

Notes to the Accounts

1 Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of land and buildings, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”).

In the current year, the Group adopted Statement of Standard Accounting Practice (“SSAP”) No. 14 (revised) issued by the HKSA which was effective for accounting periods commencing on or after 1st July 2000. In accordance with SSAP 14 (revised), the Group is required to disclose the aggregate future minimum lease payments, analysed into the periods in which the payment is to be made. This is a change from previous SSAP 14 which only required disclosure of the minimum lease payments payable in the next twelve months, analysed into periods in which the lease expires. Comparative information has also been restated to conform with the changed requirement.

2 Principal accounting policies

(a) Consolidation

- (i) The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. Subsidiaries are those entities which are controlled directly or indirectly, by the Company who has the power to govern the financial and operating activities of these entities so as to obtain benefits from their activities.

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

2 Principal accounting policies (cont’d)

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

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill or negative goodwill or/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

In the Company’s balance sheet, the investments in subsidiaries are stated at cost less provision for impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves. Upon disposal of an overseas subsidiary, the related accumulated exchange differences is recognised in the profit and loss account as part of the gain or loss on disposal.

Notes to the Accounts (cont'd)

2 Principal accounting policies (cont'd)

(b) Fixed assets

(i) Leasehold land and buildings

Leasehold land and buildings are stated at valuation, being open market value for existing use at the date of revaluation, less accumulated amortisation or depreciation. Independent valuations are performed periodically. In the intervening years, the directors review the carrying value of the leasehold land and buildings and adjustment is made where there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and thereafter are debited to the operating profit. Any subsequent increases are credited to the operating profit up to the amount previously debited.

Leasehold land is depreciated over the periods of the leases on a straight-line basis.

Leasehold buildings are depreciated on the straight-line basis over the unexpired periods of the leases or their expected useful lives to the Group, whichever is shorter. The principal annual rate used for this purpose is 2% per annum.

(ii) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost represents the purchase price of the asset and other cost incurred to bring the asset into its existing use. Other tangible fixed assets are depreciated to write off the cost less accumulated impairment losses over their expected useful lives on the straight-line basis. The principal annual rates used for this purpose are:

Leasehold improvements	20%
Furniture, fixtures and equipment	10%-20%
Motor vehicles	20%

2 Principal accounting policies (cont'd)

(c) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(d) Inventories

Inventories represent trading stocks and are stated at the lower of cost and net realisable value. Cost represents purchase price and is determined on a weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(e) Accounts receivable

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

2 Principal accounting policies (cont'd)

(f) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(g) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(h) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2 Principal accounting policies (cont'd)

(i) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(j) Revenue recognition

(i) Revenue from the sale of goods is recognised on the transfer of ownership, which generally coincides with the time of cash receipt for retail sales or the time when the goods are delivered to customers and the title has passed for credit sales, net of returns and discounts given.

(ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(k) Retirement benefit costs

The Group's contributions to retirement schemes are expensed as incurred. Contributions under the retirement schemes other than mandatory provident fund scheme are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in an independently administrated fund.

Notes to the Accounts (cont'd)

2 Principal accounting policies (cont'd)

(1) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(m) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment assets consist primarily of fixed assets, inventories and receivables and mainly exclude operating cash. Segment liabilities comprise operating liabilities and exclude certain corporate borrowings. Capital expenditure comprises additions to fixed assets (note 11), including additions resulting from acquisitions through purchases of subsidiaries (note 12 and 20(c)).

3 Revenues and turnover

The Group is principally engaged in the importing and sale of architectural builders hardware and bathroom collections. Revenues recognised during the year are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Turnover – sales of goods	163,691	281,564
Other revenue		
Interest income	828	3,791
Total revenues	<u>164,519</u>	<u>285,355</u>

Primary reporting format – business segments

The Group is organised in Hong Kong into two main business segments:

- Wholesale – importing and wholesale of architectural builders hardware and bathroom collections to dealers, traditional hardware stores, contractors and property developers.
- Retail – sale of architectural builders hardware and bathroom collections through the Group's retail outlets.

