

Notes on Accounts

31 March 2002

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities and other particulars of its subsidiaries are set out in Note 13.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Group sustained a net loss attributable to shareholders of approximately HK\$67,821,000 for the year ended 31 March 2002. As at the balance sheet date, the Group had consolidated accumulated losses of approximately HK\$361,723,000 and consolidated net current liabilities of approximately HK\$9,025,000.

Since the balance sheet date, the directors have taken active measures to improve the liquidity position of the Group. Subsequent to the balance sheet date, in June 2002, the Company announced a proposed issue of new equity shares in the Company in the near future. In addition, the directors have formulated plans to expand the trade of the Group and enter new product markets which, the directors expect, will improve the liquidity position of the Group. On the basis that the planned share issue will be made and that the directors' plan to expand the trade of the Group and enter new product markets will materialise, the directors consider that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

3. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all Statements of Standard Accounting Practice and Interpretations 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. A summary of the significant accounting policies followed by the Group in the preparation of the financial statements is set out below:

(a) Basis of measurement

The measurement basis used in the preparation of the financial statements is historical cost as modified by the marking-to-market of certain investments in securities as explained in Note 3(f) below.

Notes on Accounts

31 March 2002



3. ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 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 and balances within the Group are eliminated on consolidation.

(c) Intangible assets

(i) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair values of the identifiable assets and liabilities of subsidiaries and associates acquired. The Group previously eliminated goodwill arising from different acquisitions on consolidation either by immediate elimination to reserves or by amortisation through the consolidated income statement. Goodwill arising on acquisition after 1 January 2001 is capitalised as an asset which is presented separately on the balance sheet and amortised by equal annual instalments over its estimated useful economic life up to a maximum of twenty years.

Upon the actual disposal of an interest in a subsidiary or associate, the attributable amount of unamortised goodwill is realised and taken into account in arriving at the gain or loss on disposal.

(ii) Patent

Patent is stated at cost less accumulated amortisation and any impairment loss. Amortisation is calculated on a straight-line basis over an estimated useful life of five years.

(d) Subsidiaries

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

In the Company's balance sheet, investment in subsidiaries is stated at cost less any provision for impairment losses, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case it is stated at fair value with changes in fair value recognised in the income statement as they arise.

Notes on Accounts

31 March 2002

3. ACCOUNTING POLICIES *(Continued)*

(e) Associates

An associate is a company in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Unless the interest in the associate is acquired and held exclusively with a view to subsequent disposal in the near future, an investment in an associate is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets. The consolidated income statement reflects the Group's share of the post-acquisition results of operations of the associates for the period.

(f) Other investments

Other investments are securities that are neither held-to-maturity debt securities nor investment securities and are stated at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the income statement.

Profits or losses on sale of investments in securities are determined as the difference between the estimated sales proceeds and the carrying value of the investments and are accounted for in the income statement as they arise.

(g) Tangible fixed assets and depreciation

An item of tangible fixed assets is recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset to the Group can be measured reliably.

Tangible fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Subsequent expenditure relating to a tangible fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Notes on Accounts

31 March 2002



3. ACCOUNTING POLICIES *(Continued)*

(g) **Tangible fixed assets and depreciation** *(Continued)*

Depreciation is provided on the reducing balance method so as to write down the cost of tangible fixed assets to their estimated realisable value over their anticipated useful lives at the following annual rates:

Land	: Over the term of the lease
Buildings	: 5%
Plant, machinery, equipment and moulds	: 10% to 20%
Furniture and fixtures	: 10%
Motor vehicles	: 10%
Leasehold improvements	: 20%

Gains or losses arising from the retirement or disposal of tangible fixed assets are determined as the difference between the estimated net disposal proceeds and the carrying amounts of the assets and are recognised in the income statement on the date of retirement or disposal.

(h) **Impairment of assets**

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised to reduce the asset to its recoverable amount. 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 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. Recoverable amounts are estimated for individual asset or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. A reversal of an impairment loss is recognised as income immediately.

(i) **Turnover**

Turnover represents sale of products at invoiced value less discounts and returns, and services rendered by the Group to outside customers, after eliminating inter-company sales.

(j) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all cost of purchases 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 standard costing method. Standard costs are established by reference to actual costs incurred during each period. Net realisable value represents the estimated selling price less direct selling costs.

