1. ORGANISATION AND PRINCIPAL ACTIVITIES

Pacific Challenge Holdings Limited ("the Company") was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda on 23rd July, 1998. Its shares have been listed on The Stock Exchange of Hong Kong Limited since 13th October, 1998.

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) the manufacturing and trading of precision components processing equipment, (ii) the provision of securities investment and financial services and (iii) the provision of corporate finance and investment advisory services.

In May, 2002, the Company's shareholders received a voluntary conditional cash offer from TingKong – RexCapital Securities International Limited on behalf of Kandy Profits Limited to acquire all the issued shares of the Company and outstanding options to subscribe for shares of the Company. Details of the voluntary conditional cash offers were disclosed in the Company's circular to its shareholders dated 6th June, 2002.

2. BASIS OF PRESENTATION

On 8th March, 2001, Kistefos Investment A.S. ("Kistefos"), a 21.78 % shareholder of the Company, filed a petition ("the Petition") against the Company and one of its directors to The Supreme Court of Bermuda ("the Court") under Section 111(1) of the Companies Act 1981 of Bermuda. The Petition was based on an alleged claim that certain affairs of the Company had been conducted in a manner which is oppressive or unfairly prejudicial to the interests of certain shareholders of the Company, including Kistefos itself. Pursuant to the Petition, Kistefos intends to seek an order from the Court to either (i) force the Company or the director to purchase all shares of the Company held by Kistefos, at a fair value to be determined by the Court, or (ii) wind up the Company by the Court.

After taking legal advice from its legal advisors in Bermuda, the Company made a strike out application in relation to the Petition, the Court hearing of which was completed in September, 2001. The Company was advised by its legal advisors in Bermuda that the Acting Judge of the Court in his judgement made in October, 2001, struck out the claim by Kistefos to wind up the Company, while the remaining relief claimed by Kistefos in the Petition remains to be dealt with by the Court in subsequent hearings. In December, 2001, the Company appealed to the Court of Appeal of Bermuda to strike out the entire Petition. In February, 2002, Kistefos filed a notice of intention to the Court of Appeal of Bermuda to appeal against the decision made by the Court to strike out the claim to wind up the Company. The hearing of the appeal was conducted in June, 2002. The Company was then advised by its legal advisors in Bermuda that the Bermuda Court of Appeal dismissed both the appeal of the Company and the cross-appeal of Kistefos. As a result, the claim by Kistefos to wind up the Company remains struck out, while the remaining relief claim will be dealt with by the Court in subsequent trials. The Directors of the Company, after considering advice from its Bermuda legal advisors, believe that the Company has a reasonably good defense to the remaining relief claim in the Petition. Accordingly, the financial statements have been prepared on the going concern basis. Should the outcome of the Petition not be favourable to the Company, the Company and the Group might not be able to realise the carrying value of its assets and repay its liabilities.

In connection with the Petition, a provision for legal and professional fees amounting to approximately $14,800,000 (2001 – $5,000,000) was recorded in the financial statements during the year ended 31st March, 2002.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The principal accounting policies are summarised below:

(a) Basis of measurement

The financial statements have been prepared on the historical cost basis, as modified by stating investment in marketable securities at fair value as explained in Note 3(j).

(b) Adoption of new/revised Statements of Standard Accounting Practice

Effective from the year ended 31st March, 2002, the Company and its subsidiaries (together "the Group") have adopted, for the first time, the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 14 (revised)	Leases
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

The adoption of the above new/revised SSAPs had no material effect on the Group's financial statements, other than those described below:

i. SSAP 9 (revised) – Events after the balance sheet date

In accordance with SSAP 9 (revised), dividends proposed or declared after the balance sheet date in respect of the financial year ended on the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of shareholders' equity on the face of the balance sheet. This change in accounting policy has been applied retrospectively as a prior year adjustment, resulting in an increase of approximately $4,297,000 in shareholders' equity as at 1st April, 2001, which represents the proposed final dividend for the year ended 31st March, 2001.

ii. SSAP 26 – Segment reporting

Segment information of the Group are disclosed in Note 29 to the financial statements.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Adoption of new/revised Statements of Standard Accounting Practice *(Continued)*

In addition to the adoption of the above standards, the Group has adopted the consequential changes made to SSAP 10 – Accounting for investments in associates, SSAP 17 – Property, plant and equipment and SSAP 18 – Revenue. The Directors of the Company consider that the consequential changes made to these SSAPs do not have a material effect on the Group's financial statements.

The 2001 comparative figures presented herein have incorporated the effect of adjustments, where applicable, resulting from the adoption of the new/revised SSAPs.

