

Notes To The Financial Statements

For The Year Ended 31st March, 2001

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The Company's ultimate holding company is Chevalier International Holdings Limited, a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activity of the Company is investment holding while its subsidiaries are engaged in the sale of computer equipment, telecommunication systems and office equipment, provision of IT and network solution, technical and maintenance and paging services, trading of household products and securities investment.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties, investment in securities and other short-term investments and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year and also incorporate the Group's interests in associates on the basis set out in (d) below.

The results of subsidiaries and associates acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

(b) Goodwill on consolidation

Goodwill represents the excess of purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of subsidiaries and associates and is written off to reserve immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of subsidiaries and associates over the purchase consideration, is credited to reserves in the year of acquisition.

On disposal of subsidiaries or associates, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiaries or associates.

(c) Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued equity share capital, controls more than half of the voting power or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where the unrealised losses provide evidence of an impairment of the asset transferred.

(e) Investment properties

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

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

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

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

(f) Property, plant and equipment

(i) Properties

Properties held for own use are stated at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation, less any subsequent depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that would be determined using fair values at the balance sheet date. Any revaluation increase arising on revaluation of such properties is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on the revaluation of a property is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that property. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus is transferred to retained profits.

No depreciation is provided on freehold land. Depreciation is provided on leasehold land over the remaining terms of the respective leases. Depreciation is provided on the cost of the buildings on a straight-line basis over their estimated useful lives of 20 to 50 years or the remaining terms of the respective leases, whichever is the shorter.

Notes To The Financial Statements

For The Year Ended 31st March, 2001

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment (continued)

(ii) Plant and equipment

Plant and equipment are stated at cost less 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 the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the consolidated income statement 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 asset, the expenditure is capitalised as an additional cost of the asset.

Depreciation is provided to write off the cost of plant and equipment over their estimated useful lives after taking into account their estimated residual value, on the reducing balance basis, at the following rates per annum:

	Initial charge upon purchase	Annual charge
Computer equipment	20%	40%
Others	20%	20%

Assets held for leasing are depreciated over the term of the leases.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

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

(g) Properties for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises the cost of acquisition of properties and other direct costs. Net realisable value is estimated by management based on prevailing market conditions or when a binding sales agreement is executed, by reference to the agreed selling prices.

(h) Inventories

Inventories represent general merchandise and consumable stores. General merchandise are stated at the lower of cost and net realisable value whereas consumable stores are stated at cost less provisions. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Notes To The Financial Statements

For The Year Ended 31st March, 2001



2. PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Investments in securities

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

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in income statement for the period.

(j) Other short-term investments

Options acquired for short-term investment purpose are carried at their market value at each balance sheet date, with unrealised gains and losses included in the income statement for the period.

(k) Installation contracts

When the outcome of a contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the value of work carried out during the year.

When the outcome of a contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as "Amounts due from customers for contract work" (as an asset) or "Amounts due to customers for contract work" (as a liability), where applicable. Amounts received before the related work is performed are included in the balance sheet as a liability. Amounts billed for work performed on a contract but not yet paid by the customers are included in the balance sheet under "Debtors, deposits and prepayments".

Notes To The Financial Statements

For The Year Ended 31st March, 2001

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Revenue recognition

Income from sale of goods is recognised when goods are delivered and title of the goods has passed to the customer. Revenue is arrived at after deduction of any sales returns and discounts.

Income from rendering of services is recognised at the time when services are rendered. Receipts in advance of provision of services are accounted for as deferred income.

When the outcome of an installation contract can be estimated reliably, revenue is recognised using the percentage of completion method, measured by reference to the value of work carried out during the period. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

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

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

Income from the sale of securities and derivatives is recognised on a trade-date basis.

Rental income and other earnings under operating leases are recognised on a straight-line basis over the term of the respective leases.

(m) Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessors are accounted for as operating leases. Payments on assets leased by the Group and income on property, plant and equipment of the Group leased to third parties are dealt with in the income statement on a straight-line basis over the terms of the relevant lease.

(n) Foreign currency translation

The accounting records of the Group, other than those subsidiaries not operating in Hong Kong, are maintained in Hong Kong dollars. Transactions denominated in foreign currencies during the year are translated into Hong Kong dollars at the rates of exchange ruling on the dates of transactions or on the contracted settlement date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-translated into Hong Kong dollars at the rates of exchange ruling at that date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries are translated at the rates of exchange ruling at the balance sheet date. All exchange differences arising on consolidation are dealt with in the exchange fluctuation reserve.