Notes on Accounts

31 March 2002

3. ACCOUNTING POLICIES *(Continued)*

(k) Foreign currencies

Transactions in foreign currencies during the year are translated into Hong Kong dollars at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Hong Kong dollars at rates of exchange ruling at the balance sheet date. All gains and losses on translation of foreign currencies are dealt with in the income statement.

On consolidation, the financial statements of the subsidiaries which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling at the balance sheet date. Exchange differences arising on consolidation, if any, are dealt with in reserves.

(l) Current assets and liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

(m) Deferred taxation

Deferred taxation is provided on material timing differences, using the liability method, to the extent that there is a reasonable probability that a liability will arise in the foreseeable future.

(n) Recognition of revenue

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably on the following bases:

- i. Revenue from the sale of products is recognised on the transfer of ownership, which generally coincides with the time of shipment or the time when the goods are delivered to customers and title has passed.
- ii. Rental income is recognised proportionally over the lease period.
- iii. Revenue associated with the rendering of sub-contracting services is recognised so as to reflect the stage of work performed at the balance sheet date. When the outcome of the service contract cannot be estimated reliably, revenue is recognised only to the extent of costs incurred that are expected to be recoverable.
- iv. Interest income is recognised on a time-apportioned basis on the principal outstanding and at the rates applicable.
- v. Dividend income is recognised when the shareholders' right to receive payment is established.
- vi. Sundry income is recognised when earned.

Notes on Accounts

31 March 2002



3. ACCOUNTING POLICIES *(Continued)*

(o) **Leased assets**

Assets held under finance leases and hire-purchase contracts have been capitalised. The interest element of the rental payments is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Depreciation is provided in accordance with the Group's depreciation policy (Note 3(g)). All other leases are accounted for as operating leases and the rental payments are charged to the income statement on a straight-line basis over the periods of the leases.

(p) **Retirement costs**

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the income statement when incurred.

(q) **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 transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(r) **Cash equivalents**

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

(s) **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date 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.

Notes on Accounts

31 March 2002

3. ACCOUNTING POLICIES *(Continued)*

(t) Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only 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, a provision is recognised.

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 future 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.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segments), or in providing products or services within a particular economic environment (geographical segments), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, corporate and financing expenses and minority interests.

Notes on Accounts

31 March 2002



3. ACCOUNTING POLICIES (Continued)

(v) Research and development

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the products are technically feasible, and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

(w) Comparatives

Comparatives have been adjusted to take into account the requirements of the Statement of Standard Accounting Practice No. 2.114 (Revised) "Leases". There are no changes in accounting policy that affect operating profit resulting from the adoption of this standard as the Group has already followed the recognition and measurement principles in this standard.

4. LOSS FROM OPERATIONS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
(a) Turnover and revenue:		
Turnover		
Sale of electronic products and components	505	297
Sale of computers and related accessories	23,462	12,548
Sale of software games and related copyrights	2,801	–
Sub-contracting income	1,852	973
	<u>28,620</u>	<u>13,818</u>
Other revenue		
Dividend income from listed investments	–	1,025
Gross rental income from plant and equipment	6	266
Interest income	572	2,062
Sundry income	369	532
	<u>947</u>	<u>3,885</u>
Total revenue	<u><u>29,567</u></u>	<u><u>17,703</u></u>

Notes on Accounts

31 March 2002

4. LOSS FROM OPERATIONS *(Continued)*

	2002 HK\$'000	2001 HK\$'000
(b) Other income:		
Gain on disposal of properties held for resale	–	2,606
Gain on disposal of subsidiaries	95	–
Write back of sundry creditors	–	969
Write back of overprovision of factory rent and management fees	–	1,323
	<u>95</u>	<u>4,898</u>
(c) Loss from operations is stated after charging:		
Total staff costs:		
– salaries and commissions	11,057	9,138
– provident fund contributions	371	58
Depreciation:		
– owned assets	7,491	7,459
– leased assets	135	–
Loss on disposal of tangible fixed assets	282	742
Operating lease charges in respect of land and buildings	1,589	799
Auditors' remuneration	420	449
Research and development expenditure <i>(Note 16(iii))</i>	3,000	–
	<u>3,000</u>	<u>–</u>
(d) Provisions for write-downs and impairments:		
Impairment loss on intangible assets <i>(Note 11)</i>	914	–
Impairment loss on tangible fixed assets <i>(Note 12)</i>	6,687	–
Provision in respect of deposit paid for acquisition of investment <i>(Note 16(iv))</i>	5,000	–
Provision for doubtful debts	–	15,794
	<u>12,601</u>	<u>15,794</u>