(c) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (the "Group"), together with the Group's share of post-acquisition results and reserves of its associates under the equity method of accounting. The results of subsidiaries and associates acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

(d) Subsidiaries

A subsidiary is a company over which the Group can exercise control, which is normally evidenced when the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. In the Company's financial statements, investment in subsidiaries is stated at cost less any impairment loss, while income from subsidiaries is recorded to the extent of dividends received and receivable.

(e) Associates

An associate is a company over which the Group has significant influence, but not control or joint control, over its financial and operating policy decisions. In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and is adjusted thereafter to recognise the Group's share of the post-acquisition results of associates, distributions received from associates, other necessary alterations in the Group's proportionate interest in associates arising from changes in the equity of associates that have not been included in the income statement of associates, amortisation of the difference between the cost of investment and the Group's share of the aggregate fair value of the identifiable net assets acquired at the date of acquisition (goodwill), and any impairment loss. The Group's share of post-acquisition results of associates is included in the consolidated income statement.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Turnover and revenue recognition

Turnover represents (i) sales of precision components processing equipment, (ii) interest income from bank deposits; and (iii) corporate finance and investment advisory fees.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenues are recognised on the following bases:

(i) Sales of precision components processing equipment is recognised when the merchandise is shipped and title has passed.

(ii) Interest income from bank deposits is recognised on a time proportion basis that takes into account the effective yield on the bank deposits.

(iii) Corporate finance and investment advisory fees are recognised when services are rendered.

(iv) Gain on disposal of marketable securities is recognised on the trade date.

(v) Dividend income is recognised when the right to receive payment is established.

(vi) Rental income is recognised on a straight-line basis over the terms of the leases.

(g) Taxation

Individual companies within the Group provide for profits tax on the basis of their profits for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method, at the current tax rates, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment loss. Major expenditures on modifications and betterments of fixed assets which will increase their future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Leasehold improvements	25% – 33% (Over the unexpired period of the leases)
Machinery and equipment	20%
Furniture and office equipment	20%
Motor vehicles	33%

The depreciation methods and useful lives are reviewed periodically to ensure that the methods and rates of depreciation are consistent with the expected pattern of economic benefits from fixed assets.

Gains and losses on disposal of fixed assets are recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes costs of raw materials determined using the first-in-first-out method of costing and, in the case of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated selling price in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Investment in marketable securities

Securities that are held for the purpose of generating a profit from short-term fluctuations in price are classified as investment in marketable securities, and are included in the balance sheet at their fair values. All changes in the fair values of investment in marketable securities and gains and losses on disposal of investment in marketable securities are recognised in the income statement when they arise.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is recorded in the income statement.

(l) Provisions and contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(m) Employee retirement benefits

Costs of employee retirement benefits are recognised as an expense in the period in which the employees' services are rendered.

(n) Operating leases

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Subsequent events

Post-year-end events that provide additional information about financial position as at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(p) Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions; monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rate of exchange in effect at the balance sheet date. Exchange gains and losses are dealt with in the income statement of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, all the assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; all income and expense items are translated into Hong Kong dollars at the applicable average exchange rates during the year. Exchange differences arising from such translation are dealt with as movements in cumulative translation adjustments.

(q) Segments

Business segments: for management purposes the Group is organised into 3 major operating businesses. The Group reports its primary segment information on the basis of the business segments. Financial information on business and geographical segments is presented in Note 29.

Intersegment transactions: segment revenue, segment expenses and segment performance include transfers between business segments and between geographical segments. Those transfers are eliminated upon consolidation.

(r) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

4. RELATED PARTY TRANSACTIONS

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.

(a) The Group had the following significant transactions with related parties during the year:

	2002	2001
	$'000	*$'000*
Purchase of fixed assets and inventories from a related company, in which Mr. L. Yen, a minority shareholder of a subsidiary, has a beneficial interest	**15,970**	–
Purchase of fixed assets and inventories from a related company, in which Mr. S. C. Kwan, a director of a subsidiary, has a beneficial interest	**7,630**	–
Receipt of investment advisory and management fee income from E1-SkyTech Investment Company Limited, an associate	**1,917**	–

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

5. DISCONTINUED OPERATIONS

In March, 2000, the Group disposed of its entire equity interest in Pacific Challenge Securities Limited, Pacific Challenge Futures Hong Kong Limited and Pacific Challenge Nominees Limited, all being wholly-owned subsidiaries of the Group, to an independent third party at an aggregate consideration of approximately $29,300,000. The transaction was completed on 29th June, 2000 and thereafter, the Group ceased its stock brokerage, futures brokerage and margin financing businesses. The results of these operations were presented as discontinued operations in the consolidated income statement for the year ended 31st March, 2001.

