1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

The Company

The Company was incorporated as an exempted company with limited liability in Bermuda on 16 November 2000 under section 14 of the Companies Act (1981). On incorporation, the Company had an authorised capital of HK$100,000 divided into 20,000,000 shares of HK$0.005 each, all of which were issued and allotted, nil paid.

Comparative amounts have not been presented for the Company's balance sheet because the Company did not exist as at 31 March 2000.

The principal activity of the Company is investment holding. The principal activities of the Group during the year consisted of manufacturing, sourcing and distribution of electronic parts and components.

Basis of presentation

The Group reorganisation, as further detailed in note 2 to the financial statements, involved companies which are under common control. As the Group reorganisation took place on 14 June 2001, according to the Hong Kong Statement of Standard Accounting Practice No. 2.127, "Accounting for Group Reconstructions", the Company together with its subsidiaries should be regarded and accounted for as a continuing group in the preparation of the Group's financial statements commencing from the year ending 31 March 2002. Nevertheless, for the benefit of shareholders, supplementary pro forma combined financial statements for the current year and the related notes thereto have also been presented in these financial statements, prepared on the basis that the Company is treated as the holding company of its subsidiaries for the financial years presented rather than from the subsequent date of its acquisition of its subsidiaries on 14 June 2001. The pro forma combined results of the Group for the years ended 31 March 2000 and 2001 include the results of the Company and its subsidiaries with effect from 1 April 1999 or since their respective dates of incorporation/establishment, where there is a shorter period. The supplementary pro forma combined balance sheets as at 31 March 2000 and 2001 have been prepared on the basis that the current Group structure was in place at those dates.

All significant transactions and balances among the companies comprising the Group have been eliminated on combination.

Although the Group reorganisation was not completed and, accordingly, the Group did not legally exist until 14 June 2001, in the opinion of the directors of the Company, the presentation of such supplementary pro forma combined financial statements prepared on the aforesaid basis is necessary to apprise the Company's shareholders of the Group's results and its state of affairs as a whole.

2. GROUP REORGANISATION AND CORPORATE UPDATE

The Group sustained a consolidated net loss of HK$27,459,000 (2000: HK$49,856,000) for the year ended 31 March 2001 and as at that date, the Group had accumulated losses of HK$382,516,000 (2000: HK$355,057,000), which gave rise to a net capital deficiency of HK$255,206,000 (2000: HK$227,747,000).

On 9 April 2001, Honko International Holdings Limited ("Honko") the former holding company of the Group which was formerly listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") put forward a restructuring proposal (the "Restructuring Proposal"), pursuant to which the Group issued further shares for cash and restructured all its indebtedness as stipulated in a subscription agreement (the "Subscription Agreement") and two compromise agreements (the "Compromise Agreements") that were entered into on 18 January 2001. The Subscription Agreement was entered into by Honko, the Company, an independent investor (the "Investor"), Kingsway SW Securities Limited ("Kingsway") and Mr. Lam Yat Keung, a director of Honko. The Compromise Agreements were entered into by Honko, the Company, the Investor, Kingsway and the Honko Group's borrowing banks, finance lease creditors and certain other creditors.

On 14 June 2001, upon the approval of the independent shareholders of Honko and the fulfillment of the other conditions as set out in the Subscription Agreement and the Compromise Agreements, the Group underwent a Group reorganisation and a debt restructuring, which comprised the following principal parts:

a) a scheme of arrangement under section 99 of the Companies Act 1981 of Bermuda (the "Scheme") under which all of the shares of Honko ("Honko Shares") as at 14 June 2001 (except for 1,000,000 Honko Shares subscribed at par by the Company as part of the Scheme on 16 May 2001) were cancelled and extinguished by way of a reduction of share capital, and swapped with the Company shares ("TechCap Shares") on a one-for-one basis, resulting in the issue of 358 million TechCap Shares;

b) simultaneously, a provisional allotment of 1,432 million TechCap Shares, whereby the shareholders of Honko were entitled to be allotted four TechCap Shares for every existing Honko Share held as at 14 June 2001 at an allotment price of HK$0.02 per share, resulting in cash proceeds of HK$28.6 million;

c) the subscription of 2,800 million TechCap Shares by the Investor and of another 1,000 million TechCap Shares by subscribers procured by Kingsway at a subscription price of HK$0.01 each, resulting in cash proceeds of HK$38 million;

d) the repayment of HK$28.7 million of the Honko Group's bank borrowings, in the form of HK$26 million cash and of 181 million TechCap Shares at a price of HK$0.015 per share (HK$2.7 million in aggregate), and the waiver of the remaining bank borrowings of HK$137 million;