Notes on Accounts

31 March 2002



4. LOSS FROM OPERATIONS (Continued)

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
(e) Finance costs:		
Hire-purchase interest	3	224
Interest on other loans	<u>205</u>	<u>193</u>
	<u>208</u>	<u>417</u>

5. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees	120	80
Salaries and other emoluments	3,317	3,506
Mandatory provident fund contributions	<u>46</u>	<u>22</u>
	<u>3,483</u>	<u>3,608</u>

Included in directors' remuneration were fees of HK\$120,000 (2001 – HK\$80,000) paid to the independent non-executive directors during the year.

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the section entitled "Directors' interests in shares" in the directors' report. In the absence of a ready market for the share options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the share options granted to the respective directors.

Notes on Accounts

31 March 2002

5. DIRECTORS' REMUNERATION *(Continued)*

The remuneration of the directors falls within the following bands:

	Number of directors	
	2002	2001
HK\$Nil – HK\$1,000,000	6	14
HK\$1,000,001 – HK\$1,500,000	2	–
	<u>8</u>	<u>14</u>

There were no arrangements under which the directors have waived or agreed to waive any remuneration. No emoluments were paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

6. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The aggregate emoluments for the year ended 31 March 2002 of the five highest paid individuals (including directors of the Company and other employees of the Group) employed by the Group are set out below:

	2002	2001
	HK\$'000	HK\$'000
Salaries and other emoluments	3,617	2,750
Mandatory provident fund contributions	58	20
	<u>3,675</u>	<u>2,770</u>

The emoluments of the five highest paid individuals fall within the following bands:

	Number of employees	
	2002	2001
HK\$Nil – HK\$1,000,000	3	5
HK\$1,000,001 – HK\$1,500,000	2	–
	<u>5</u>	<u>5</u>

No emoluments were paid by the Group to the respective five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes on Accounts

31 March 2002



7. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the Company and its subsidiaries did not have any assessable profits for the year (2001 – Nil). No provision for taxes in other jurisdictions for the year has been made in the financial statements as neither the Company nor any of its subsidiaries had any assessable profits subject to tax in other jurisdictions.

No provision for deferred taxation has been made as the Group and the Company have no material potential liabilities arising on timing differences (2001 – Nil). A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of HK\$12,454,000 (2001 – a loss of HK\$22,716,000) which has been dealt with in the accounts of the Company.

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of approximately HK\$67,821,000 (2001 – HK\$82,506,000) and on the weighted average of 6,964,211,049 (2001 – 6,287,651,350) shares in issue during the year.

No diluted loss per share is presented for the years ended 31 March 2002 and 2001 as the exercise of share options and warrants of the Company are anti-dilutive.

10. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(a) Business segments

The Group comprises the following main business segments:

Sub-contracting services – The rendering of sub-contracting services

Audio and visual products and components – The manufacture and sale of audio and visual products and components

Computers, software games, related accessories and copyrights – The manufacture and sale of computers, software games and related accessories and copyrights

Notes on Accounts

31 March 2002

10. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

For the year ended 31 March 2002

	Sub- contracting services <i>HK\$'000</i>	Audio and visual products and components <i>HK\$'000</i>	Computers, software games, related accessories and copyrights <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue from external customers	1,852	505	26,263	–	28,620
Other revenue from external customers	–	–	–	947	947
Total revenue	<u>1,852</u>	<u>505</u>	<u>26,263</u>	<u>947</u>	<u>29,567</u>
Segment results	(12,388)	(9,586)	(5,993)	–	(27,967)
Unallocated corporate expenses					<u>(40,094)</u>
Loss from operations					(68,061)
Finance costs					<u>(208)</u>
Loss from ordinary activities before taxation					(68,269)
Taxation					–
Loss before minority interests					(68,269)
Minority interests					<u>448</u>
Net loss for the year					<u>(67,821)</u>

No inter-segment sales and transfers were transacted during the year.

