

Notes to the Financial Statements

For the year ended 31st March, 2002

1. GENERAL

The Company was incorporated in Bermuda on 8th June, 1993 as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Group are the manufacture and sale of liquid crystal displays ("LCDs"), The Group ceased the manufacture and sale of printed circuit boards ("PCBs") during the year.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosures for the prior year have been restated in order to achieve a consistent presentation. The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

Leases

SSAP No. 14 (Revised) "Leases" ("SSAP 14"), has introduced some amendments to the basis of accounting for finance and operating leases, and to the disclosures specified for the Group's leasing arrangements. Disclosures for all of the Group's leasing arrangements have been modified so as to comply with the requirements of SSAP 14. Comparative amounts have been restated in order to achieve a consistent presentation.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment Reporting". Segment disclosures for the year ended 31st March, 2001 have been amended so that they are presented on a consistent basis.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, made up to 31st March each year.

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

All significant inter-company transactions, balances and cash flows are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions after 1st April, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal of the subsidiary.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Revenue recognition

Sale of goods is recognised when goods are delivered and title has passed.

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

Rental income, including rentals invoiced in advance, from properties under operating lease is recognised on a straight-line basis over the relevant lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortisation and accumulated impairment loss.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	Over the estimated useful lives of 20 years
Furniture and fixtures	10 - 25%
Office equipment	15 - 25%
Plant and machinery	10 - 15%
Motor vehicles	10 - 20%

No provision for depreciation is made on machinery under installation until such time as the relevant asset is completed and put into use.

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

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. 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 on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

On 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.

Club debentures

Club debentures which are held for long-term purpose, are measured at cost, as reduced by any impairment loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. 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 first-in, first-out 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.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the income statement.

On consolidation, the financial statements of the overseas subsidiaries which are denominated in currencies other than Hong Kong dollars are translated using the temporal method as the operations of the subsidiaries outside Hong Kong are dependent on the economic circumstances of the Company's reporting currency. Exchange differences arising on consolidation are dealt with in the income statement.

Retirement benefit scheme contributions

The retirement benefit scheme contributions charged in the income statement represent the amount of contributions payable to the Group's defined contribution scheme and the mandatory provident fund scheme.

4. TURNOVER

Turnover represents net amounts received and receivable for goods sold, less returns and allowances, during the year.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group is organised into two operating divisions - LCDs and PCBs. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

LCDs – manufacture and sales of LCDs

PCBs – manufacture and sales of PCBs

The operation of PCBs was discontinued during the year.

Notes to the Financial Statements

For the year ended 31st March, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Segment information about these businesses is presented below:

2002

	LCDs HK\$'000	PCBs HK\$'000	Others HK\$'000	Consolidated HK\$'000
Turnover				
External sales	<u>250,183</u>	<u>–</u>	<u>16,872</u>	<u>267,055</u>
Result				
Segment result	<u>11,189</u>	<u>(2,793)</u>	<u>755</u>	9,151
Interest income				4,490
Unallocated corporate expenses				<u>(7,095)</u>
Profit from operations				6,546
Interest on bank borrowings wholly repayable within five years				<u>(57)</u>
Profit before taxation				6,489
Taxation				<u>(7)</u>
Net profit for the year				<u>6,482</u>
Consolidated balance sheet				
	LCDs HK\$'000	PCBs HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets				
Segment assets and consolidated total assets	<u>383,474</u>	<u>213</u>	<u>29,070</u>	<u>412,757</u>
Liabilities				
Segment liabilities and consolidated total liabilities	<u>46,757</u>	<u>80</u>	<u>3,154</u>	<u>49,991</u>
Other information				
Additions to property, plant and equipment	25,677	–	1,732	27,409
Depreciation and amortisation	14,812	–	999	15,811
Impairment losses recognised	<u>–</u>	<u>2,118</u>	<u>–</u>	<u>2,118</u>

Notes to the Financial Statements

For the year ended 31st March, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