6. TURNOVER AND REVENUE

An analysis of turnover and revenue in the consolidated income statement is as follows:

	2002	2001
	$'000	*$'000*
Continuing operations		
Sales of precision components processing equipment	**30,894**	–
Interest income	**8,888**	15,390
Corporate finance and investment advisory fees	**5,208**	10,702
	44,990	26,092
Discontinued operations *(Note 5)*	**–**	22,386
Total turnover	**44,990**	48,478
Gain on disposal of marketable securities	**1,171**	923
Dividend income from marketable securities	**302**	–
Write-back of accruals for termination of an operating lease	**1,390**	–
Write-back of accruals for employees' bonus	**723**	–
Rental income less outgoings	**151**	1,310
Others	**600**	–
Total other revenue	**4,337**	2,233
Total revenue	**49,327**	50,711

7. (LOSS) PROFIT BEFORE TAXATION

(Loss) Profit before taxation in the consolidated income statement was determined after charging and crediting the following items, other than other revenue as disclosed in Note 6:

	2002	2001
	$'000	*$'000*
After charging –		
Interest expense on		
– bank loans wholly repayable within five years	**–**	485
– other loans and payables wholly repayable within five years	**–**	1,009
Cost of inventories sold (excluding provision for obsolete and slow-moving inventories)	**21,502**	–
Depreciation of fixed assets	**1,025**	1,012
Provision for doubtful receivables	**1,804**	–
Provision for obsolete and slow-moving inventories	**2,132**	–
Staff cost (including directors' emoluments)	**15,430**	14,937
Operating lease rentals for rented premises	**2,898**	2,184
Auditors' remuneration	**610**	330

	2002	2001
	$'000	*$'000*
After crediting –		
Interest income from		
– bank deposits	**8,888**	15,221
– other loans	**–**	940
– margin loans	**–**	3,598
Write-back of provision for doubtful receivables	**–**	819
Exchange gain, net	**9**	76

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

	2002	2001
	$'000	*$'000*
Fees for executive directors	**–**	–
Fees for non-executive directors	**195**	–
Other emoluments for executive directors		
– Basic salaries, housing and other allowances	**5,840**	4,198
– Discretionary bonuses	**–**	1,000
– Contribution to mandatory provident fund	**33**	12
	6,068	5,210

No directors waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors during the year.

The directors' emoluments fell within the following bands:

	2002	2001
Executive directors		
Nil – $1,000,000	**1**	1
$1,000,001 – $1,500,000	**–**	1
$1,500,001 – $2,000,000	**1**	–
$3,000,001 – $3,500,000	**1**	1
	3	3
Non-executive directors		
Nil – $1,000,000	**3**	4
	6	7

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(b) Senior executives' emoluments

Details of emoluments paid to the five highest paid individuals (including directors and employees) are:

	2002	2001
	$'000	*$'000*
Basic salaries, housing and other allowances	**8,933**	6,467
Bonuses	**–**	1,000
Contribution to mandatory provident fund	**55**	20
	8,988	7,487

The five highest paid individuals consist of:

	2002	2001
Number of directors	**3**	2
Number of employees	**2**	3
	5	5

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

The emoluments paid to the aforementioned directors and employees fell within the following bands:

	2002	2001
Nil – $1,000,000	**1**	2
$1,000,001 – $1,500,000	**1**	2
$1,500,001 – $2,000,000	**2**	–
$3,000,001 – $3,500,000	**1**	1
	5	5

9. TAXATION

Taxation in the consolidated income statement consisted of:

	2002 $'000	2001 $'000
Current tax		
– Hong Kong profits tax	**680**	1,988
Over-provision in prior years	**(540)**	–
	140	1,988

The Company is exempted from taxation in Bermuda until 2016.

Hong Kong profits tax was provided at the rate of 16% (2001 – 16%) on the estimated assessable profit arising in or derived from Hong Kong.

The subsidiary operating in Taiwan is subject to Taiwan corporate income tax at a rate of 25% (2001 – 25%) after the deduction of NT$10,000 on estimated assessable profit in Taiwan.

The wholly foreign-owned enterprise of the Group established in Dongguan, Guangdong Province, Mainland China, is subject to Mainland China enterprise income taxes at a rate of 27% (24% state income tax and 3% local income tax). However, it is exempted from enterprise income tax for 2 years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction for the next three years. No provision for Mainland China enterprise income tax was recorded as the subsidiary remained in a tax loss position as at 31st March, 2002.