Notes on Accounts

31 March 2002

10. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

For the year ended 31 March 2002 (Continued)

	Sub- contracting services <i>HK\$'000</i>	Audio and visual products and components <i>HK\$'000</i>	Computers, software games, related accessories and copyrights <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS				
Segment assets	17,250	6,633	4,196	28,079
Unallocated corporate assets				109,621
Total assets				<u>137,700</u>
LIABILITIES				
Segment liabilities	5,099	7,254	6,200	18,553
Unallocated corporate liabilities				23,929
Total liabilities				<u>42,482</u>

Other Information

	Sub- contracting services <i>HK\$'000</i>	Audio and visual products and components <i>HK\$'000</i>	Computers, software games, related accessories and copyrights <i>HK\$'000</i>
Capital additions	1,033	231	841
Depreciation	1,833	262	223
Other non-cash expenses	176	3,000	–

Notes on Accounts

31 March 2002

10. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

For the year ended 31 March 2001

	Sub- contracting services <i>HK\$'000</i>	Audio and visual products and components <i>HK\$'000</i>	Computers, software games, related accessories and copyrights <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue from external customers	973	297	12,548	–	13,818
Other revenue from external customers	–	–	–	3,885	3,885
Total revenue	<u>973</u>	<u>297</u>	<u>12,548</u>	<u>3,885</u>	<u>17,703</u>
Segment results	(3,820)	(12,149)	(732)	–	(16,701)
Unallocated corporate expenses					<u>(61,516)</u>
Loss from operations					(78,217)
Impairment loss on an associate					(3,891)
Finance costs					<u>(417)</u>
Loss from ordinary activities before taxation					(82,525)
Taxation					<u>–</u>
Loss before minority interests					(82,525)
Minority interests					<u>19</u>
Net loss for the year					<u><u>(82,506)</u></u>

No inter-segment sales and transfers were transacted during the year.

Notes on Accounts

31 March 2002

10. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

For the year ended 31 March 2001 (Continued)

	Sub- contracting services <i>HK\$'000</i>	Audio and visual products and components <i>HK\$'000</i>	Computers, software games, related accessories and copyrights <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS				
Segment assets	17,718	19,943	3,365	41,026
Unallocated corporate assets				139,147
Total assets				<u>180,173</u>
LIABILITIES				
Segment liabilities	2,044	7,037	2,030	11,111
Unallocated corporate liabilities				22,830
Total liabilities				<u>33,941</u>
Other Information				
	Sub- contracting services <i>HK\$'000</i>	Audio and visual products and components <i>HK\$'000</i>	Computers, software games, related accessories and copyrights <i>HK\$'000</i>	
Capital additions	22,252	2,466	201	
Depreciation	1,979	223	15	
Other non-cash expenses	359	346	37	

Notes on Accounts

31 March 2002

10. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

More than 90% of the Group's turnover is derived from the region of Hong Kong and mainland China, and more than 90% of the segment assets are located in this region. Accordingly, no other analysis has been disclosed.

11. INTANGIBLE ASSETS

	Goodwill <i>HK\$'000</i>	Patent <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group:			
At cost:			
At 1 April 2001	47,682	–	47,682
Additions	22,393	383	22,776
	<hr/>	<hr/>	<hr/>
At 31 March 2002	70,075	383	70,458
	<hr/>	<hr/>	<hr/>
Accumulated amortisation:			
At 1 April 2001	4,350	–	4,350
Charge for the year	14,696	44	14,740
Impairment loss recognised	575	339	914
	<hr/>	<hr/>	<hr/>
At 31 March 2002	19,621	383	20,004
	<hr/>	<hr/>	<hr/>
Net book value:			
At 31 March 2002	50,454	–	50,454
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2001	43,332	–	43,332
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes on Accounts