(o) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Notes To The Financial Statements

For The Year Ended 31st March, 2001



2. PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Cash and cash equivalents

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.

3. TURNOVER AND CONTRIBUTION

An analysis of the Group's turnover and contribution to profit from operations by business segment and geographical area are as follows:

(a) By business segment

	Turnover		Contribution to profit from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Sale of computer equipment	380,607	394,941	3,845	8,301
Sale of telecommunication systems	267,439	338,343	18,530	16,642
Sale of office equipment	155,510	174,241	4,794	6,066
IT and network solution services	85,517	77,049	(7,227)	2,741
Technical and maintenance services	59,069	64,480	8,145	8,858
Paging services	32,690	41,937	(986)	(5,346)
Trading of household products	30,401	9,915	(7,861)	(4,316)
Others	43,520	81,395	(8,097)	(2,975)
	<u>1,054,753</u>	<u>1,182,301</u>	<u>11,143</u>	<u>29,971</u>

(b) By geographical area

	Turnover		Contribution to profit from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Hong Kong	720,522	888,006	9,252	28,255
Other regions of the People's Republic of China (the "PRC")	179,978	122,878	(6,000)	(10,025)
Thailand	141,433	145,315	8,914	13,176
Others	12,820	26,102	(1,023)	(1,435)
	<u>1,054,753</u>	<u>1,182,301</u>	<u>11,143</u>	<u>29,971</u>

Notes To The Financial Statements

For The Year Ended 31st March, 2001

4. OTHER REVENUE

	2001 HK\$'000	2000 HK\$'000
Included in other revenue are:		
Interest income from bank and other deposits	14,389	15,889
Dividend income from listed securities	<u>37</u>	<u>322</u>

5. OTHER OPERATING EXPENSES

	2001 HK\$'000	2000 HK\$'000
Included in other operating expenses are:		
Deficit on revaluation of properties:		
Investment properties	1,010	510
Properties for own uses	633	482
Exchange difference on foreign currency advances to subsidiaries	<u>9,587</u>	<u>—</u>

6. PROFIT FROM OPERATIONS BEFORE FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Profit from operations before finance costs is arrived at after charging:		
Depreciation on property, plant and equipment	10,996	10,776
Auditors' remuneration	1,419	1,294
Operating lease payments in respect of renting of premises	41,736	49,075
Loss on disposal of property, plant and equipment	3,397	617
Staff costs, including directors' emoluments (Note)	144,811	150,495
Exchange loss	385	—
Net realised and unrealised holding loss on other investments for trading purposes	<u>7,729</u>	<u>62</u>
and crediting:		
Gross rental income of HK\$492,000 (2000: HK\$600,000) less outgoings from properties	400	572
Gross earnings of HK\$378,000 (2000: HK\$436,000) less outgoings from leasing of assets other than properties	233	277
Exchange gain	<u>—</u>	<u>1,073</u>

Note: Included in staff costs is an amount of HK\$3,168,000 (2000: HK\$2,281,000) in respect of staff redundancy costs.

Notes To The Financial Statements

For The Year Ended 31st March, 2001



7. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on bank overdrafts and other borrowings repayable within five years	<u>1,402</u>	<u>372</u>

8. TAXATION

	2001 HK\$'000	2000 HK\$'000
Current taxation		
Company and subsidiaries		
Hong Kong	4,924	7,029
Overseas	3,132	1,666
Associates		
Hong Kong	615	611
Deferred taxation		
Company and subsidiaries		
Hong Kong	<u>(180)</u>	<u>(915)</u>
	<u>8,491</u>	<u>8,391</u>

Provision for Hong Kong profits tax is calculated at the rate of 16% (2000: 16%) on the estimated assessable profits less available tax relief for losses brought forward of each individual company comprising the Group.

Provision for overseas taxation is calculated based on the rates applicable to the relevant local legislation on the estimated assessable profits.

Details of the potential deferred tax credit (charge) not accounted for in the year are set out in note 22.

9. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year, HK\$32,024,000 (2000: HK\$33,685,000) has been dealt with in the income statement of the Company.

10. DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Interim dividend paid		
HK\$0.01 per share on 856,779,352 shares (2000: HK\$0.01 per share on 849,561,558 shares)	8,568	8,496
Final dividend proposed		
HK\$0.01 per share on 856,779,352 shares (2000: HK\$0.03 per share on 854,449,558 shares)	8,568	25,633
Amounts paid for prior year's final dividend on additional shares issued upon exercise of options	<u>1</u>	<u>223</u>
	<u>17,137</u>	<u>34,352</u>

Notes To The Financial Statements

For The Year Ended 31st March, 2001

10. DIVIDENDS (continued)

Dividend payable will be increased by approximately HK\$581,000 if all grantees of share options should exercise their rights to subscribe for shares before the closing of register of members for the current year's final dividend.

11. EARNINGS PER SHARE

Basic earnings per share is calculated based on the earnings for the year of HK\$7,761,000 (2000: HK\$25,610,000) and on the weighted average number of ordinary shares issued of 855,411,857 (2000: 836,674,490 shares).

The diluted earnings per share for the year was computed as follows:

	2001 HK\$'000	2000 HK\$'000
Earnings for the purposes of calculating diluted earnings per share	<u>7,761</u>	<u>25,610</u>
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	855,411,857	836,674,490
Effect of dilutive potential ordinary shares:		
Share options	<u>7,269,737</u>	<u>21,500,696</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>862,681,594</u>	<u>858,175,186</u>

12. INVESTMENT PROPERTIES

THE GROUP

	HK\$'000
At Valuation	
At 1st April, 2000	6,320
Deficit on revaluation	<u>(1,010)</u>
At 31st March, 2001	<u>5,310</u>

Investment properties, which are situated in the PRC and are held under medium-term leases, were revalued on an open market value existing use basis on 31st March, 2001 by independent professional valuers, DTZ Debenham Tie Leung Limited.

Gross rental income derived from investment properties during the year amounted to HK\$318,000 (2000: HK\$437,000).

Notes To The Financial Statements

For The Year Ended 31st March, 2001



13. PROPERTY, PLANT AND EQUIPMENT

	Properties					Transmitters and tele- communications equipment	Machinery, tools and equipment	Furniture, fixtures, office equipment and motor vehicles		Total
	Hong Kong	Overseas		PRC				for	for	
	Under medium- term lease HK\$'000	Freehold HK\$'000	Under medium- term lease HK\$'000	Under long- term lease HK\$'000	Under medium- term lease HK\$'000			own use HK\$'000	lease HK\$'000	
THE GROUP										
AT COST OR VALUATION										
At 1st April, 2000	6,400	8,379	378	1,590	2,090	40,934	32,173	43,457	302	135,703
Exchange adjustments	—	(1,596)	(72)	—	—	—	(618)	(1,093)	(4)	(3,383)
Additions	—	—	—	—	—	519	4,212	8,167	487	13,385
Disposals	—	—	—	—	—	(4,745)	(10,197)	(16,687)	(114)	(31,743)
Reclassification	—	—	—	—	—	169	(298)	129	—	—
Deficit on revaluation	(600)	(153)	—	(30)	(330)	—	—	—	—	(1,113)
At 31st March, 2001	<u>5,800</u>	<u>6,630</u>	<u>306</u>	<u>1,560</u>	<u>1,760</u>	<u>36,877</u>	<u>25,272</u>	<u>33,973</u>	<u>671</u>	<u>112,849</u>
ACCUMULATED DEPRECIATION										
At 1st April, 2000	—	—	—	—	—	32,422	26,356	31,693	153	90,624
Exchange adjustments	—	—	—	—	—	—	(403)	(819)	(1)	(1,223)
Charge for the year	135	254	102	26	47	1,739	3,167	5,368	158	10,996
Eliminated upon disposals	—	—	—	—	—	(3,956)	(9,027)	(14,401)	(73)	(27,457)
Reclassification	—	—	—	—	—	62	(250)	188	—	—
Eliminated on revaluation	(135)	(254)	(102)	(26)	(47)	—	—	—	—	(564)
At 31st March, 2001	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>30,267</u>	<u>19,843</u>	<u>22,029</u>	<u>237</u>	<u>72,376</u>
NET BOOK VALUES										
At 31st March, 2001	<u>5,800</u>	<u>6,630</u>	<u>306</u>	<u>1,560</u>	<u>1,760</u>	<u>6,610</u>	<u>5,429</u>	<u>11,944</u>	<u>434</u>	<u>40,473</u>
At 31st March, 2000	<u>6,400</u>	<u>8,379</u>	<u>378</u>	<u>1,590</u>	<u>2,090</u>	<u>8,512</u>	<u>5,817</u>	<u>11,764</u>	<u>149</u>	<u>45,079</u>
An analysis of cost or valuation of the property, plant and equipment is as follows:										
At cost	—	—	—	—	—	36,877	25,272	33,973	671	96,793
At 2001 professional valuation	5,800	6,630	306	1,560	1,760	—	—	—	—	16,056
	<u>5,800</u>	<u>6,630</u>	<u>306</u>	<u>1,560</u>	<u>1,760</u>	<u>36,877</u>	<u>25,272</u>	<u>33,973</u>	<u>671</u>	<u>112,849</u>