10. (LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated (loss) profit attributable to shareholders included a profit of approximately $34,829,000 (2001 – $290,000) dealt with in the financial statements of the Company.

11. PROPOSED DIVIDEND

	2002 $'000	2001 $'000
Final – Nil (2001 – $0.015) per ordinary share, proposed after year end	**–**	4,297

12. RETAINED PROFIT

Retained profit (accumulated loss) consisted of:

	2002 $'000	2001 $'000
Company	**36,331**	1,502
Subsidiaries	**81,037**	155,528
Associates	**(222)**	–
	117,146	157,030

13. (LOSS) EARNINGS PER SHARE

The calculation of (loss) earnings per share is based on the consolidated loss attributable to shareholders for the year of approximately $39,884,000 (2001 – profit attributable to shareholders of $10,805,000) and on the weighted average number of approximately 286,480,000 (2001 – 266,788,000) shares in issue during the year.

Diluted (loss) earnings per share is not presented as there were no share options, warrants or any other convertible instruments outstanding during the year which would result in dilution.

14. FIXED ASSETS

Movements of fixed assets (consolidated) are as follows:

	2002					2001
	Leasehold improvements $'000	Machinery and equipment $'000	Furniture and office equipment $'000	Motor vehicles $'000	Total $'000	Total $'000
Cost						
Beginning of year	2,054	–	1,543	715	4,312	6,695
Additions	312	–	1,153	189	1,654	279
Attributable to acquisition of a subsidiary	–	1,281	–	–	1,281	–
Disposal	–	–	–	–	–	(8)
Attributable to disposal of subsidiaries	–	–	–	–	–	(2,654)
End of year	2,366	1,281	2,696	904	7,247	4,312
Accumulated depreciation						
Beginning of year	1,602	–	842	715	3,159	3,541
Provision for the year	501	190	278	56	1,025	1,012
Disposal	–	–	–	–	–	(8)
Attributable to disposal of subsidiaries	–	–	–	–	–	(1,386)
End of year	2,103	190	1,120	771	4,184	3,159
Net book value						
End of year	263	1,091	1,576	133	3,063	1,153
Beginning of year	452	–	701	–	1,153	3,154

15. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries consists of:

	2002	2001
	$'000	*$'000*
Unlisted shares, at cost	**131,899**	131,899
Due from subsidiaries	**17,609**	8,946
Due to subsidiaries	**(25,147)**	(14,988)
	124,361	125,857

The outstanding balances with subsidiaries are unsecured, non-interest bearing and have no pre-determined repayment terms.

The underlying value of investment in subsidiaries is, in the opinion of the Company's Directors and the Group's management, not less than its carrying value as at 31st March, 2002.

Details of subsidiaries as at 31st March, 2002 are as follows:

Name of subsidiary	**Place of incorporation/ operations**	**Proportion of nominal value of issued capital held by the Company**		**Issued and fully paid share capital/ registered capital**	**Principal activities**
		Directly	**Indirectly**		
Pacific Challenge Incorporated	The British Virgin Islands	100%	–	$1,000	Investment holding
Optima Worldwide Investment Limited	The British Virgin Islands	100%	–	$1,493	Inactive
Chateron Corporate Finance Limited (formerly known as Pacific Challenge Capital Limited)	Hong Kong	–	100%	$10,000,000	Provision of corporate finance and investment advisory services
Dongguan Long Heng Machinery Company Limited (a)	Mainland China	–	79.1%	$3,500,000	Manufacturing and trading of precision components processing equipment
E1 On-line Limited	Hong Kong	–	100%	$2	Provision of management services
EIUSA Inc.	The United States of America	–	90%	US$10,000	Information technology solution services

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENT IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ operations	Proportion of nominal value of issued capital held by the Company Directly	Indirectly	Issued and fully paid share capital/ registered capital	Principal activities
Express Magic Limited	The British Virgin Islands	–	100%	US$1	Investment holding
Grand Dragon Industrial Limited	The British Virgin Islands	–	79.1%	US$50,000	Investment holding
Grand Dynasty Capital Limited (formerly known as El Corporate Finance Limited)	Hong Kong	–	100%	$3,000,000	Investment advisory
Ideal Far East Limited	Hong Kong	–	100%	$10,000	Trading of precision components processing equipment
Key Foundation Limited	The British Virgin Islands	–	100%	US$1	Investment holding
Nissin Top Machinery Company Limited	Taiwan	–	79.1%	NT$50,000,000	Manufacturing of machinery
Pacific Challenge Finance Limited	Hong Kong	–	100%	$20	Inactive
Pacific Challenge Investments Limited	The British Virgin Islands	–	100%	US$1	Investment holding
Profit Dynamic Limited	The British Virgin Islands	–	100%	US$1	Investment holding
Shine Tech International Limited	Hong Kong	–	79.1%	$10,000	Investment holding
Ultra Technologies Limited	The British Virgin Islands	–	100%	US$1	Investment holding
Uni-Shine International Limited	Hong Kong	–	100%	$10,000	Investment holding

(a) The subsidiary is a wholly foreign-owned enterprise established in Mainland China to be operated for 12 years up to June, 2012.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st March, 2002.