2001

	LCDs	PCBs	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
External sales	<u>259,191</u>	<u>11,554</u>	<u>1,656</u>	<u>272,401</u>
Result				
Segment result	<u>14,042</u>	<u>(3,539)</u>	<u>90</u>	10,593
Interest income				2,158
Unallocated corporate expenses				<u>(6,709)</u>
Profit from operations				6,042
Interest on bank borrowings wholly repayable within five years				(224)
Loss on disposal of a subsidiary				<u>(6)</u>
Profit before taxation				5,812
Taxation				<u>(8)</u>
Net profit for the year				<u>5,804</u>

Consolidated balance sheet

	LCDs	PCBs	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets				
Segment assets and consolidated total assets	<u>395,306</u>	<u>12,772</u>	<u>4,484</u>	<u>412,562</u>
Liabilities				
Segment liabilities and consolidated total liabilities	<u>59,557</u>	<u>1,378</u>	<u>380</u>	<u>61,315</u>
Other information				
Additions to property, plant and equipment	48,669	37	311	49,017
Depreciation and amortisation	<u>14,733</u>	<u>1,198</u>	<u>94</u>	<u>16,025</u>

Notes to the Financial Statements

For the year ended 31st March, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

The Group's operations are mainly located in Hong Kong and the People's Republic of China (the "PRC"). The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods.

	Sales revenue by geographical market		Contribution to profit from operations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong, the PRC	235,196	249,125	8,061	9,688
Other regions of the PRC	21,914	14,283	751	556
Other countries	9,945	8,993	339	349
	<u>267,055</u>	<u>272,401</u>	<u>9,151</u>	<u>10,593</u>
Interest income			4,490	2,158
Unallocated corporate expenses			(7,095)	(6,709)
Profit from operations			<u>6,546</u>	<u>6,042</u>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of geographical assets		Additions to property, plant and equipment	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong, the PRC	250,860	263,613	5,814	936
Other regions of the PRC	161,897	148,949	21,595	48,081
	<u>412,757</u>	<u>412,562</u>	<u>27,409</u>	<u>49,017</u>

Notes to the Financial Statements

For the year ended 31st March, 2002

6. LOSS ON DISCONTINUANCE OF A BUSINESS

The Group's long-term strategy is to focus its activities in the areas of the sales and manufacture of LCDs. Accordingly, the Group decided to cease the PCB business during the year. Total loss incurred, including an impairment loss on certain plant and equipment of HK\$2,118,000, was HK\$2,793,000.

The results of the PCB business for both years were as follows:

	2002	2001
	HK\$'000	HK\$'000
Turnover	<u>–</u>	<u>11,554</u>
Loss from ordinary activities	<u>(2,793)</u>	<u>(3,539)</u>

7. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	2002	2001
	HK\$'000	HK\$'000
Auditors' remuneration	480	480
Depreciation and amortisation	15,811	16,025
Loss on disposal of property, plant and equipment	2,403	5
Staff costs, including directors' emoluments	61,764	55,719
and after crediting:		
Interest income	<u>4,490</u>	<u>2,158</u>

Notes to the Financial Statements

For the year ended 31st March, 2002

8. DIRECTORS' EMOLUMENTS

	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive directors	500	–
Independent non-executive directors	200	200
Other non-executive directors	100	–
Other emoluments:		
Salaries and other benefits	3,500	3,549
Retirement benefits scheme contributions	175	129
Total emoluments	<u>4,475</u>	<u>3,878</u>

The emoluments of the directors were within the following bands:

	Number of directors	
	2002	2001
Up to HK\$1,000,000	6	3
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	<u>1</u>	<u>1</u>

9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2001: three) were directors of the Company whose emoluments are included in note 8 above. The emoluments of the remaining three (2001: two) individuals were as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	2,880	1,966
Retirement benefit scheme contributions	91	49
Total emoluments	<u>2,971</u>	<u>2,015</u>

Notes to the Financial Statements

For the year ended 31st March, 2002

9. EMPLOYEES' EMOLUMENTS (continued)

Their emoluments were within the following bands:

	Number of employees	
	2002	2001
Up to HK\$1,000,000	2	1
HK\$1,000,001 to HK\$1,500,000	1	1
	<u>3</u>	<u>2</u>

10. TAXATION

The charge comprises:

Hong Kong Profits Tax calculated at 16% on the estimated assessable profit

	2002 HK\$'000	2001 HK\$'000
Current year	7	7
Underprovision in prior years	-	1
	<u>7</u>	<u>8</u>

Details of potential deferred taxation are set out in note 25.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2002 HK\$'000	2001 HK\$'000
Earnings for the purposes of basic and diluted earnings per share	<u>6,482</u>	<u>5,804</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,030,384,234	726,743,188
Effect of dilutive share options	<u>5,728,700</u>	<u>24,881,839</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,036,112,934</u>	<u>751,625,027</u>

Notes to the Financial Statements

For the year ended 31st March, 2002

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Machinery under installation HK\$'000	Total HK\$'000
THE GROUP							
COST							
At 1st April, 2001	11,982	15,745	3,289	135,978	4,413	32,776	204,183
Additions	4,954	3,114	1,056	9,476	483	8,326	27,409
Disposals	(652)	–	(217)	(1,408)	(48)	–	(2,325)
Reclassify to investment properties	(2,500)	–	–	–	–	–	(2,500)
At 31st March, 2002	13,784	18,859	4,128	144,046	4,848	41,102	226,767
DEPRECIATION AND AMORTISATION							
At 1st April, 2001	751	12,226	2,010	99,620	2,538	–	117,145
Provided for the year	739	1,202	441	12,816	613	–	15,811
Impairment losses recognised	–	69	3	2,046	–	–	2,118
Eliminated on disposals	(45)	–	(129)	(1,319)	(2)	–	(1,495)
Reclassify to investment properties	(122)	–	–	–	–	–	(122)
At 31st March, 2002	1,323	13,497	2,325	113,163	3,149	–	133,457
NET BOOK VALUES							
At 31st March, 2002	12,461	5,362	1,803	30,883	1,699	41,102	93,310
At 31st March, 2001	11,231	3,519	1,279	36,358	1,875	32,776	87,038

Notes to the Financial Statements

For the year ended 31st March, 2002

12. PROPERTY, PLANT AND EQUIPMENT (continued)

The net book value of leasehold land and buildings shown above comprises:

	2002 HK\$'000	2001 HK\$'000
Land in Hong Kong held under:		
Long leases	–	2,398
Medium-term leases	4,777	611
Land outside Hong Kong held under:		
Long lease	315	461
Medium-term lease	7,369	7,761
	<u>12,461</u>	<u>11,231</u>

13. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
At 1st April, 2001	–
Transfer from property, plant and equipment	2,378
Revaluation decrease	(1,128)
At 31st March, 2002	<u>1,250</u>

The Group's investment properties are situated in Hong Kong and are held under long leases. They are rented to third parties under operating leases.

The investment properties were revalued at 31st March, 2002 by Memfus Wong Surveyors Limited, a firm of independent valuers, on an open market value basis. The valuation decrease of HK\$1,128,000 has been charged to the income statement.

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY 2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	<u>83,384</u>	<u>83,384</u>

Notes to the Financial Statements

For the year ended 31st March, 2002

14. INVESTMENTS IN SUBSIDIARIES (continued)

The carrying amount of the unlisted shares is based on the book values of the underlying separable net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group.