3 Revenues and turnover (cont'd)

Primary reporting format – business segments (cont'd)

	2002 HK\$'000	2001 HK\$'000
Segment results		
Turnover		
Wholesale	157,504	261,673
Retail	45,631	35,651
Inter-segment elimination	<u>(39,444)</u>	<u>(15,760)</u>
Total turnover	163,691	281,564
Cost of goods sold		
Wholesale	100,907	166,643
Retail	27,797	23,220
Inter-segment elimination	<u>(39,444)</u>	<u>(15,760)</u>
Total cost of goods sold	89,260	174,103
Gross profit		
Wholesale	56,597	95,030
Retail	<u>17,834</u>	<u>12,431</u>
Total gross profit	74,431	107,461
Other costs, net of other revenues and other income		
Wholesale	(52,778)	(72,104)
Retail	<u>(18,764)</u>	<u>(13,605)</u>
Total other costs, net of other revenues and other income	(71,542)	(85,709)
Segment operating profit/(loss)		
Wholesale	3,819	22,926
Retail	<u>(930)</u>	<u>(1,174)</u>
Total operating profit	2,889	21,752
Finance costs	<u>(783)</u>	<u>(2,726)</u>
Total operating profit after finance cost	2,106	19,026
Profit taxes		
Wholesale	(84)	28
Retail	<u>(727)</u>	<u>(3,849)</u>
Total Profit taxes	(811)	(3,821)
Profit attributable to shareholders	<u>1,295</u>	<u>15,205</u>

3 Revenues and turnover (cont'd)

Primary reporting format – business segments (cont'd)

	2002 HK\$'000	2001 HK\$'000
Capital expenditure		
Wholesale	3,382	2,542
Retail	<u>2,087</u>	<u>3,146</u>
Total capital expenditure	<u>5,469</u>	<u>5,688</u>
Depreciation charged to profit and loss account		
Wholesale	1,937	1,558
Retail	<u>1,913</u>	<u>1,218</u>
Total depreciation charged to the profit and loss account	<u>3,850</u>	<u>2,776</u>
Segment assets		
Wholesale	163,420	118,154
Retail	58,188	43,079
Unallocated	30,817	65,427
Inter-segment elimination	<u>(81,066)</u>	<u>(8,879)</u>
Total assets	171,359	217,781
Segment liabilities		
Wholesale	49,687	44,728
Retail	44,204	12,885
Unallocated	-	9,764
Inter-segment elimination	<u>(81,066)</u>	<u>(8,879)</u>
Total liabilities	<u>12,825</u>	<u>58,498</u>
	<u>158,534</u>	<u>159,283</u>

Secondary reporting format – geographical segments

No geographical analysis of turnover and operating profit is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the Group are attributable to markets outside Hong Kong.

N o t e s t o t h e A c c o u n t s (c o n t ' d)

4 Operating profit

Operating profit is stated after charging/(crediting) the following:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Auditors' remuneration		
– current year	725	480
– under provision in last year	424	412
Cost of inventories sold	89,260	174,103
Depreciation of owned fixed assets	3,780	2,706
Depreciation of fixed assets held under finance leases	70	70
Loss on disposal of fixed assets	–	112
Net exchange gains	(240)	(1,270)
Payments under operating leases for leasehold land and buildings	12,064	10,180
(Write-back of provision)/provision for doubtful debts	(1,181)	4,401
(Write-back of provision)/provision for slow-moving inventories, included in cost of inventories sold above	(6,378)	4,857
Staff costs, including directors' emoluments (note 10)	38,980	47,334
	<u>38,980</u>	<u>47,334</u>

5 Finance costs

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest on bank borrowings	748	2,689
Interest element of finance leases	35	37
	<u>783</u>	<u>2,726</u>

6 Taxation

- (a) Hong Kong profits tax is calculated at the rate of 16% (2001: 16%) on the estimated assessable profits for the year.

	Group	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong profits tax		
– current year	921	3,602
– (over)/ under provision in previous year	(9)	238
Deferred taxation (note 6(b))	(101)	(19)
	<u>811</u>	<u>3,821</u>

6 Taxation (cont'd)

(b) The movements in the deferred taxation account are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Brought forward	392	411
Transfer from profit and loss account (note 6(a))	<u>(101)</u>	<u>(19)</u>
Carried forward	<u>291</u>	<u>392</u>

The deferred taxation is provided for in respect of accelerated depreciation allowances. There was no material unprovided deferred taxation for the year.