2. GROUP REORGANISATION AND CORPORATE UPDATE *(continued)*

e) the repayment of HK$3.57 million of the Honko Group's finance lease creditors, in the form of HK$3.4 million cash and of 34 million TechCap Shares at a price of HK$0.005 per share (HK$170,000 in aggregate), the refinancing of HK$13.6 million and the waiver of HK$15.6 million of the remaining finance lease creditors;

f) the repayment of HK$14.42 million of loans from directors, in the form of 700 million TechCap Shares at a price of HK$0.02 per share (HK$14 million in aggregate) and of 84 million TechCap Shares at a price of HK$0.005 per share (HK$420,000 in aggregate), and the waiver of the remaining directors' loans of HK$41.6 million;

g) the repayment of HK$10 million of the Honko Group's management creditors. Pursuant to the Compromise Agreements, the management creditors have undertaken to subscribe for 417 million TechCap Shares at a price of HK$0.024 per share (HK$10 million in aggregate);

h) the repayment of HK$6.95 million of an amount due to a related company in the form of 287.5 million TechCap Shares at a price of HK$0.024 per share (HK$6.9 million in aggregate), and the waiver of the remaining HK$50,000 due to the related company;

i) the subscription of Convertible Notes by subscribers procured by Kingsway of HK$25 million.

Upon the completion of the group restructuring, the Company became the holding company of Honko and its subsidiaries. Honko was then delisted from the Stock Exchange on 15 June 2001, and the Company was listed on the Stock Exchange on 18 June 2001 in its place by way of introduction.

Upon the completion of the Group reorganisation and the debt restructuring as detailed above, the directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, these financial statements are prepared on a going concern basis.

2. GROUP REORGANISATION AND CORPORATE UPDATE *(continued)*

A condensed pro forma unaudited combined net assets statement of the Group as at 31 March 2001, which is based on the pro forma deficiency in assets of the Group as at 31 March 2001, adjusted as if the financing measures as set out above had taken place on 31 March 2001, is presented below.

	Pro forma combined deficiency in assets as at 31 March 2001 *HK$'000*	Pro forma unaudited adjustments *HK$'000*	Pro forma unaudited combined net assets as at 31 March 2001 *HK$'000*
Non current assets	7,519	—	7,519
Current assets	74,332	62,275	136,607
Current liabilities	(337,057)	265,257	(71,800)
Net current assets/(liabilities)	(262,725)		64,807
Total assets less current liabilities	(255,206)		72,326
Non current liabilities	—	(35,477)	(35,477)
	(255,206)		36,849
Capital and reserves			
Share capital	1,790	34,675	36,465
Reserves	(256,996)	257,380	384
	(255,206)		36,849

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements of the Company 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. The supplementary pro forma combined financial statements of the Group have been presented on the bases as set out in notes 1 and 2 above. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, as further explained below.

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

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Co-operative joint venture

A co-operative joint venture is a joint venture in respect of which the partners' profit sharing ratios and share of net assets upon the expiration of the joint venture period may not be in proportion to their equity ratios, but are as defined in the joint venture contract.

The Group's investment in a co-operative joint venture is accounted for as a subsidiary when it is in a position to unilaterally control the composition of its board of directors.

Goodwill

Goodwill arising on consolidation of subsidiaries represents the excess purchase consideration paid for the subsidiaries over the fair values ascribed to the underlying net tangible assets acquired and is eliminated against reserves in the year of acquisition.

Upon disposal of such subsidiaries, the relevant portion of attributable goodwill previously eliminated against reserves is realised and accounted for in arriving at the gain or loss on disposal.