Properties were revalued on an open market value basis based on existing use on 31st March, 2001 by the independent professional valuers. Properties in Hong Kong were revalued by Messrs. Knight Frank. Overseas properties were revalued by Brooke International (Thailand) Limited. Properties in the PRC were revalued by DTZ Debenham Tie Leung Limited.

Had these properties been carried at cost less accumulated depreciation, the carrying amount as at 31st March, 2001 would have been HK\$24,897,000 (2000: HK\$27,458,000).

Notes To The Financial Statements

For The Year Ended 31st March, 2001

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost less provision for impairment	58,668	52,867
Amounts due from subsidiaries, less provision	49,280	12,975
	<u>107,948</u>	<u>65,842</u>

Particulars regarding the principal subsidiaries as at 31st March 2001 of the Company are set out on page 51.

The Directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore, the subsidiaries as set out are those that principally affected the results or assets of the Group.

15. INTERESTS IN ASSOCIATES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	11,504	10,265
Amount due from an associate	1,972	—
	<u>13,476</u>	<u>10,265</u>

Particulars of the associates held by the Group as at 31st March 2001 are as follows:

<u>Name of associate</u>	<u>Place or country of incorporation or registration/operation</u>	<u>Class of shares held</u>	<u>Form of business structure</u>	<u>Effective % of issued capital/registered capital held by the subsidiary</u>	<u>Principal activities</u>
United O.A. Limited	Hong Kong	Ordinary	Corporate	41%	Trading of office automation equipment
Guangzhou Chevalier iTech Limited	PRC	Not applicable	Corporate	24%	Trading of office equipment and provision of maintenance service

Notes To The Financial Statements

For The Year Ended 31st March, 2001



16. INVENTORIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Inventories held for resale	94,215	108,633
Consumable stores	6,532	4,003
	<u>100,747</u>	<u>112,636</u>

The cost of inventories recognised as an expense during the year was HK\$719,622,000 (2000: HK\$896,093,000).

Included above are inventories held for resale of HK\$7,535,000 (2000: HK\$10,837,000) which are carried at net realisable value.

17. PROPERTIES FOR SALE

All properties for sale are carried at cost. None of the properties was sold during the year.

18. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in debtors, deposits and prepayments are trade debtors of HK\$93,612,000 (2000: HK\$92,607,000). An aged analysis of trade debtors as at 31st March, 2001 is as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
0 — 60 days	74,586	78,402
61 — 90 days	9,436	2,900
Over 90 days	9,590	11,305
Total	<u>93,612</u>	<u>92,607</u>

The Group has established credit policies for customers in each of its core business. The average credit period granted for trade debtors was 60 days.

Notes To The Financial Statements

For The Year Ended 31st March, 2001

19. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred	145	2,343
Recognised profits less losses	11	517
	<u>156</u>	<u>2,860</u>
Progress billings	(156)	(2,251)
	<u>—</u>	<u>609</u>
Represented by:		
Amount due from customers included in current assets	—	688
Amount due to customers included in current liabilities	—	(79)
	<u>—</u>	<u>609</u>

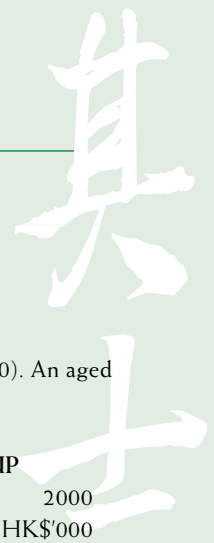
At 31st March, 2001, retentions held by customers for contract work amounted to HK\$372,000 (2000: HK\$343,000). No advance payments were received from customers for contract work.