7 Profit attributable to shareholders

Included in the profit attributable to shareholders is a profit of HK\$1,155,000 (2001: HK\$10,735,000) which is dealt with in the accounts of the Company.

8 Dividends

	2002	2001
	HK\$'000	HK\$'000
Interim, paid, of HK\$0.03 per share	-	6,000
Final, proposed, of HK\$0.01 per share	<u>-</u>	<u>2,000</u>
	<u>-</u>	<u>8,000</u>

The directors do not recommend the payment of a dividend in respect of the year ended 31st March, 2002.

9 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$1,295,000 (2001: HK\$15,205,000) and on the outstanding number of 200,000,000 shares in issue (2001: weighted average number of 198,849,000 shares) during the year.

Diluted earnings per share was not disclosed as there were no dilutive potential ordinary shares.

10 Directors' and senior management's emoluments

(a) Directors' remuneration

Emoluments of the directors of the Company during the year are as follows:

	2002	2001
	HK\$'000	HK\$'000
Fees (i)	244	240
Other emoluments		
- Basic salaries and allowances	8,805	7,172
- Discretionary bonuses (ii)	-	2,989
- Retirement scheme contributions	<u>250</u>	<u>594</u>
	<u>9,299</u>	<u>10,995</u>

(i) The fees were paid to the three independent non-executive directors during the year

(ii) The discretionary bonuses were paid to certain executive directors who have service contracts with the Company

Notes to the Accounts (cont'd)

10 Directors' and senior management's emoluments (cont'd)

(a) Directors' remuneration (cont'd)

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2002	2001
HK\$Nil – HK\$1,000,000	6*	2
HK\$1,000,001 – HK\$1,500,000	3	–
HK\$1,500,001 – HK\$2,000,000	2	1
HK\$2,000,001 – HK\$2,500,000	–	3
HK\$2,500,001 – HK\$3,000,000	–	1
	<u> </u>	<u> </u>

* Included the three independent non-executive directors.

Mr LEUNG Ka Cheung, resigned as a director of the Company during the year. Mr LEUNG entered into an agreement with the Company during the year to terminate the service contract between him and the Company and waive the respective parties' rights as set out in the service contract.

Except for the above, no director waived or agreed to waive their emoluments in respect of the years ended 31st March 2002 and 2001.

10 Directors' and senior management's emoluments (cont'd)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2001: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2001: two) individuals during the year are as follows:

	2002	2001
	HK\$'000	HK\$'000
Basic salaries and allowances	2,706	3,258
Discretionary bonuses	–	818
Retirement scheme contributions	61	180
	<u> </u>	<u> </u>
	2,767	4,256
	<u> </u>	<u> </u>

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2002	2001
HK\$1,000,000 – HK\$1,500,000	3	–
HK\$1,500,001 – HK\$2,000,000	–	–
HK\$2,000,001 – HK\$2,500,000	–	2
	<u> </u>	<u> </u>

11 Fixed assets

	Group					
	Land and buildings under long leases in Hong Kong	Land and buildings under long leases in PRC (note (b))	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation						
At 1st April 2001	14,000	-	13,774	11,117	1,468	40,359
Additions	-	-	2,602	2,054	-	4,656
Acquisition of a subsidiary	-	813	-	-	-	813
	<u>14,000</u>	<u>813</u>	<u>16,376</u>	<u>13,171</u>	<u>1,468</u>	<u>45,828</u>
At 31st March 2002	14,000	813	16,376	13,171	1,468	45,828
Accumulated depreciation						
At 1st April 2001	195	-	6,319	7,386	972	14,872
Charge for the year	196	-	2,396	1,138	120	3,850
	<u>391</u>	<u>-</u>	<u>8,715</u>	<u>8,524</u>	<u>1,092</u>	<u>18,722</u>
At 31st March 2002	391	-	8,715	8,524	1,092	18,722
Net book value						
At 31st March 2002	<u>13,609</u>	<u>813</u>	<u>7,661</u>	<u>4,647</u>	<u>376</u>	<u>27,106</u>
At 31st March 2001	<u>13,805</u>	<u>-</u>	<u>7,455</u>	<u>3,731</u>	<u>496</u>	<u>25,487</u>
The analysis of the cost or valuation of the above assets at 31st March 2002 is as follows:						
At cost	-	813	16,376	13,171	1,468	31,828
At 2000 professional valuation (note a)	14,000	-	-	-	-	14,000
	<u>14,000</u>	<u>813</u>	<u>16,376</u>	<u>13,171</u>	<u>1,468</u>	<u>45,828</u>