16. INVESTMENT IN ASSOCIATES

Investment in associates (consolidated) consisted of:

	2002	2001
	$'000	*$'000*
Unlisted shares, at cost	**51,014**	1,014
Share of loss of associates	**(222)**	–
Loans from associates	**(49,778)**	–
	1,014	1,014
Less: Impairment loss	**(1,014)**	–
	–	1,014

The loans from associates are unsecured, non-interest bearing and have no pre-determined repayment terms.

The details of associates as at 31st March, 2002 are as follows:

Name of associate	Place of incorporation/ operations	Proportion of nominal value of issued capital held by the Company Directly	Indirectly	Issued and fully paid share capital	Principal activities
E1-SkyTech Investment Company Limited ("E1-SkyTech") (a)	Cayman Islands	–	50%	$350,000	Direct investment
Pacific Challenge Technology Capital Limited (" PCTCL") (b)	The British Virgin Islands	–	26%	US$50	Investment holding

(a) E1-SkyTech was established as a direct investment joint venture pursuant to a shareholders' agreement entered into between a wholly-owned subsidiary of the Company and SkyTech Investment Limited, an independent third party, in April 2001. In view of the change in the economic environment, no investments were made by the joint venture and both shareholders withdrew substantially all of their initial investment by way of shareholders' loans from the joint venture. During the year ended 31st March, 2002, the Group received a sum of approximately $49,778,000 from E1-SkyTech and such balance was recorded as loans from associates as at 31st March, 2002.

(b) PCTCL holds approximately 2% shareholding interest in E1 Media Technology Limited ("E1 Media"). E1 Media is 60% beneficially owned by Dr. Lily Chiang, a director of the Company. In addition, E1 Media holds a 100% interest in Super Drive Inc., a substantial shareholder of the Company.

17. INVENTORIES

Inventories (consolidated) consisted of:

	2002	2001
	$'000	$'000
Raw materials	**10,693**	–
Work-in-progress	**1,690**	–
Finished goods	**8,732**	–
	21,115	–
Less: Provision for obsolete and slow-moving inventories	**(2,132)**	–
	18,983	–

As at 31st March, 2002, inventories of approximately $18,983,000 (2001 – Nil) were stated at net realisable value.

18. LOANS RECEIVABLE

Loans receivable (consolidated) consisted of:

	2002	2001
	$'000	$'000
Beginning of year	**3,902**	–
Additions during the year	**–**	3,902
End of year	**3,902**	3,902
Less: Impairment loss	**(3,902)**	–
	–	3,902

During the year ended 31st March, 2001, the Group granted a one-year term loan amounting to approximately $3,902,000 (equivalent of US$500,000) to Muse Corporation ("MC"), a company incorporated in the British Virgin Islands which is principally engaged in the provision of information technology solution services in the United States of America. The loan was unsecured, bore interest at a rate of 10% per annum, and was repayable on 31st January, 2002 or convertible into ordinary shares of MC on or before 31st January, 2002. During the year ended 31st March, 2002, the Group signed an agreement with MC to convert the loan to 3,638,353 ordinary shares of MC. The Group is in the process of obtaining the share certificate. After considering the economic environment in the United States of America and the value of the underlying assets of MC, the Directors of the Company made full provision for the Group's investment in MC during the year ended 31st March, 2002.

19. ADVANCES FOR INVESTMENTS

Advances for investments (consolidated) consisted of:

	2002	2001
	$'000	*$'000*
Beginning of year	**1,794**	–
Additions during the year	**4,798**	1,794
End of year	**6,592**	1,794
Less: Impairment loss	**(6,592)**	–
	–	1,794

During the year ended 31st March, 2001, advances totalling approximately $1,794,000 were made to an independent third party in respect of investment in an internet business in the United States of America, E1USA Inc. ("E1USA"). During the year ended 31st March, 2002, the Group made further advances totalling approximately $4,798,000 to E1USA and obtained a 90% equity interest in E1USA. After considering the business prospects of E1USA and the economic environment in the United States of America, the Directors of the Company made full provision for the Group's investment in E1USA during the year ended 31st March, 2002.