Capital reserve on consolidation

Capital reserve on consolidation represents the excess of the fair values ascribed to the underlying net assets of the acquired subsidiaries at the dates of acquisition over the purchase consideration for such subsidiaries.

Upon disposal of such subsidiaries, the relevant portion of attributable capital reserve is released to the profit and loss account in arriving at the gain or loss on disposal.

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

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation.

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.

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

Leasehold land	Over the remaining lease terms
Buildings	2.5%
Leasehold improvements	20%
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	30%

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

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of the reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, the surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

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

Inventories

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

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

Retirement pension costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinances, for those employees who are eligible to participate. The Scheme became effective on 1 December 2000. 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 Scheme. The assets of the 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 Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

Sale and leaseback transactions

A sale and leaseback transaction is a transaction in which the Group sells an asset and immediately re-acquires the right to use the asset by entering into a lease with the purchaser. Sale and leaseback transactions are finance leases and are included in fixed assets at the carrying amount prior to the sale of the assets and are depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The amount received on the sale is accounted for as finance lease payables and the lease payments are treated partly as principal and partly as finance costs. 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.

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 bases:

(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; and

(b) rental income, on the straight-line basis over the respective periods of the leases.

Foreign currencies

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

On consolidation, the financial statements of subsidiaries denominated in foreign currencies are translated at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are dealt with in the exchange fluctuation reserve.

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.

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.

Cash equivalents

For the purpose of the pro forma combined cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of the pro forma combined balance sheet, cash and bank balances represent assets which are not restricted as to use.

4. TURNOVER

Turnover represents the invoiced value of goods sold, net of discounts and returns, and gross rental income, after elimination of all significant intra-group transactions. Revenue from the following activities has been included in turnover.

	Group	
	2001	2000
	HK$'000	*HK$'000*
Manufacturing	**208,478**	179,558
Sourcing and distribution	**10,197**	2,172
Others	**—**	180
	218,675	181,910

5. LOSS FROM OPERATING ACTIVITIES

This is arrived at after charging/(crediting):

	Group	
	2001	2000
	HK$'000	*HK$'000*
Depreciation:		
Owned fixed assets	**2,054**	7,120
Leased fixed assets	**7,992**	15,523
	10,046	22,643
Operating lease rentals in respect of:		
Land and buildings	**2,930**	3,040
Plant and machinery	**1,578**	—
Auditors' remuneration	**620**	670
Deficit on revaluation of investment properties — note 12	**—**	800
Provisions for impairments in values of land and buildings and investment properties	**807**	—
Loss on disposal of fixed assets	**1,027**	12,986
Loss on disposal of an investment property	**—**	181
Fixed assets written off	**—**	2,228
Staff costs:		
Wages and salaries (including directors' emoluments — note 6)	**21,975**	21,676
Retirement scheme contributions	**107**	—
	22,082	21,676
Gross rental income	**(13)**	(180)
Less: Outgoings	**—**	—
Net rental income	**(13)**	(180)

6. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' emoluments

The emoluments of the directors of Honko, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	2001 HK$'000	2000 HK$'000
Fees	320	320
Salaries, allowances and benefits in kind	15,214	13,170
	15,534	13,490

The emoluments paid to the independent non-executive directors of Honko during the year included in the above were fees of HK$320,000 (2000: HK$320,000).

The remuneration of the above directors fell within the following bands:

	2001 Number of directors	2000 Number of directors
Nil - HK$1,000,000	5	5
HK$1,000,001 - HK$1,500,000	2	2
HK$1,500,001 - HK$2,000,000	—	1
HK$2,000,001 - HK$2,500,000	1	1
HK$2,500,001 - HK$3,000,000	1	—
HK$6,500,001 - HK$7,000,000	—	1
HK$7,500,001 - HK$8,000,000	1	—
	10	10

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

(b) Employees' emoluments

The five highest paid employees of the Group during the year included four (2000: five) directors of Honko, the details of whose remuneration are set out in (a) above. The remuneration of the remaining one non-director, highest paid individual for 2001 was HK$1,323,000.

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join, or upon joining the Group, or as compensation for loss of office.