20. INVESTMENTS IN SECURITIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Other investments:		
Equity securities, listed		
— Hong Kong	—	6,886
— Overseas	—	8,096
	<u>—</u>	<u>14,982</u>
Market value of listed securities		
— Hong Kong	—	6,886
— Overseas	—	8,096
	<u>—</u>	<u>14,982</u>

Notes To The Financial Statements

For The Year Ended 31st March, 2001



21. CREDITORS, DEPOSITS AND ACCRUALS

Included in creditors, deposits and accruals are trade creditors of HK\$43,166,000 (2000: HK\$92,658,000). An aged analysis of the trade creditors as at 31st March, 2001 is as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
0 — 60 days	40,414	90,514
61 — 90 days	1,199	1,012
Over 90 days	1,553	1,132
Total	<u>43,166</u>	<u>92,658</u>

22. DEFERRED TAXATION

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
At 1st April	180	1,095
Written back on reversal of timing difference	<u>(180)</u>	<u>(915)</u>
At 31st March	<u>—</u>	<u>180</u>

Deferred tax was provided in previous years on the timing differences arising from the excess of tax allowances over depreciation charged to the income statement.

At the balance sheet date, the major components of potential deferred tax assets not accounted for in the consolidated financial statements are as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences because of:		
Excess of depreciation over tax allowances	1,883	1,070
Unutilised tax losses	68,991	64,068
Other timing differences	—	566
	<u>70,874</u>	<u>65,704</u>

Notes To The Financial Statements

For The Year Ended 31st March, 2001

22. DEFERRED TAXATION (continued)

The amount of the unprovided deferred tax (charge) credit for the year is as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences because of:		
Excess (shortfall) of depreciation over tax allowances	813	(1,862)
Tax losses arising	4,923	6,771
Other timing differences	(566)	6
	<u>5,170</u>	<u>4,915</u>

A deferred tax asset has not been recognised in the financial statements as it is not certain that the tax asset will be utilised in the foreseeable future.

Deferred tax has not been accounted for on the surplus or deficit arising on the revaluation of properties in Hong Kong and Thailand as profits or losses arising on the disposal of these properties would not be subject to taxation. Accordingly, the surplus or deficit does not constitute a timing difference for deferred tax purposes.

The revaluation deficit arising on the Group's properties in the PRC does not constitute a timing difference for deferred tax purposes and consequently has no effect on the Group's deferred tax assets/liabilities.

The potential deferred tax assets at 31st March, 2001 attributable to unutilised tax losses of foreign subsidiaries expire as follows:

Year of expiration	2001 HK\$'000	2000 HK\$'000
2002	—	8
2003	10	11
2005	10	11
2006	1	2

There is no significant deferred tax for the Company provided or not provided for.

Notes To The Financial Statements

For The Year Ended 31st March, 2001



23. SHARE CAPITAL

	Number of ordinary shares of HK\$0.1 each	Nominal value HK\$'000
Authorised:	<u>1,200,000,000</u>	<u>120,000</u>
Issued and fully paid:		
At 1st April, 1999	828,077,558	82,808
Exercise of share options	<u>26,372,000</u>	<u>2,637</u>
At 31st March, 2000	854,449,558	85,445
Exercise of share options	20,000	2
Issue of shares in lieu of cash dividends	<u>2,309,794</u>	<u>231</u>
At 31st March, 2001	<u>856,779,352</u>	<u>85,678</u>

Notes:

(a) Authorised and issued share capital

There was no change in the authorised share capital during the two years ended 31st March, 2001.

During the year, 20,000 (2000: 26,372,000) shares were issued pursuant to the exercise of options granted to employees including the Directors under the Share Option Scheme at a subscription price of HK\$0.3920 (2000: HK\$0.3376 and HK\$0.3920) per share at a total consideration of HK\$8,000 (2000: HK\$9,271,000).

On 2nd November, 2000, 2,309,794 shares were issued in lieu of cash dividends payable to shareholders at a price of HK\$0.4617 per share giving a total consideration of HK\$1,066,000.

Notes To The Financial Statements

For The Year Ended 31st March, 2001

23. SHARE CAPITAL (continued)

Notes: (continued)

(b) Share option scheme

A Share Option Scheme for the benefit of the full-time employees of the Company and its subsidiaries was approved and adopted in 1991 under which the Directors may invite full-time employees, including executive directors, to take up options to subscribe for an aggregate of not more than 10% of the total number of shares in issue at a subscription price of not less than 80% of the average last dealt prices of the Company's shares on the Stock Exchange of Hong Kong Limited on the five business days last preceding the offer date or the nominal value of the Company's shares, whichever is the greater. No option may be exercised earlier than six months or later than three and a half years after it has been accepted and no option may be granted after 6th October, 2001 and to any one person when if exercised in full by that person would result in the total number of shares issued to that person exceeding 25% of the aggregate number of the shares in respect of which options are granted.