20. ACCOUNTS RECEIVABLE

The Group's sales are primarily made on an open account basis and the credit terms of the Group range from 0 day to 180 days. An aging analysis of accounts receivable is as follows:

	Consolidated		**Company**	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Accounts receivable				
0 – 1 month	**4,715**	4,792	**928**	–
1 – 3 months	**6,740**	–	**–**	–
3 – 6 months	**5,928**	3,891	**–**	114
6 – 12 months	**1,394**	–	**–**	–
Over 12 months	**2,132**	–	**–**	–
	20,909	8,683	**928**	114
Less: Provision for doubtful receivables	**(3,882)**	(2,078)	**–**	–
	17,027	6,605	**928**	114

21. INVESTMENT IN MARKETABLE SECURITIES

Investment in marketable securities (consolidated) consisted of:

	2002 $'000	2001 $'000
Listed shares, at quoted market value		
– Listed on The Stock Exchange of Hong Kong Limited	18,656	5,130
– Listed on Nasdaq, The United States of America	1,320	1,279
	19,976	6,409

22. ACCOUNTS PAYABLE

An aging analysis of accounts payable is as follows:

	Consolidated		Company	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Accounts payable				
0 – 1 month	4,012	–	–	–
1 – 3 months	4,916	–	–	–
3 – 6 months	2,255	4,514	–	703
6 – 12 months	10	–	–	–
Over 12 months	3,338	–	–	–
	14,531	4,514	–	703

23. ACCRUALS AND OTHER PAYABLES

Accruals and other payables consisted of:

	Consolidated		Company	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Employees' bonus (a)	7,500	9,885	–	–
Legal and professional fees (b)	15,756	5,000	15,756	5,000
Others	3,686	3,129	2,127	2,411
	26,942	18,014	17,883	7,411

(a) This represents the provision of a discretionary bonus to certain employees and key executives.

(b) This represents the legal and professional fees payable in relation to the Petition (see Note 2) and other matters.

24. DEFERRED TAXATION

Movements of deferred taxation (consolidated) are as follows:

	2002	2001
	$'000	*$'000*
Beginning of year	**106**	239
Disposal of subsidiaries	**–**	(133)
End of year	**106**	106

Deferred taxation represents the taxation effect of the timing differences relating to accelerated depreciation for taxation purposes.

25. SHARE CAPITAL

	2002		2001	
	Number of shares	**Nominal value**	Number of shares	Nominal value
	'000	***$'000***	*'000*	*$'000*
Authorised – shares of $0.10 each	**900,000**	**90,000**	900,000	90,000
Issued and fully paid – shares of $0.10 each				
Beginning of year	**286,480**	**28,648**	238,880	23,888
Issue of ordinary shares	**–**	**–**	47,600	4,760
End of year	**286,480**	**28,648**	286,480	28,648

On 29th August, 2000, the Company issued an aggregate of 47,600,000 ordinary shares of $0.10 each at $0.67 per share to certain independent third parties. Net proceeds from the issue amounted to approximately $31,552,000. Details of the above shares issued were disclosed in the Company's announcement dated 27th July, 2000 prior to the completion of the share issue.

26. SHARE OPTION SCHEME

The Company has a share option scheme under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued on exercise of options. The subscription price will be determined by the Directors of the Company, and will not be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the options.

Movements in the share options are as follows:

			Number of share options			
Date of grant	**Exercise period**	**Exercise price**	**Beginning of year**	**Granted during the year**	**Exercised during the year**	**End of year**
			'000	*'000*	*'000*	*'000*
4th February, 2002	7th May, 2002 to 31st December, 2007	$0.32	–	23,880	–	23,880

27. RESERVES AND PROPOSED DIVIDEND

Consolidated

	2002					2001	
	Share premium	Cumulative translation adjustments	Capital reserve (a)	Total	Proposed dividend	Total	Proposed dividend
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Beginning of year							
– as previously reported	65,928	–	9,585	75,513	–	52,040	–
– prior year adjustment (see Note 3.b)	–	–	–	–	4,297	–	–
As restated	65,928	–	9,585	75,513	4,297	52,040	–
Translation adjustments	–	(959)	–	(959)	–	–	–
Write-back of revaluation reserve upon disposal of subsidiaries	–	–	–	–	–	(3,319)	–
Issue of ordinary shares	–	–	–	–	–	27,132	–
Share issue expense	–	–	–	–	–	(340)	–
Proposed final dividend	–	–	–	–	–	–	4,297
Payment of dividend	–	–	–	–	(4,297)	–	–
End of year	65,928	(959)	9,585	74,554	–	75,513	4,297