7. FINANCE COSTS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Interest expense on:		
Bank loans and overdrafts	**15,794**	15,275
Other borrowings wholly repayable within five years	**3,102**	2,749
Finance leases	**651**	3,034
	19,547	21,058

8. TAX

No provision for Hong Kong profits tax has been made since the Group did not generate any assessable profits during the year (2000: Nil).

The principal components of the deferred tax assets not recognised/(deferred tax liabilities not provided) are as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Tax losses	**33,124**	33,577
Accelerated capital allowances	**569**	(4,201)
	33,693	29,376

9. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK$1,109,000.

10. LOSS PER SHARE

The calculation of loss per share is based on the pro forma combined net loss from ordinary activities attributable to shareholders of HK$27,459,000 (2000: HK$49,856,000) and the pro forma number of 358,004,664 (2000: 358,004,664) shares deemed to have been issued throughout the year, as set out in details in note 21 to the financial statements.

There were no potential dilutive ordinary shares in existence for the years ended 31 March 2000 and 2001, and accordingly, no pro forma diluted loss per share has been presented.

11. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:						
At beginning of year	2,527	6,773	130,679	7,999	1,040	149,018
Additions	—	1,024	125	509	—	1,658
Disposals	—	(75)	(3,167)	(59)	—	(3,301)
Provision for impairment in values	(390)	—	—	—	—	(390)
At 31 March 2001	2,137	7,722	127,637	8,449	1,040	146,985
Accumulated depreciation:						
At beginning of year	1,082	4,375	118,798	7,482	1,040	132,777
Provided during the year	43	1,133	8,116	754	—	10,046
Disposals	—	(62)	(2,157)	(55)	—	(2,274)
At 31 March 2001	1,125	5,446	124,757	8,181	1,040	140,549
Net book value:						
At 31 March 2001	1,012	2,276	2,880	268	—	6,436
At 31 March 2000	1,445	2,398	11,881	517	—	16,241

The net book value of assets held under finance leases included in the total amount of fixed assets as at 31 March 2001 amounted to HK$5,928,000 (2000: HK$13,920,000). The depreciation charge for the year in respect of such assets amounted to HK$7,992,000 (2000: HK$15,523,000).

The land and buildings of the Group are held under medium term leases, located in Hong Kong and pledged to banks to secure banking facilities granted to the Group. The land and buildings are intended to be disposed of after the balance sheet date.

12. INVESTMENT PROPERTIES

	Group 2001 HK$'000	Group 2000 HK$'000
At beginning of year	**1,500**	2,830
Disposals	**—**	(530)
Deficit on revaluation — note 5	**—**	(800)
Provisions for impairments in values	**(417)**	—
At end of year	**1,083**	1,500

The investment properties are held under medium term leases, located in Hong Kong and pledged to banks to secure banking facilities granted to the Group. The properties are intended to be disposed of subsequent to the balance sheet date at HK$1,083,000.

13. INTERESTS IN SUBSIDIARIES

Particulars of all subsidiaries acquired by the Company pursuant to the Group reorganization are as follows:

Company name	Place of incorporation/ registration and operations	Issued and paid-up capital	Class of shares held	Equity interest attributable to the Company Direct	Equity interest attributable to the Company Indirect	Principal activities
Honko International Holdings Limited	Bermuda/ Hong Kong	HK$35,800,466	Ordinary	100%	—	Investment holding
Dongguan Woodson Electronics Ltd.	People's Republic of China	HK$38,000,000	*	—	100%	Manufacture of electronic parts and components
Honey Resources Limited	Hong Kong	HK$10,000,000	Ordinary	—	100%	Investment holding
Honey Technology Limited	Hong Kong/ People's Republic of China, Hong Kong	HK$1,000,000	Ordinary	—	100%	Manufacture and trading of electronic parts and components
Honey Technology (BVI) Limited	British Virgin Islands/ Hong Kong	US$1	Ordinary	—	100%	Provision of engineering services

13. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of all subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Issued and paid-up capital	Class of shares held	Equity interest attributable to the Company Direct	Equity interest attributable to the Company Indirect	Principal activities
Honko BVI Limited	British Virgin Islands/ Hong Kong	US$50,000	Ordinary	—	100%	Investment holding
Honko Electronic Trading Limited	Hong Kong	HK$2	Ordinary	—	100%	Property holding
Honko Industrial (Holdings) Limited	British Virgin Islands/ Hong Kong	US$1	Ordinary	—	100%	Investment holding
Semtech Electronics Limited	Hong Kong	HK$1,000,000	Ordinary	—	100%	Dormant
Shenzhen Guoban Electronics Co., Ltd.	People's Republic of China	HK$5,880,000	*	—	100% #	Dormant
Unionway Electronic Limited	Hong Kong	HK$20,000	Ordinary	—	100%	Dormant
Woodson International Limited	Hong Kong	HK$10,000	Ordinary	—	100%	Investment holding and trading of electronic parts and components
Weritable Enterprises Limited	British Virgin Islands/ Hong Kong	US$3,201,300	Ordinary	—	100%	Investment holding
森信科技電子(惠州)有限公司	People's Republic of China	HK$56,000,000	*	—	100%	Dormant

* The issued and paid-up capital of these subsidiaries is not classified.

\# The attributable interest represents the Group's profit sharing percentage in the co-operative joint venture.

14. ACCOUNTS RECEIVABLE

The Group allows a credit period of 60 to 90 days to its customers. The ageing analysis is as follows:

	2001		2000	
	Balance	**Percentage**	Balance	Percentage
	HK$'000		*HK$'000*	
Current to 30 days	**24,218**	**78**	26,375	75
31-60 days	**3,030**	**10**	1,782	5
61-90 days	**1,498**	**5**	1,715	5
Over 90 days	**2,335**	**7**	5,333	15
Total	**31,081**	**100**	35,205	100

15. INVENTORIES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Raw materials	**13,008**	11,333
Work in progress	**7,121**	5,198
Finished goods	**19,056**	9,978
	39,185	26,509

16. ACCOUNTS PAYABLE

	2001		2000	
	Balance	**Percentage**	Balance	Percentage
	HK$'000		*HK$'000*	
Current to 30 days	**12,998**	**35**	11,145	36
31-60 days	**3,717**	**10**	2,598	8
61-90 days	**4,989**	**13**	2,722	9
Over 90 days	**15,575**	**42**	14,869	47
Total	**37,279**	**100**	31,334	100

17. FINANCE LEASE PAYABLES

There were commitments under finance leases at the balance sheet date as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Amounts payable:		
Within one year	**36,916**	37,571
In the second year	**—**	8
Total minimum lease payments	**36,916**	37,579
Future finance charges	**(454)**	(1,105)
Total net finance lease payables	**36,462**	36,474
Portion classified as current liabilities	**(36,462)**	(36,466)
Long term portion	**—**	8

Certain financial creditors have taken legal action against the Group for the recovery of outstanding lease balances of approximately HK$21 million, further details of which are explained in note 28.

Pursuant to the Restructuring Proposal as detailed in note 2 to the financial statements, all finance lease payables were either repaid, refinanced or waived upon the debt restructuring.

18. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Bank overdrafts:		
Secured	**5,650**	5,748
Unsecured	**31,537**	19,966
	37,187	25,714
Trust receipt loans:		
Secured	**12,701**	11,222
Unsecured	**60,006**	62,949
	72,707	74,171
Bank loans:		
Import loans, unsecured	**2,640**	4,520
Other borrowings:		
Trust receipt loans, unsecured	**14,739**	14,739
Post-dated cheques discounted, unsecured	**885**	1,045
Others, unsecured	**2,340**	2,340
	17,964	18,124
	130,498	122,529
Portion classified as current liabilities	**(130,498)**	(122,529)
Long term portion	**—**	—

The Group's bank loans, overdrafts and trust receipt loans as at 31 March 2001 were secured by the following:

(a) the leasehold properties of the Group; and

(b) personal guarantees given by Mr. Lam Yat Keung and a relative of Mr. Lam Yat Keung.