Details of the Company's principal subsidiaries at 31st March, 2002 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid up share/registered capital	Percentage of nominal value of issued/registered capital held by the Company	Principal activities
Dongguan Yeedu Semiconductor Co., Ltd.	People's Republic of China ("PRC")	US\$1,496,000 registered capital	85% (note)	Manufacture of LCDs
Jiangmen Yeebo Semiconductor Co., Ltd.	PRC	US\$9,307,000 registered capital	80% (note)	Manufacture of LCDs
LCD Industries Limited	British Virgin Islands/ PRC	US\$1	100%	Trading of LCDs
Yeebo (B.V.I.) Limited	British Virgin Islands	US\$8,100	100%	Investment holding
Yeebo LCD Limited	Hong Kong	HK\$10,000	100%	Development and trading of LCDs

Note: Dongguan Yeedu Semiconductor Co., Ltd. and Jiangmen Yeebo Semiconductor Co., Ltd. were established by the Group with two separate parties in the PRC. Under the respective subcontracting agreements, the Group is responsible for all of their assets and liabilities and is entitled to all of the net results of their operations. The Group therefore effectively has a 100% attributable economic interest in these subsidiaries.

The above table only includes those subsidiaries which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of all subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Except for Yeebo (B.V.I.) Limited which is a directly owned subsidiary, all of the remaining subsidiaries are indirectly owned by the Company.

Notes to the Financial Statements

For the year ended 31st March, 2002

15. AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Amounts due from subsidiaries	615,312	612,442
Less: Impairment losses	(346,290)	(346,290)
	<u>269,022</u>	<u>266,152</u>

The amounts are unsecured, non-interest bearing and have no fixed repayment terms.

In the opinion of the directors, the amounts due from subsidiaries will not be repayable in the next twelve months from the balance sheet date and, accordingly, the amounts are shown as non-current assets in the balance sheet.

16. CLUB MEMBERSHIP DEBENTURES

	THE GROUP 2002 & 2001 HK\$'000	
At cost		2,659
Impairment loss recognised		(700)
		<u>1,959</u>

17. INVENTORIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Raw materials	50,777	81,049
Work in progress	1,621	2,233
Finished goods	21,121	10,757
	<u>73,519</u>	<u>94,039</u>

Notes to the Financial Statements

For the year ended 31st March, 2002

17. INVENTORIES (continued)

Included above are raw materials of approximately HK\$17,216,000 (2001: HK\$8,855,000) which are carried at net realisable value.

During the year, certain slow-moving inventories identified in the previous year were used or sold. Allowance made in prior years against the carrying value of raw materials of approximately HK\$2,000 (2001: HK\$3,324,000) were reversed.

18. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 – 90 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Up to 30 days	33,553	23,461
31 – 60 days	15,563	16,895
61 – 90 days	6,157	9,009
91 – 120 days	880	8,369
Over 120 days	3,615	1,185
	<hr/>	<hr/>
	59,768	58,919
Other receivables	6,384	3,298
	<hr/>	<hr/>
	66,152	62,217

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For the year ended 31st March, 2002

19. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Up to 30 days	6,094	4,403
31 – 60 days	4,285	3,728
61 – 90 days	2,687	2,706
91 – 120 days	1,553	5,602
Over 120 days	1,874	7,681
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Other payables	16,493	24,120
	27,286	30,814
	<hr/>	<hr/>
	43,779	54,934
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20. BILLS PAYABLE

The following is an aged analysis of bills payable at the balance sheet date:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Up to 30 days	1,194	2,164
31 – 60 days	517	730
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	1,711	2,894
	<hr/> <hr/>	<hr/> <hr/>

21. BANK BORROWINGS, UNSECURED

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Trust receipt loans	4,250	1,111
Short-term bank loans	–	2,183
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	4,250	3,294
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22. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.20 each		
Authorised:		
At beginning and end of the year	<u>2,000,000</u>	<u>400,000</u>
Issued and fully paid:		
At 1st April, 2000	640,490	128,098
Issue of shares (<i>Notes a and b</i>)	<u>377,889</u>	<u>75,578</u>
At 31st March, 2001 and 1st April, 2001	1,018,379	203,676
Issue of shares (<i>Note b</i>)	<u>25,185</u>	<u>5,037</u>
At 31st March, 2002	<u>1,043,564</u>	<u>208,713</u>

Notes:

- (a) On 5th January, 2001, the Company entered into a subscription agreement with Cando Corporation ("Cando") pursuant to which the Company placed 350,000,000 ordinary shares of HK\$0.20 each in the Company to Cando at a cash consideration price of HK\$0.40 per share. On 12th February, 2001, 350,000,000 new shares were allotted and issued. The shares issued rank *pari passu* in all respects with the then existing shares of the Company. The net proceeds of approximately HK\$140 million was for upgrading the production facilities of, and to provide general working capital to, the Group.
- (b) The Company issued and allotted an aggregate of 25,184,880 (2001: 27,888,660) ordinary shares of HK\$0.20 each in the Company for an aggregate consideration of HK\$5,037,000 (2001: HK\$5,578,000) as a result of the exercise of the Company's share options at an exercise price of HK\$0.20 per share during the year. The shares issued rank *pari passu* in all respects with the then existing shares of the Company.

23. SHARE OPTIONS

A summary of the movements of the share options, exercisable between 4th October, 1999 and 4th October, 2002 (both dates inclusive) with an exercise price of HK\$0.20 per share, during the year is as follows:

Date granted	Balance at 1.4.2001	Exercised during the year	Balance at 31.3.2002
4th October, 1999	<u>25,184,880</u>	<u>25,184,880</u>	<u>—</u>

No share option was granted during the year.

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24. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	(Deficit) retained profit HK\$'000	Total HK\$'000
THE GROUP						
At 1st April, 2000	77,508	2,125	–	1,347	(9,008)	71,972
Premium arising on issue of shares	70,000	–	–	–	–	70,000
Expenditure incurred on issue of shares	(205)	–	–	–	–	(205)
Profit for the year	–	–	–	–	5,804	5,804
At 31st March, 2001 and 1st April, 2001	147,303	2,125	–	1,347	(3,204)	147,571
Profit for the year	–	–	–	–	6,482	6,482
At 31st March, 2002	147,303	2,125	–	1,347	3,278	154,053
THE COMPANY						
At 1st April, 2000	77,508	–	49,259	1,347	(59,624)	68,490
Premium arising on issue of shares	70,000	–	–	–	–	70,000
Expenditure incurred on issue of shares	(205)	–	–	–	–	(205)
Profit for the year	–	–	–	–	7,742	7,742
At 31st March, 2001 and 1st April, 2001	147,303	–	49,259	1,347	(51,882)	146,027
Loss for the year	–	–	–	–	(2,755)	(2,755)
At 31st March, 2002	147,303	–	49,259	1,347	(54,637)	143,272

The capital reserve balance of the Group represents the difference between the aggregate nominal value of the share capital of acquired subsidiaries and the aggregate nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1993, and after the reclassification of the amounts related to the share premium arising from issue of shares of a subsidiary prior to the group reorganisation to capital reserve and after reserve movements at the time of the capital reduction in previous years.

Notes to the Financial Statements

For the year ended 31st March, 2002

24. RESERVES (continued)

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of Yeebo (B.V.I.) Limited at the date on which it was acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1993. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At 31st March, 2002, the Company had no reserves available for distribution to the shareholders.

25. POTENTIAL DEFERRED TAXATION

At the balance sheet date, the major components of the potential deferred tax assets (liabilities) are as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to:				
Tax losses available to set off future profits	8,741	12,690	1,562	1,893
Excess of tax allowances over depreciation	(370)	(337)	–	–
Other timing differences	–	385	–	–
	8,371	12,738	1,562	1,893

The net deferred tax asset has not been recognised in the financial statements as it is not certain that the amount will be realised in the foreseeable future.