Notes to the Accounts (cont'd)

11 Fixed assets (cont'd)

- (a) The leasehold land and buildings were revalued by Vigers Hong Kong Limited, an independent firm of professional valuers, at 31st January 2000 on the basis of open market value. The revaluation of the Group's leasehold land and buildings does not constitute a timing difference for tax purposes. The directors have reviewed the carrying value of leasehold land and buildings as at 31st March 2002 and are of the opinion that there is no material change in the carrying value of the assets since the date of the previous valuation. The carrying amount of the property would have been approximately HK\$3,885,000 (2001: HK\$3,969,000) had they been stated at cost less accumulated depreciation.
- (b) The directors have reviewed the carrying value of the property in the PRC as at 31st March 2002 and are of the opinion that there is no material difference between the cost of the property acquired by the Group during the year and the carrying value of the asset as at 31st March 2002.
- (c) At 31st March 2001, the cost and accumulated depreciation of fixed assets held by the Group under finance leases amounted to approximately HK\$349,000 and HK\$70,000, respectively. As at 31st March 2002, no fixed assets were held by the Group under finance leases.

12 Investment in subsidiaries

	Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted share / investments, at cost	<u>90,917</u>	<u>90,917</u>

12 Investment in subsidiaries (cont'd)

Particulars of the subsidiaries as at 31st March 2002 are as follows:

Name	Country/place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Principal activities and place of operation	Equity interest held
Interest held directly:- E. Bon (BVI) Holdings Limited	British Virgin Islands	50,000 ordinary shares of US\$1 each	Investment holding in Hong Kong	100%
Interests held indirectly:- Asia Bon Company Limited	Hong Kong	100,000 ordinary shares of HK\$1 each	Property holding in Hong Kong	100%
E. Bon Building Materials Company Limited	Hong Kong	6,000 ordinary shares of HK\$1,000 each	Importing and sale of architectural builders hardware and bathroom collections in Hong Kong	100%
Right Century Limited	Hong Kong	2 ordinary shares of HK\$1 each	Retail of bathroom accessories and decoration materials in Hong Kong	100%
Sunny Building and Decoration Materials Company Limited	Hong Kong	6,000 ordinary shares of HK\$1,000 each	Retail of architectural builders hardware and bathroom collections in Hong Kong	100%
Shanghai Tech Pro International Trading Co., Ltd.	People's Republic of China	US\$300,000	Importing and sale of architectural builders hardware and bathroom collections in Mainland China	100%
Twinwood Venture Limited	British Virgin Islands	1 ordinary share of US\$1 each	Investment holding in Hong Kong	100%
H2O (Pro) Limited	Hong Kong	2 ordinary shares of HK\$1 each	Importing and sale of bathroom collections in Hong Kong	100%

N o t e s t o t h e A c c o u n t s (c o n t ' d)

12 Investment in subsidiaries (cont'd)

Name	Country/place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Principal activities and place of operation	Equity interest held
Interests held indirectly:-				
Massford Holdings Limited	British Virgin Islands	1 ordinary share of US\$1 each	Investment holding in Hong Kong	100%
Techpro Trading Limited	Hong Kong	2 ordinary shares of HK\$1 each	Importing and sale of architectural builders hardware in Hong Kong	100%
Massford (Hong Kong) Limited	Hong Kong	2 ordinary shares of HK\$1 each	Supplying architectural builders hardware and bathroom collections for property development in Hong Kong	100%
Bonco Ironmongery Limited (formerly known as Ranco Limited)	Hong Kong	2 ordinary shares of HK\$1 each	Importing and sale of architectural builders hardware in Hong Kong	100%
Kitchen Pro Limited	Hong Kong	2 ordinary shares of HK\$1 each	Importing and sale of kitchen fittings in Hong Kong	100%
D.I.Y. Limited (Acquired on 12th December 2001)	Hong Kong	2 ordinary shares of HK\$100 each	Handling of the human resources planning and development activities of the Group	100%
Sanfield Properties Limited (Acquired on 21st March 2002)	Hong Kong	2 ordinary shares of HK\$1 each	Property holding in mainland China	100%
Tech Pro (China) Limited	Hong Kong	2 ordinary shares of HK\$1 each	Importing and sale of architectural builders hardware in mainland China	100%

13 Amounts due from/(to) subsidiaries

The amounts are unsecured, interest-free and repayable on demand.