The Group has given undertakings with respect to financial data and ratios to banks in support of certain bank borrowings. Based on these financial statements, the Group had not complied with the terms of the undertakings.

The other borrowings bore interest at rates ranging from the prime lending rate plus 0.5% per annum to 18% per annum.

Pursuant to the Restructuring Proposal as detailed in note 2 to the financial statements, all of the bank and other borrowings were either repaid or waived upon the debt restructuring.

19. DUE TO A RELATED COMPANY/DIRECTORS/SHAREHOLDERS

The amounts due to related companies and the directors are unsecured, interest-free and will either be repaid or waived upon completion of the Group reorganisation.

The amount due to a related company of HK$6,950,000 represents the repayment of bank loans by the related company on behalf of the Group.

20. LOANS FROM DIRECTORS

Details of the loans from directors are as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Mr. Lam Yat Keung	**45,423**	45,423
Mr. Tam King Ho	**5,938**	5,938
	51,361	51,361

The loans from the directors were unsecured, interest-free and were repayable within one year.

The Group's subsidiaries entered into assignment agreements with Mr. Lam Yat Keung and Sunford Finance (H.K.) Limited ("Sunford") in the prior year, pursuant to which, Mr. Lam Yat Keung agreed to assign all the rights, titles and benefits of Mr. Lam's loan to the Group to Sunford as security for a loan owing by Joytek Holdings Limited ("Joytek") to Sunford. As at 31 March 2001, Joytek held a 39% equity interest in Honko and was beneficially owned by Mr. Lam Yat Keung.

Pursuant to the Restructuring Proposal as detailed in note 2 to the financial statements, the loans were repaid or waived upon the debt restructuring.

21. SHARE CAPITAL

	2001
	HK$'000
Authorised:	
20,000,000 ordinary shares of HK$0.005 each	**100**
Issued and nil paid:	
20,000,000 ordinary shares of HK$0.005 each	**—**

21. SHARE CAPITAL *(continued)*

The changes in the Company authorised and issued share capital which took place during the period from 16 November 2001 (date of incorporation) to 14 June 2001, are as follows:

(a) On incorporation, the authorised share capital of the Company was HK$100,000 divided into 20,000,000 shares of HK$0.005 each, all of which were issued and allotted nil paid on 27 November 2000.

(b) On 16 May 2001, the authorised share capital of the Company was increased from HK$100,000 to HK$75,000,000 by the creation of a further 14,980,000,000 shares of HK$0.005 each, ranking pari passu with the existing share capital of the Company.

(c) On 14 June 2001, as part of the Group reorganisation described in note 2 to the financial statements, the Company issued an aggregate of 358,004,664 shares of HK$0.005 each, credited as fully paid, as consideration for the acquisition of the 358,004,664 shares in the issued share capital of Honko.

For the purpose of preparing the pro forma combined financial statements of the Group, these shares are deemed to have been in issue since 1 April 1999 and as if the current Group structure had been in existence since that date. Accordingly, the share capital as at 31 March 2001 and 2000 presented in the pro forma combined balance sheet of the Group represents the issued share capital of the Company after the issue of shares above.

	Number of shares authorised	**Number of shares issued**	**Par value of issued share capital**
	'000	*'000*	*HK$'000*
Shares issued on incorporation	20,000	20,000	—
On 16 May 2001	14,980,000	—	—
On 14 June 2001 shares issued as consideration for the acquisition of Honko	—	358,005	1,790
	15,000,000	378,005	1,790

21. SHARE CAPITAL *(continued)*

Share options

On 16 May 2001, the Company approved a share option scheme (the “Share Option Scheme”) under which the board of directors of the Company may, at their discretion, grant options to any executive director or employee of the Group at any time during the ten years from the date when the Share Option Scheme was approved. According to the Share Option Scheme, the subscription price of the options will be at a price determined by the board of directors and will not be less than 80% of the average closing prices of the Company’s shares on the Stock Exchange for the five trading days immediately preceding the date of grant or the nominal value of the Company shares in issue from time to time. The Share Option Scheme became effective upon the listing of the Company’s shares on the Stock Exchange on 18 June 2001.