Notes to the Financial Statements

For the year ended 31st March, 2002

25. POTENTIAL DEFERRED TAXATION (continued)

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

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to:				
Tax losses utilised (arising)	3,949	(3,331)	331	(1,893)
Excess of tax allowances over depreciation	33	54	–	–
Other timing differences	385	(169)	–	–
	<u>4,367</u>	<u>(3,446)</u>	<u>331</u>	<u>(1,893)</u>

26. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2002 HK\$'000	2001 HK\$'000
Profit before taxation	6,489	5,812
Interest expense on bank borrowings	57	224
Interest income	(4,490)	(2,158)
Loss on disposal of a subsidiary	–	6
Loss on disposals of property, plant and equipment	285	5
Impairment losses recognised	2,118	–
Deficit arising on revaluation of investment properties	1,128	–
Depreciation and amortisation	15,811	16,025
Decrease (increase) in inventories	20,520	(13,589)
(Increase) decrease in trade and other receivables	(4,493)	17,687
Increase in bills receivable	(742)	–
Decrease in trade and other payables	(8,546)	(5,959)
Decrease in bills payable	(1,183)	(2,316)
	<u>26,954</u>	<u>15,737</u>
Net cash inflow from operating activities		

Notes to the Financial Statements

For the year ended 31st March, 2002

27. DISPOSAL OF A SUBSIDIARY

	2002	2001
	HK\$'000	HK\$'000
NET ASSETS DISPOSED OF:		
Other receivables	–	22
Taxation payable	–	(15)
	–	7
Loss on disposal	–	(6)
Satisfied by cash	–	1

The subsidiary disposed of during the year ended 31st March, 2001 did not have any material effect on the turnover, operating profit and cash flows of the Group.

28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital	Share premium
	HK\$'000	HK\$'000
Balance at 1st April, 2000	128,098	77,508
Proceeds from issue of shares	75,578	70,000
Expenditure incurred on issue of shares	–	(205)
Balance at 31st March, 2001 and 1st April, 2001	203,676	147,303
Proceeds from issue of shares	5,037	–
Balance at 31st March, 2002	<u>208,713</u>	<u>147,303</u>

29. MAJOR NON-CASH TRANSACTION

Of the consideration payable for machinery under installation acquired, an amount of approximately HK\$11,670,000 (2001: HK\$14,611,000) was outstanding at the balance sheet date and was included in other payables.

Notes to the Financial Statements

For the year ended 31st March, 2002

30. CAPITAL COMMITMENT

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Capital expenditure in respect of acquisition of plant and machinery contracted for but not provided in the financial statements	<u>632</u>	<u>–</u>

The Company had no capital commitments at the balance sheet date for both years.

31. OPERATING LEASE ARRANGEMENTS

The Group as lessee

Minimum lease payments paid under operating leases for rented premises during the year amounted to HK\$3,375,000 (2001: HK\$2,657,000).

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	2,046	4,089
In the second to fifth year inclusive	<u>2,793</u>	<u>8,338</u>
	<u>4,839</u>	<u>12,427</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated and rentals are fixed for an average term of three years.

The Company had no commitments under non-cancellable operating leases at the balance sheet date for both years.

31. OPERATING LEASE ARRANGEMENTS *(continued)*

The Group as lessor

Property rental income earned from renting out the investment properties during the year was HK\$49,000 (2001: Nil). The properties held have committed tenants for one year (2001: Nil).

At the balance sheet date, the Group contracted with tenants for future minimum lease payments within one year amounting to HK\$46,000 (2001: Nil).

32. CONTINGENT LIABILITIES

At 31st March, 2002, the Company issued a corporate guarantee of US\$5,500,000, equivalent to HK\$42,867,000 (2001: US\$6,000,000, equivalent to HK\$46,764,000) in favour of banks to secure general banking facilities granted to a subsidiary. The total amount of facilities utilised by this subsidiary as at 31st March, 2002 amounted to approximately HK\$5,961,000 (2001: HK\$6,188,000).

33. RETIREMENT BENEFITS SCHEME

The Group operated a defined contribution retirement benefits scheme ("Defined Contribution Scheme") for its qualifying employees in Hong Kong. The assets of the scheme were held separately from those of the Group in funds under the control of an independent trustee. Where any employee left the Defined Contribution Scheme prior to vesting fully in the contributions, the amount of the forfeited contributions was used to reduce future contributions payable by the Group.