14 Inventories

	Group	
	2002	2001
	HK\$'000	HK\$'000
Inventories	74,542	73,562
Less: Provision for slow-moving inventories	(29,319)	(35,697)
	<u>45,223</u>	<u>37,865</u>

At 31st March 2002, the carrying amount of inventories that are carried at net realisable value amounted to HK\$6,372,000 (2001: HK\$13,753,000).

15 Trade receivables, other receivables, deposits and prepayments

Included in the balance are trade receivables and their ageing analysis is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
0-30 days	12,513	22,149
31-60 days	2,633	16,793
61-90 days	8,728	7,465
Over 90 days	39,680	37,306
	63,354	83,713
Provision for doubtful debts	(9,908)	(11,089)
	<u>53,446</u>	<u>72,624</u>

The majority of the Group's sales are on credit terms of 30 to 90 days. The remaining amounts are on letter of credit or document against payment.

16 Trade payables, accruals and deposits received

Included in the balance are trade payables and their ageing analysis is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
0 - 30 days	3,627	3,337
31 - 60 days	564	2,545
61 - 90 days	2,561	155
Over 90 days	1,769	3,375
	<u>8,521</u>	<u>9,412</u>

17 Share capital

	Company	
	2002	2001
	HK\$'000	HK\$'000
Authorised		
1,000,000,000 ordinary shares at HK\$0.1	<u>100,000</u>	<u>100,000</u>
Issued and fully paid		
200,000,000 ordinary share at HK\$0.1	<u>20,000</u>	<u>20,000</u>

N o t e s t o t h e A c c o u n t s (c o n t ' d)

18 Reserves

(a) Group

	Share premium HK\$'000	Revaluation reserve HK\$'000	Merger reserve HK\$000	Capital reserve HK\$000	Exchange reserve HK\$'000	Retained earnings HK\$000	Total HK\$000
At 1st April 2000 as previously reported	-	9,947	6,979	2,896	-	68,995	88,817
Prior year adjustment on adopting SSAP 9 (revised)	-	-	-	-	-	2,000	2,000
At 1st April 2000 as restated	-	9,947	6,979	2,896	-	70,995	90,817
Issue of shares	66,000	-	-	-	-	-	66,000
Capitalisation on new issue	(13,900)	-	-	-	-	-	(13,900)
Issuing expenses	(10,839)	-	-	-	-	-	(10,839)
Profit attributable to shareholders	-	-	-	-	-	15,205	15,205
2000 final dividend paid	-	-	-	-	-	(2,000)	(2,000)
2001 interim dividend paid	-	-	-	-	-	(6,000)	(6,000)
Reserves	41,261	9,947	6,979	2,896	-	76,200	137,283
Proposed dividend	-	-	-	-	-	2,000	2,000
At 31st March 2001	<u>41,261</u>	<u>9,947</u>	<u>6,979</u>	<u>2,896</u>	<u>-</u>	<u>78,200</u>	<u>139,283</u>
At 1st April 2001	41,261	9,947	6,979	2,896	-	78,200	139,283
Exchange difference	-	-	-	-	(44)	-	(44)
Profit attributable to shareholders	-	-	-	-	-	1,295	1,295
2001 final dividend paid	-	-	-	-	-	(2,000)	(2,000)
At 31st March 2002	<u>41,261</u>	<u>9,947</u>	<u>6,979</u>	<u>2,896</u>	<u>(44)</u>	<u>77,495</u>	<u>138,534</u>