Particulars of the share options granted and outstanding are as follows:

Price per share payable on exercise of options	Period during which options are exercisable	Number of shares issuable under options						
		Outstanding at 1st April, 1999	Granted during the year	Exercised during the year	Cancelled	Outstanding at 31st March, 2000	Exercised during the year	Outstanding at 31st March 2001
HK\$0.3376	03/09/1998-02/09/2001	40,900,000	—	(17,300,000)	—	23,600,000	—	23,600,000
HK\$0.3376	04/09/1998-03/09/2001	7,300,000	—	(2,300,000)	—	5,000,000	—	5,000,000
HK\$0.3920	07/10/1998-06/10/2001	9,076,000	—	(6,772,000)	(1,308,000)	996,000	(20,000)	976,000
HK\$0.4640	30/06/2000-29/06/2003	—	28,550,000	—	—	28,550,000	—	28,550,000
		<u>57,276,000</u>	<u>28,550,000</u>	<u>(26,372,000)</u>	<u>(1,308,000)</u>	<u>58,146,000</u>	<u>(20,000)</u>	<u>58,126,000</u>

The consideration payable by each of the grantees for the options granted was HK\$1. Exercise of these options in full would, under the present capital structure of the Company, result in the issue of 58,126,000 (2000: 58,146,000) additional shares of HK\$0.10 each and the receipt by the Company of approximately HK\$23,285,000 (2000: HK\$23,293,000) in cash.

Notes To The Financial Statements

For The Year Ended 31st March, 2001



24. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Other property revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP							
At 1st April, 1999	234,027	171	14	425	709	91,905	327,251
Transfer (note b)	(18,060)	18,060	—	—	—	—	—
Issue of shares	6,634	—	—	—	—	—	6,634
Share issue expenses	(2)	—	—	—	—	—	(2)
Deficit on revaluation of properties	—	—	—	(400)	—	—	(400)
Exchange difference on translation of financial statements of overseas subsidiaries	—	—	—	—	(120)	—	(120)
Net profit for the year	—	—	—	—	—	25,610	25,610
Dividends (note 10)	—	—	—	—	—	(34,352)	(34,352)
At 31st March, 2000	222,599	18,231	14	25	589	83,163	324,621
Transfer (note c)	—	—	—	882	(882)	—	—
Issue of shares	841	—	—	—	—	—	841
Share issue expenses	(6)	—	—	—	—	—	(6)
Surplus on revaluation of properties	—	—	—	84	—	—	84
Exchange difference on translation of financial statements of overseas subsidiaries	—	—	—	—	(257)	—	(257)
Net profit for the year	—	—	—	—	—	7,761	7,761
Dividends (note 10)	—	—	—	—	—	(17,137)	(17,137)
At 31st March, 2001	<u>223,434</u>	<u>18,231</u>	<u>14</u>	<u>991</u>	<u>(550)</u>	<u>73,787</u>	<u>315,907</u>

Notes:

- Reserves of the Group at the balance sheet date includes the Group's share of the post-acquisition profits retained in associates amounting to HK\$5,248,000 (2000: HK\$4,115,000).
- The amount disclosed as share premium in the financial statements of periods prior to 2000 had been re-analysed between share premium attributable to the holding company and share premium attributable to subsidiaries in last year. The portion attributable to subsidiaries had been transferred to capital reserve.
- The exchange difference on translation included in property revaluation reserve disclosed in the previous years' financial statements is re-analysed and reclassified to exchange fluctuation reserve.