Company

	2002					2001	
	Share premium	Cumulative translation adjustments	Contributed surplus (b)	Total	Proposed dividend	Total	Proposed dividend
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Beginning of year							
– as previously reported	65,928	–	122,864	188,792	–	162,000	–
– prior year adjustment (see Note 3.b)	–	–	–	–	4,297	–	–
As restated	65,928	–	122,864	188,792	4,297	162,000	–
Issue of ordinary shares	–	–	–	–	–	27,132	–
Share issue expense	–	–	–	–	–	(340)	–
Proposed final dividend	–	–	–	–	–	–	4,297
Payment of dividend	–	–	–	–	(4,297)	–	–
End of year	65,928	–	122,864	188,792	–	188,792	4,297

27. RESERVES AND PROPOSED DIVIDEND *(Continued)*

(a) Capital reserve represents the difference between the nominal value of ordinary shares issued by the Company and the aggregate of the share capital and share premium of subsidiaries acquired through a reorganisation in relation to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited in October, 1998.

(b) Contributed surplus represents the difference between the aggregate net asset value of subsidiaries acquired as a result of the reorganisation prepared for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited and the nominal amount of the Company's shares issued for the acquisition. Under Section 54 of the Companies Act 1981 of Bermuda, contributed surplus is available for distribution as dividends to shareholders subject to the provisions of the Company's Bye-laws and provided that immediately following the distribution, the Company is able to pay its liabilities as they fall due or the realisable value of the Company's assets would not be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

As at 31st March, 2002, the Company's reserves available for distribution to shareholders are represented by contributed surplus of approximately $122,864,000 (2001 – $122,864,000) and retained profit of approximately $36,331,000 (2001 – $1,502,000).

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of (loss) profit before taxation to net cash (outflow) inflow from operating activities:

	2002	2001
	$'000	*$'000*
(Loss) Profit before taxation	**(39,826)**	12,793
Depreciation of fixed assets	**1,025**	1,012
Provision for (Write back of) doubtful receivables	**1,804**	(819)
Provision for obsolete and slow-moving inventories	**2,132**	–
Provision for legal and professional fees	**18,079**	–
Interest income	**(8,888)**	(19,759)
Interest expense	**–**	1,494
Gain on disposal of marketable securities	**(1,171)**	(923)
Dividend income from marketable securities	**(302)**	–
Loss on investment in marketable securities	**5,800**	4,027
Gain on disposal of subsidiaries	**–**	(3,800)
Impairment loss on investments	**10,494**	–
Impairment loss on investment in associates	**1,014**	–
Share of loss of associates	**222**	–
Increase in inventories	**(18,291)**	–
(Increase) Decrease in accounts receivable	**(12,226)**	81,659
Increase in deposits, prepayments and other receivables	**(1,967)**	(12,561)
(Decrease) Increase in accounts payable, accruals and other payables	**(2,928)**	29,450
Net cash (outflow) inflow from operating activities	**(45,029)**	92,573

(b) Details of net assets of a subsidiary acquired are as follows:

	2002
	$'000
Fixed assets	**1,281**
Inventories	**2,824**
Deposits, prepayments and other receivables	**189**
Due to a shareholder	**(3,794)**
Group's share of net assets acquired	**500**
Consideration paid, representing the net cash outflow from acquisition of a subsidiary	**500**

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) An analysis of changes in financing is as follows:

	Share capital and share premium	Short-term bank loan	Due to a minority shareholder of a subsidiary	Minority interests	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
As at 1st April, 2000	63,024	20,000	–	–	83,024
Proceeds from issue of ordinary shares	31,892	–	–	–	31,892
Share issue expense	(340)	–	–	–	(340)
Repayment of short-term bank loan	–	(20,000)	–	–	(20,000)
As at 1st April, 2001	94,576	–	–	–	94,576
Capital contributions from a minority shareholder of a subsidiary	–	–	–	82	82
Share of losses	–	–	–	(82)	(82)
Increase in amount due to a minority shareholder of a subsidiary	–	–	3,964	–	3,964
As at 31st March, 2002	94,576	–	3,964	–	98,540

29. SEGMENT INFORMATION

(a) Primary segment

The Group is organised into 3 major operating units: (i) manufacturing and trading of precision components processing equipment, (ii) securities investment and financial services and (iii) corporate finance and investment advisory services. An analysis by business segment is as follows:

	2002					
	Continuing operations					
	Manufacturing and trading of precision components processing equipment	Securities investment and financial services	Corporate finance and investment advisory services	Discontinued operations	Eliminations	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Turnover						
External	30,937	7,101	6,952	–	–	44,990
Inter-segment	762	–	4,280	–	(5,042)	–
Total turnover	31,699	7,101	11,232	–	(5,042)	44,990
Operating results						
Segment result	269	(9,656)	833	–		(8,554)
Other revenue						4,337
Impairment loss on investments						(10,494)
Provision for legal and professional fees						(18,079)
Loss on investment in marketable securities						(5,800)
Impairment loss on investment in associates						(1,014)
Share of loss of associates						(222)
Taxation						(140)
Loss after taxation but before minority interests						(39,966)
Other information						
Assets	42,308	167,251	57,401	–		266,960
Liabilities	15,749	23,110	7,753	–		46,612
Capital expenditures	1,433	10	211	–		1,654
Depreciation	246	9	770	–		1,025

29. SEGMENT INFORMATION *(Continued)*

(a) Primary segment *(Continued)*

	2001					
	Continuing operations					
	Manufacturing and trading of precision components processing equipment	Securities investment and financial services	Corporate finance and investment advisory services	Discontinued operations	Eliminations	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Turnover						
External	–	12,027	14,065	22,386	–	48,478
Inter-segment	–	9,323	984	–	(10,307)	–
Total turnover	–	21,350	15,049	22,386	(10,307)	48,478
Operating results						
Segment result	–	205	3,169	8,907		12,281
Interest expense						(1,494)
Other revenue						2,233
Loss on investment in marketable securities						(4,027)
Gain on disposal of subsidiaries						3,800
Taxation						(1,988)
Profit after taxation but before minority interests						10,805
Other information						
Assets	–	230,756	58,381	–		289,137
Liabilities	–	14,479	9,170	–		23,649
Capital expenditures	–	–	279	–		279
Depreciation	–	–	1,012	–		1,012

29. SEGMENT INFORMATION *(Continued)*

(b) Secondary segment

The Group has business operations in Hong Kong, Mainland China and Taiwan. An analysis by geographical location is as follows:

	2002			
	Hong Kong	**Mainland China**	**Taiwan**	**Total**
	$'000	*$'000*	*$'000*	*$'000*
Turnover*	13,746	20,137	11,107	44,990
(Loss) Profit after taxation but before minority interests	(40,235)	1,622	(1,353)	(39,966)
Assets	242,535	4,925	19,500	266,960
Capital expenditures	364	–	1,290	1,654

	2001			
	Hong Kong	**Mainland China**	**Taiwan**	**Total**
	$'000	*$'000*	*$'000*	*$'000*
Turnover*	48,478	–	–	48,478
Profit after taxation but before minority interests	10,805	–	–	10,805
Assets	289,137	–	–	289,137
Capital expenditures	279	–	–	279

* *Turnover by geographical location is determined mainly on the basis of the destination of delivery of services/merchandise.*

30. OPERATING LEASE COMMITMENTS

The Group had aggregate outstanding operating lease commitments in respect of office premises under various non-cancellable operating lease agreements extending to June, 2005 of approximately $2,846,000 (2001 – $2,668,000). Total commitments payable under these agreements are analysed as follows:

	2002	2001
	$'000	*$'000*
Amounts payable		
– within one year	**1,250**	2,527
– in the second to fifth years	**1,596**	141
	2,846	2,668

31. PENSION SCHEMES

Since 1st December, 2000, the Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF scheme, each of the Group (the employer) and its employees make monthly contributions to the scheme at a rate of 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The annual contributions of each of the employer and employees are subject to a cap of $12,000 and thereafter contributions are voluntary.

As stipulated by regulations in Mainland China, all retired employees of the Group's Mainland China subsidiary are entitled to an annual pension equal to their basic annual salaries upon retirement. The Group contributes to a state-sponsored retirement plan at a rate of approximately 18% of the basic salaries of its employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees and the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

According to the Taiwan Labour Standard Law ("TLSL"), the Group has arranged for its Taiwan employees to join a defined benefits scheme managed by a government agent. The Group has an obligation to make contributions at a rate of 2% of the employee's earnings as stipulated by TLSL. After serving a qualifying period, the Group's Taiwan employees are entitled to benefits on retirement. The government agent provides benefits based on years of service and final average salary. The Group is required to make up any shortfall in the fund managed by the agent to meet payments due to employees under TLSL. The subsidiary did not perform an actuarial valuation as it was newly incorporated during the year ended 31st March, 2002. The Directors of the Company considered the assets managed by the government agent were sufficient to meet all benefits payable as at 31st March, 2002.

During the year ended 31st March, 2002, the employer contributions made by the Group in respect of the above-mentioned pension schemes amounted to approximately $251,000 (2001 – $50,000).