18 Reserves (cont'd)

(b) Company

	Share premium HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st April 2000	90,817	-	90,817
Issue of shares	66,000	-	66,000
Capitalisation on new issue	(13,900)	-	(13,900)
Issuing expenses	(10,839)	-	(10,839)
Profit for the year	-	10,735	10,735
2000 final dividend paid	(2,000)	-	(2,000)
2001 interim dividend paid	-	(6,000)	(6,000)
	<u>130,078</u>	<u>4,735</u>	<u>134,813</u>
At 31st March 2001	130,078	4,735	134,813
Profit attributable to shareholders	-	1,155	1,155
2001 final dividend paid	-	(2,000)	(2,000)
	<u>130,078</u>	<u>3,890</u>	<u>133,968</u>
At 31st March 2002	<u>130,078</u>	<u>3,890</u>	<u>133,968</u>

19 Non-current liabilities

	Group	
	2002 HK\$'000	2001 HK\$'000
Obligations under finance leases	-	244
Bank loans	-	9,764
	<u>-</u>	<u>10,008</u>
Less: amounts payable within one year shown under current liabilities	-	(5,924)
	<u>-</u>	<u>4,084</u>
Deferred taxation (note 6(b))	291	392
	<u>291</u>	<u>4,476</u>

20 Notes to cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2002 HK\$'000	2001 HK\$'000
Operating profit	2,889	21,752
Interest income	(828)	(3,791)
Depreciation of owned fixed assets	3,780	2,706
Depreciation of fixed assets held under finance leases	70	70
Loss on disposal of fixed assets	-	112
Increase in inventories	(7,358)	(14,844)
Decrease in trade receivables, other receivables, deposits and prepayments	19,712	28,284
Decrease in trade payables, accruals, deposits received and bills payable	(2,306)	(2,643)
Effect on foreign exchange rate changes, net	(44)	-
	<u>15,915</u>	<u>31,646</u>
Net cash inflow from operating activities	<u>15,915</u>	<u>31,646</u>

N o t e s t o t h e A c c o u n t s (c o n t ' d)

20 Notes to cash flow statement (cont'd)

(b) Analysis of changes in financing during the year

	Share capital including premium		Obligations under finance leases		Bank loans		Trust receipt loans	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance brought forward	61,261	100	244	163	9,764	18,129	34,077	40,115
Issue of ordinary shares	-	72,000	-	-	-	-	-	-
Issuing expenses	-	(10,839)	-	-	-	-	-	-
Bank loans repaid	-	-	-	-	(9,764)	(8,365)	-	-
Repayment of capital element of finance leases	-	-	(244)	(249)	-	-	-	-
Inception of finance leases	-	-	-	330	-	-	-	-
Net trust receipt loans repaid	-	-	-	-	-	-	(34,077)	(6,038)
Balance carried forward	61,261	61,261	-	244	-	9,764	-	34,077

20 Notes to cash flow statement (cont'd)

(c) Purchase of subsidiaries

	2002 HK\$'000
Net assets acquired	
Fixed assets	813
Bank balances and cash	6
Payables and accruals	(819)
	<u> </u>
	-
	<u> </u>
Satisfied by Cash	-
	<u> </u>
	-
	<u> </u>

The subsidiaries acquired during the year did not contribute (2001: Nil) to the Group's net operating cash flows, did not make payment (2001: Nil) in respect of the net returns on investments, servicing of finance, taxation and investing activities.

20 Notes to cash flow statement (cont'd)

(d) Analysis of the net inflow in respect of the purchase of subsidiaries:

	2002 HK\$'000
Cash consideration	-
Bank balances and cash in hand acquired	6
	<u> </u>
Net cash inflow in respect of the purchase of subsidiaries	<u> </u>
	6
	<u> </u>

(e) Major non-cash transactions

During 2001, the Group entered into finance lease arrangements in respect of fixed assets with total capital value at the inception of the leases of HK\$330,000. No finance leases were entered into by the Group during 2002.