Notes To The Financial Statements

For The Year Ended 31st March, 2001

24. RESERVES (continued)

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE COMPANY					
At 1st April, 1999	215,967	6,226	14	1,707	223,914
Issue of shares	6,634	—	—	—	6,634
Share issue expenses	(2)	—	—	—	(2)
Net profit for the year	—	—	—	33,685	33,685
Dividends (note 10)	—	—	—	(34,352)	(34,352)
	<u>222,599</u>	<u>6,226</u>	<u>14</u>	<u>1,040</u>	<u>229,879</u>
At 31st March, 2000	222,599	6,226	14	1,040	229,879
Issue of shares	841	—	—	—	841
Share issue expenses	(6)	—	—	—	(6)
Net profit for the year	—	—	—	32,024	32,024
Dividends (note 10)	—	—	—	(17,137)	(17,137)
	<u>223,434</u>	<u>6,226</u>	<u>14</u>	<u>15,927</u>	<u>245,601</u>
At 31st March, 2001	<u>223,434</u>	<u>6,226</u>	<u>14</u>	<u>15,927</u>	<u>245,601</u>

Contributed surplus represents the difference between the value of net assets of subsidiaries acquired and the nominal amount of the Company's shares issued for the re-organisation in 1989 less dividend paid out of the contributed surplus subsequently. Under the Companies Act of 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to shareholders.

As at 31st March, 2001, the Company's reserves available for distribution to shareholders amounted to HK\$22,153,000 (2000: HK\$7,266,000).

Notes To The Financial Statements

For The Year Ended 31st March, 2001



25. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Profit before taxation	16,252	34,001
Share of results of associates	(5,109)	(4,030)
Interest income	(14,389)	(15,889)
Interest expenses	1,402	372
Dividend income	(37)	(322)
Depreciation	10,996	10,776
Deficit on revaluation of properties	1,643	992
Loss on disposal of property, plant and equipment	3,397	617
Decrease (increase) in inventories	4,552	(27,367)
(Increase) decrease in debtors, deposits and prepayments	(7,643)	34,785
Decrease (increase) in amount due from customers for contract work	688	(688)
Decrease (increase) in investments in securities	14,982	(9,755)
Decrease (increase) in other short-term unlisted investments	38,364	(38,068)
(Decrease) increase in bills payable	(2,090)	1,891
(Decrease) increase in creditors, deposits and accruals	(50,184)	16,304
Decrease in amount due to customers for contract work	(79)	(1,411)
Decrease in deferred service income	(1,208)	(4,676)
Exchange difference	9,887	(196)
	<u>21,424</u>	<u>(2,664)</u>
Net cash inflow (outflow) from operating activities	<u>21,424</u>	<u>(2,664)</u>

26. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Amount due to ultimate holding company HK\$'000	Minority interests HK\$'000
At 1st April, 1999	316,835	3,199	227
Net cash inflow from financing	9,269	1,566	—
Transfer to Capital Reserve	(18,060)	—	—
	<u>308,044</u>	<u>4,765</u>	<u>227</u>
At 31st March, 2000	308,044	4,765	227
Net cash inflow (outflow) from financing	2	(1,827)	—
Issue of shares in lieu of cash dividends	1,066	—	—
Exchange difference	—	—	(43)
	<u>309,112</u>	<u>2,938</u>	<u>184</u>
At 31st March, 2001	<u>309,112</u>	<u>2,938</u>	<u>184</u>

Notes To The Financial Statements

For The Year Ended 31st March, 2001

27. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	235,531	255,695
Bank overdrafts	(1,812)	(145)
	<u>233,719</u>	<u>255,550</u>

28. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

Details of the emoluments paid to the Directors of the Company are as follows:

	2001 HK\$'000	2000 HK\$'000
Fees	226	240
Salaries, allowances and benefits in kind	1,345	1,348
Contribution to retirement schemes	58	58
	<u>1,629</u>	<u>1,646</u>

Except for the directors' fees of HK\$226,000 (2000: HK\$240,000) paid to the Independent Non-executive Directors, no other emoluments were paid or are payable to the Independent Non-executive Directors or the Non-executive Directors during the two years ended 31st March, 2001.

The emoluments of the Directors fall within the following bands:

Bands	Number of directors	
	2001	2000
Nil — HK\$1,000,000	10	10
HK\$1,000,001 — HK\$1,500,000	1	1
	<u>1</u>	<u>1</u>

The amounts disclosed above in respect of salaries, allowances and benefits in kind, and contributions to retirement schemes, are attributable to one director.

In addition to the directors' emoluments disclosed above, five directors received remuneration totalling HK\$16,942,000 (2000: HK\$16,950,000) from the Company's ultimate holding company in respect of their services to the ultimate holding company and its subsidiaries including the Group.

The amounts paid by the ultimate holding company have not been allocated between the services of the directors as directors of the Company and its subsidiaries, and their services to the ultimate holding company and its other subsidiaries.

