therefor.

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35. RESERVES *(continued)*

(b) Company *(continued)*

Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus in certain circumstances. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if:

- (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 become less than the aggregate of its liabilities and its issued share capital and share premium account.

Under the bye-laws of the Company, the share premium account is not distributable.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year adjustments

SSAP 15 (Revised) was adopted during the current period, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities and interest received is now included in cash flows from investing activities. The presentation of the 31 March 2002 comparative consolidated cash flow statement has been changed to accord with the new layout.

The method of calculation of certain items in the consolidated cash flow statement has changed under the revised SSAP 15, as explained under the heading "Foreign currencies" in note 3 to the financial statements. Cash flows of overseas subsidiaries are now translated to Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the period are translated to Hong Kong dollars at the weighted average exchange rates for the period. Previously, the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. This change in accounting policy has had no material effect on the amounts previously reported in the prior year's cash flow statement.

Also, the definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 3 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31 March 2002 has been adjusted to remove trust receipt loans amounting to HK\$210,978,000 previously included at that date. The year's movement in trust receipt loans is now included in cash flows from financing activities and the comparative consolidated cash flow statement has been changed accordingly.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)***(b) Major non-cash transactions**

- (i) During the period, the Group entered into finance lease and hire purchase arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$2,095,000 (year ended 31 March 2002: HK\$9,355,000).
- (ii) The Group has acquired certain leasehold land and buildings at a consideration of HK\$43,333,000 from an independent third party. The consideration was paid by a PRC subcontractor on behalf of the Group.

(c) Acquisition of subsidiaries

	Period from 1 April 2002 to 31 December 2002 HK\$'000	Year ended 31 March 2002 HK\$'000
Net assets acquired:		
Fixed assets	—	119,874
Goodwill	—	49,504
Intangible assets	—	11,268
Inventories	—	205,820
Trade debtors and bills receivables	—	201,962
Other debtors and prepayments	—	49,754
Cash and bank balances	—	64,406
Trade creditors and bills payables	—	(155,824)
Other creditors and accruals	—	(97,826)
Due to the Group	—	(125,568)
Tax payable	—	(6,510)
Finance lease payables	—	(11,800)
Bank loans	—	(272,091)
Bank overdrafts	—	(90,956)
Minority interests	—	(6,361)
	—	(64,348)
Goodwill on acquisition	—	154,295
	—	89,947
Satisfied by:		
Cash	—	50,236
Conversion of loan into equity of an associate	—	12,765
Costs associated with the acquisition of subsidiaries	—	7,110
Reclassification to interests in subsidiaries from interests in associates	—	19,836
	—	89,947

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36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Acquisition of subsidiaries *(continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	Period from 1 April 2002 to 31 December 2002 HK\$'000	Year ended 31 March 2002 HK\$'000
Cash consideration	—	(50,236)
Cash paid for costs associated with the acquisition of subsidiaries	—	(7,110)
Cash and bank balances acquired	—	64,406
Bank overdrafts and bank loans assumed	—	(90,956)
	<hr/>	<hr/>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	—	(83,896)
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The subsidiaries acquired in the prior year contributed HK\$437,775,000 to the Group's turnover and a loss of HK\$37,081,000 to the consolidated profit after tax and before minority interests for the year ended 31 March 2002. In the case of the associate which was reclassified to a subsidiary, these turnover and profit after tax amounts exclude the former associate's contribution to the results prior to its becoming a subsidiary.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(d) Disposal of subsidiaries

	Period from 1 April 2002 to 31 December 2002 HK\$'000
Net assets disposed of:	
Fixed assets	72,959
Goodwill	4,618
Intangible assets	1,379
Inventories	124,728
Trade debtors and bills receivables	54,271
Other debtors and prepayments	23,154
Cash and bank balances	3,333
Trade creditors and bills payables	(38,813)
Other creditors and accruals	(54,075)
Tax payable	(1,353)
Due to the Group	(58,626)
Bank loans	(133,805)
Bank overdrafts	(20,885)
Minority interests	43
	<u>(23,072)</u>
Goodwill written off	40,603
Exchange fluctuation reserve released	(2,357)
Gain on disposal of subsidiaries (<i>note 5</i>)	12,897
	<u>28,071</u>
An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiaries is as follows:	
Cash consideration	71
Other debtors and prepayments	28,000
Cash and bank balances disposed of	(3,333)
Bank overdrafts disposed of	20,885
	<u>45,623</u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>45,623</u>

The components of the purchase consideration for the disposal were in the form of cash, with HK\$71,000 being paid at the disposal date and HK\$28,000,000 being paid in January 2003. Therefore, there was a net inflow of cash and cash equivalents of HK\$17,623,000 during the period ended 31 December 2002.

The results of the subsidiaries disposed of during the period ended 31 December 2002 contributed a turnover of HK\$143,634,000 and incurred a loss after tax and before minority interests of HK\$34,933,000 to the Group.

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37. RELATED PARTY TRANSACTIONS

Other than the transactions and balances detailed elsewhere in these financial statements, the Group did not have any material transactions with related parties during the period/year.

38. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	31 December 2002 HK\$'000	31 March 2002 HK\$'000	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Bank guarantees given in lieu of deposits for licensing arrangement	13,283	9,971	—	—
Bills discounted with recourse	—	568	—	—
Guarantees given to banks in connection with facilities granted to				
— subsidiaries	—	—	860,595	742,165
— a related company	—	9,224	—	—
Guarantees given to a finance company for finance leases granted to subsidiaries	—	—	9,886	8,173
	<u>13,283</u>	<u>19,763</u>	<u>870,481</u>	<u>750,338</u>

39. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties, office equipment and motor vehicles under operating lease arrangements. Leases for properties are negotiated for terms up to five years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Within one year	20,495	25,476
In the second to fifth years, inclusive	31,006	38,989
After five years	14,415	45
	<u>65,916</u>	<u>64,510</u>

At the balance sheet date, the Company did not have any future minimum lease payments under non-cancellable operating leases.

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40. COMMITMENTS

In addition to the operating lease commitments detailed in note 39 above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments

	Group	
	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Capital contribution to a subsidiary in the form of a joint stock company in the PRC (RMB21,000,000) (31 March 2002: RMB46,100,000)	19,444	42,685
Authorised, but not contracted for, in respect of the purchase of land use rights in the PRC (RMB15,000,000)	13,889	13,889
Authorised, but not contracted for, in respect of the purchase of machinery	528	—
	<u>33,861</u>	<u>56,574</u>

(b) Other commitments

	Group	
	31 December 2002 HK\$'000	31 March 2002 HK\$'000
Commitments contracted with banks in connection with bank loans waived in prior year	<u>20,873</u>	<u>17,409</u>

The aforesaid commitments will be realised to the extent of 20% of the profit of certain overseas subsidiaries should these subsidiaries commence to make profits in the future.

At the balance sheet date, the Company did not have any significant commitments.

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41. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current period, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current period's presentation.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 April 2003.