Notes to the Accounts (cont'd)

21 Contingent liabilities

- (a) In August 2001, a subsidiary of the Company (“the Subsidiary”) sued one of its customers (“Defendant A”) for recovery of an amount of approximately HK\$5,333,000 in respect of goods sold and delivered to Defendant A. In September 2001, Defendant A filed a counter-claim in a sum of approximately HK\$6,148,000 against the Subsidiary for the alleged losses and damages as a result of the alleged breach of the supply agreement entered into between Defendant A and the Subsidiary. The proceedings are still in the pleadings stage and the directors of the Company, on the basis of independent legal advice obtained, consider the Subsidiary has a good arguable case against Defendant A for the counter-claim and accordingly no provision in respect of the amount of the counter-claim has been made in the accounts of the Group.
- (b) In August 2001, the Subsidiary sued another customer (“Defendant B”) for recovery of an amount of approximately HK\$1,017,000 in respect of goods sold and delivered to Defendant B. In late September 2001, Defendant B filed a counter-claim in a sum of approximately HK\$1,443,000 against the Subsidiary for the alleged losses and damages as a result of the alleged breach of contract by the Subsidiary. The proceedings are still in the pleadings stage and the directors of the Company, on the basis of independent legal advice obtained, consider the Subsidiary has a good arguable case against Defendant B for the counter-claim and accordingly no provision in respect of the amount of the counter-claim has been made in the accounts of the Group.

21 Contingent liabilities (cont'd)

- (c) In November 2001, the Subsidiary sued another customer (“Defendant C”) for recovery of an amount of approximately HK\$1,325,000 in respect of goods sold and delivered to Defendant C. In March 2002, Defendant C filed a counter-claim for unspecified amount of damages on the Subsidiary for the alleged breach of contract and misrepresentation by the Subsidiary. The proceedings are still in the pleadings stage and the directors of the Company, on the basis of independent legal advice obtained, consider the Subsidiary has a good arguable case against Defendant C for the counter-claim and accordingly no provision in respect of the amount of the counter-claim has been made in the accounts of the Group.
- (d) As at 31st March 2002, the Group had indemnities in respect of performance bonds amounting to approximately HK\$2,152,647 (2001: HK\$2,926,000) given to certain customers in respect of commitments for the supply of goods to such customers.
- (e) As at 31st March 2002, the Company had guarantees given to certain banks for banking facilities utilised by certain subsidiaries to the extent of approximately HK\$14,500,000.

21 Contingent liabilities (cont'd)

- (f) With regard to the case referred to in the Company's announcement dated 11th January, 2002 regarding the allegations raised by the Independent Commission Against Corruption against three executive directors of the Company and five employees of E Bon Building Materials Co., Ltd., a wholly-owned subsidiary of the Company, the board of directors was informed that all the allegations had been denied by the respective implicated persons. The Company is advised by its counsel that there is no need for any of the above-mentioned persons to resign or be suspended from their duties. To this end, an independent board comprising two executive directors and two independent non-executive directors, who are not in any way implicated by the case, was established in January 2002 for the purpose of assessing the effect of the case on the overall operations of the Group. Based on the review, the independent board was of the opinion that the case did not and would not have material impact on the business and overall operation of the Group. Upon the completion of the review, the independent Board was dissolved on 25th March, 2002.

Apart from the above, the Group and the Company had no material litigation or contingent liabilities as at 31st March, 2002 and up to the date of the approval of these accounts.

22 Commitments

(a) Capital commitments

	Group	
	2002	2001
	HK\$'000	HK\$'000
Authorised but not contracted for	-	900
Contracted but not provided for	-	-
	<u>-</u>	<u>900</u>

(b) Commitments under operating leases

As at 31st March, 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Not later than one year	9,623	8,934
Later than one year and not later than five years	3,305	12,928
	<u>12,928</u>	<u>21,862</u>

- (c) the Company did not have any capital or lease commitments as at 31st March, 2002 (2001: Nil).

Notes to the Accounts (cont'd)

23 Related party transactions

During the year, the Group undertook the following material transaction with Negotiator Consultants Limited ("NCL"), a company in which Mr TSE Sun Fat, Henry, Mr TSE Sun Po, Tony, Mr TSE Sun Lung, Alan, Mr LEE Chi Wah, Rhodes, Mr WONG Tin Cheung, Ricky and a former director, Mr LEUNG Ka Cheung, have beneficial interests, in the normal course of business at terms mutually agreed between the Group and NCL:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Rental expense paid to NCL	<u>2,736</u>	<u>2,736</u>

24 Ultimate holding company

The directors regard Bache Hill Group Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

25 Approval of accounts

The accounts were approved by the board of directors on 19th July, 2002.