The five highest paid individuals included one (2000: one) director whose emoluments are disclosed above.

Notes To The Financial Statements

For The Year Ended 31st March, 2001



28. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

The emoluments of the remaining four (2000: four) highest paid individuals were as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries, allowances and benefits in kind	3,065	3,217
Contributions to retirement schemes	152	188
	<u>3,217</u>	<u>3,405</u>

The emoluments of these four (2000: four) highest paid individuals fall within the following bands:

Bands	Number of individuals	
	2001	2000
Nil — HK\$1,000,000	4	3
HK\$1,000,001 — HK\$1,500,000	—	1
	<u>4</u>	<u>4</u>

29. CHARGE OF ASSETS

As at 31st March, 2001, an overseas subsidiary had pledged its freehold properties with an aggregate carrying value of HK\$6,103,000 (2000: HK\$7,686,000) to a bank in order to secure general banking facilities granted by the bank to these subsidiaries.

30. COMMITMENTS AND CONTINGENT LIABILITIES

At 31st March, 2001:

- (a) the Company had contingent liabilities in respect of:
- (i) guarantees issued for banking facilities extended to its subsidiaries amounting to HK\$5,271,000 (2000: HK\$7,025,000).
 - (ii) guarantees issued for performance under contracts and rendering of services of certain subsidiaries amounting to HK\$66,013,000 (2000: HK\$40,500,000).
- (b) the Group and the Company had commitments payable within the next year in respect of renting of premises under non-cancellable operating leases which expire:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year	5,188	14,979	—	2,221
In the second to fifth years inclusive	23,363	13,579	6,044	—
	<u>28,551</u>	<u>28,558</u>	<u>6,044</u>	<u>2,221</u>

- (c) the Group had contingent liabilities for long service payments to employees who have completed the required number of years of service and under the Employment Ordinance are eligible for long service payments on termination of their employment under certain circumstances, amounting to approximately HK\$7,232,000 (2000: HK\$7,485,000).

Notes To The Financial Statements

For The Year Ended 31st March, 2001

31. POST BALANCE SHEET EVENT

Subsequent to 31st March, 2001, the Group has entered into an agreement to dispose of its paging business at a consideration of not less than its net current assets on date of completion plus the income to be received for certain months after the year end date. The revenue from the paging business for the year and the contribution to the Group's results are as follows:

	2001 HK\$'000	2000 HK\$'000
Turnover	32,690	41,937
Contribution to the Group's operating profit	<u>(986)</u>	<u>(5,346)</u>

32. RELATED PARTY TRANSACTIONS

The Company's ultimate holding company, Chevalier International Holdings Limited ("CIHL") and its subsidiaries, associates and jointly controlled entities are regarded as related parties for the purpose of Hong Kong Statement of Standard Accounting Practice No. 20. Details of the material transactions with these companies are as follows:

- (a) The Company renewed the management agreement with Chevalier (HK) Limited ("CHKL"), a wholly-owned subsidiary of CIHL, for the provision of company secretarial, accounting, electronic data processing, personnel and property management services by CHKL to the Group in respect of the year ended 31st March, 2001 at a management fee calculated at the rate of 0.5% of the annual turnover of the Group excluding those of its overseas subsidiaries. Management fees paid to CHKL during the year under this agreement amounted to HK\$5,431,000 (2000: HK\$5,429,000). The management agreement has been renewed for a further term of one year.
- (b) During the year, the Group sold computer equipment and office equipment to and received service income from wholly-owned subsidiaries of CIHL totalling HK\$4,517,000 (2000: HK\$6,510,000). The price is determined with reference to market rates.
- (c) During the year, the Group paid rentals determined with reference to market rates amounting to HK\$9,917,000 (2000: HK\$12,281,000) to wholly-owned subsidiaries of CIHL, for the use of its premises by the Group.
- (d) During the year, the Group paid storage and delivery charges amounting to HK\$6,494,000 (2000: HK\$6,635,000) and HK\$2,832,000 (2000: HK\$3,253,000) respectively, to a wholly-owned subsidiary of CIHL to cover its cost for services provided to the Group.

At the balance sheet date, the outstanding balance due to the ultimate holding company arising from the above transactions and recurrent expenses paid on behalf of the Group at 31st March, 2001 and 2000 are disclosed in the balance sheet.

Apart from the above, the Group made advances to an associate during the year. The outstanding balance which is unsecured and interest-free as at 31st March, 2001 is disclosed in note 15.