22. RESERVES

Group

	Contributed surplus	Capital reserve	Exchange fluctuation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 1999	125,535	1,255	(1,270)	(305,201)	(179,681)
Loss for the year	—	—	—	(49,856)	(49,856)
At 31 March 2000 and 1 April 2000	125,535	1,255	(1,270)	(355,057)	(229,537)
Loss for the year	—	—	—	(27,459)	(27,459)
At 31 March 2001	125,535	1,255	(1,270)	(382,516)	(256,996)

22. RESERVES *(continued)*

Company

	Accumulated loss *HK$'000*	**Total** *HK$'000*
Balance at 16 November 2000 (date of incorporation)	—	—
Loss for the period	(1,109)	(1,109)
Balance at end of the period	(1,109)	(1,109)

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

23. NOTES TO THE PRO FORMA COMBINED CASH FLOW STATEMENT

(a) Reconciliation of loss before tax to net cash inflow from operating activities

	2001 ***HK$'000***	2000 *HK$'000*
Loss before tax	**(27,459)**	(49,856)
Interest expense	**19,547**	21,058
Depreciation	**10,046**	22,643
Provisions for impairments in values of land and buildings and investment properties	**807**	—
Deficit on revaluation of investment properties	**—**	800
Loss on disposal of fixed assets	**1,027**	12,986
Loss on disposal of investment property	**—**	181
Fixed assets written off	**—**	2,228
Decrease/(increase) in prepayments, deposits and other receivables	**(443)**	1,276
Decrease/(increase) in accounts receivable	**4,124**	(5,815)
Increase in inventories	**(12,676)**	(5,701)
Increase in accounts payable	**5,945**	5,283
Increase/(decrease) in other payables and accrued liabilities	**3,916**	(194)
Decrease in trust receipt loans	**(1,464)**	(7,933)
Increase in amounts due to shareholders	**1,109**	—
Increase in amount due to a related company	**—**	5,872
Increase/(decrease) in amounts due to directors	**(163)**	1,868
Net cash inflow from operating activities	**4,316**	4,696

23. NOTES TO THE PRO FORMA COMBINED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Finance lease payables *HK$'000*	Bank and other borrowings *HK$'000*
Balance at 1 April 1999	36,496	9,831
Net cash outflow from financing	(22)	(1,926)
Balance at 31 March 2000 and 1 April 2000	36,474	7,905
Net cash outflow from financing	(12)	(2,040)
Balance at 31 March 2001	36,462	5,865

24. CONTINGENT LIABILITIES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Bills discounted with recourse	**513**	2,424

As at the balance sheet date, Honko had given guarantees to banks and financial creditors in respect of facilities granted to a subsidiary of the Group in the amount of HK$172,680,000 (2000: HK$175,032,000).

The facilities were utilised to the extent of HK$132,850,000 as at 31 March 2001 (2000: HK$120,154,000).

25. COMMITMENTS

As at 31 March 2001, the Group had commitments under non-cancellable operating leases to make payments in the following year as follows

	2001	2000
	HK$'000	*HK$'000*
Land and buildings expiring:		
Within one year	**265**	66
In the second to fifth years, inclusive	**1,917**	2,874
	2,182	2,940
Plant and machinery expiring in the second to fifth years, inclusive	**1,800**	—
	3,982	2,940

The Company had no other commitments as at the balance sheet date.

26. RELATED PARTY TRANSACTION

Mr. Lam Yat Keung, a director of the Company, and one of his relatives had granted guarantees to banks on bank loans made to the Group totalling HK$7,488,000 as at 31 March 2001 (2000: HK$5,133,000).

27. POST BALANCE SHEET EVENTS

The Group underwent a Group reorganisation and a debt restructuring on 14 June 2001, the details of which are described in note 2 to the financial statements.

28. LITIGATIONS

As at 31 March 2001, a number of financial creditors had outstanding legal proceedings against Honko and its wholly-owned subsidiary, Honey Technology Limited, for the recovery of certain outstanding lease payables of approximately HK$21 million. Pursuant to the Restructuring Proposal, the indebtedness was either repaid by the Group, or refinanced or waived by the respective financial creditors.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 24 July 2001.