With effective from 1st December, 2000, the Group has joined a Mandatory Provident Fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the scheme.

The retirement benefits scheme contributions arising from the Defined Contribution Scheme and the MPF Scheme charged to the income statement represent contributions paid or payable to the funds by the Group at rates specified in the rules of the schemes.

During the year, the Group made retirement benefits scheme contributions of approximately HK\$605,000 (2001: HK\$561,000) after forfeited contributions utilised in the Defined Contribution Scheme of approximately HK\$216,000 (2001: HK\$104,000). There was no significant amount of forfeited contributions available to reduce future contributions payable by the Group at the balance sheet date.

34. LITIGATION

On 22nd May, 1996, Kin Son Milkyway Electronic Holdings Ltd. ("Kin Son Milkyway"), a company associated with Kin Son Electronic (Holdings) Limited, issued legal proceedings against the Company in respect of a dispute regarding the transfer of plant and equipment in the PRC, claiming damages in the amount of RMB25,059,000 (equivalent to approximately HK\$23,400,000) together with ownership of the plant and equipment with a cost of US\$1,535,000 (equivalent to approximately HK\$11,900,000). The Shenzhen court announced on 30th December, 1996 that the claim made by Kin Son Milkyway should be dismissed. However, an appeal to the People's Court of the Guangdong Province (the "Guangdong Court") was made by Kin Son Milkyway on 15th January, 1997. On 22nd July, 1998, the Guangdong Court ruled in favour of Kin Son Milkyway and ordered that the plant and equipment in question be returned to Kin Son Milkyway. The Guangdong Court further ordered that the Company and a co-defendant in the case should pay jointly and severally damages to Kin Son Milkyway of RMB10,834,105 (equivalent to HK\$10,031,000) and a court fee of RMB260,013 (equivalent to approximately HK\$241,000). In October 1998, the Group applied for a judicial review in the Guangdong Court. On 15th September, 2000, the Company received a judgment in relation to the judicial review and the judgement sustained the Guangdong Court's decision as referred to above. On 14th January, 2002, the Company received a further judgment from Guangdong Court which terminated the enforcement of the judgment on 22nd July, 1998.

Pursuant to the loan restructuring agreement signed by the Company with relevant parties dated 17th April, 1997 and the deed of indemnity entered into between Antrix Investment Limited ("Antrix"), a substantial shareholder of the Company, and the Company dated 31st March, 2001, any settlement of defined outstanding litigation up to a maximum of HK\$26.1 million will be ultimately borne and indemnified by Antrix. Accordingly, no provision has been made in the financial statements in respect of this litigation.

The directors consider that it is unlikely for the Company to be liable to the claimed damages, accordingly, no provision for the damages and no receivable for the indemnity from Antrix have been included in the financial statements.

35. RELATED PARTY TRANSACTIONS

During the year, the Group purchased raw materials of HK\$787,000 (2001: Nil) from Cando Corporation ("Cando"), a substantial shareholder of the Company. The transactions were carried out at market price. The amount due to Cando of HK\$394,000 (2001: 11,196,000) is shown under trade payables at the balance sheet date. The amount is unsecured, interest-free and is derived from trading activities.

36. POST BALANCE SHEET EVENTS

- (a) On 25th June, 2002, Antrix entered into a share purchase agreement with Cando to acquire 350,000,000 shares in the Company from Cando at HK\$0.25 per share for a total consideration of HK\$87.5 million. After the completion of the share purchase agreement, the shareholding of Antrix and its shareholders in the Company increased from 36.79% to 70.33% and the shareholding of Cando in the Company reduced from 33.54% to nil. A mandatory unconditional cash offer relating to this share purchase was made on 17th July, 2002.

- (b) Subsequent to the balance sheet date, the Group disposed of its entire interest in Yeebo P.C.B. Limited to an independent third party for an aggregate consideration of HK\$1,150,000. At 31st March, 2002, deposit of HK\$345,000 was received for disposal of this subsidiary.