31 March 2002

12. TANGIBLE FIXED ASSETS

	Land and buildings <i>HK\$'000</i>	Plant, machinery, equipment and moulds <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group:						
At cost:						
At 1 April 2001	9,342	135,951	14,296	2,475	3,277	165,341
Additions	–	774	1,328	78	–	2,180
Disposals	(92)	(31,697)	(73)	–	–	(31,862)
At 31 March 2002	9,250	105,028	15,551	2,553	3,277	135,659
Accumulated depreciation:						
At 1 April 2001	234	83,520	12,124	472	82	96,432
Charge for the year	462	6,253	543	204	164	7,626
Impairment loss recognised	–	6,687	–	–	–	6,687
On disposals written back	(2)	(29,099)	(3)	–	–	(29,104)
At 31 March 2002	694	67,361	12,664	676	246	81,641
Net book value:						
At 31 March 2002	8,556	37,667	2,887	1,877	3,031	54,018
At 31 March 2001	9,108	52,431	2,172	2,003	3,195	68,909

The impairment loss of HK\$6,687,000 recognised in respect of certain plant, machinery, equipment and moulds represents write-down in values to their recoverable amounts due to the unused excess production capacity of the Group's sub-contracting operations which, in the opinion of the directors, approximate their value for resale.

The net book value of tangible fixed assets of the Group includes an amount of approximately HK\$1,211,000 (2001 – HK\$8,000) in respect of assets held under hire-purchase contracts.

Notes on Accounts

31 March 2002

12. TANGIBLE FIXED ASSETS (Continued)

The cost of the Group's land and buildings as at the balance sheet date comprises:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Held in the People's Republic of China under long lease	899	899
Held in the People's Republic of China under medium-term lease	8,351	8,443
	9,250	9,342
		Plant, machinery, equipment and moulds <i>HK\$'000</i>

Company:

At cost:

At 1 April 2001 and at 31 March 2002 27,374

Accumulated depreciation:

At 1 April 2001 10,447

Charge for the year 3,385

Impairment loss recognised 6,542

At 31 March 2002 **20,374**

Net book value:

At 31 March 2002 **7,000**

At 31 March 2001 16,927

The impairment loss of HK\$6,542,000 recognised in respect of certain plant, machinery, equipment and moulds represents write-down in values to their recoverable amounts due to the unused excess production capacity of the Company's sub-contracting operations which, in the opinion of the directors, approximate their value for resale.

Notes on Accounts

31 March 2002

13. INTERESTS IN SUBSIDIARIES

	Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unlisted shares at cost, net of provision	<u>26,477</u>	<u>26,477</u>

The amounts due by the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The following list contains only the particulars of subsidiaries which principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of company	Place of incorporation/ registration <i>Note (a)</i>	Issued share capital/ Registered capital <i>Note (c)</i>	Principal activities	Percentage of equity held by the Company	
				Directly	Indirectly
Recor International Limited	British Virgin Islands	Ordinary HK\$360,000	Investment holding	100%	–
RCR Electronics (Holdings) Limited	Hong Kong	Ordinary HK\$10 Deferred HK\$36,000,000 <i>Note (b)</i>	Investment holding	–	100%
Recor Enterprises China Limited <i>Note (d)</i>	Hong Kong	Ordinary HK\$3,800,000	Design, development and sale of consumer electronic products	–	100%
Recor (RCR) Limited	British Virgin Islands	Ordinary US\$5,000	Provision of sub-contracting services	–	100%
Merway Limited	Hong Kong	Ordinary HK\$2	Provision of sub-contracting services	–	100%
Lobelvia International Limited	British Virgin Islands	Ordinary US\$1	Investment holding	–	100%

Notes on Accounts

31 March 2002

13. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ registration <i>Note (a)</i>	Issued share	Principal activities	Percentage of equity held by the Company	
		capital/ Registered capital <i>Note (c)</i>		Directly	Indirectly
Great Importance Limited	British Virgin Islands	Ordinary US\$1	Investment holding	–	100%
Cyber 397 Limited (Formerly known as Glory Sunny Limited)	Hong Kong	Ordinary HK\$2	Investment holding and trading of electronic products	–	100%
Quality First Developments Limited	British Virgin Islands	Ordinary US\$1	Investment holding	–	100%
Profit Promise Enterprises Limited	British Virgin Islands	Ordinary US\$1	Investment holding	–	100%
Ecopro Hi-Tech Limited	British Virgin Islands	Ordinary US\$1	Investment holding and trading of computer games	–	100%
Ecopro Hi-Tech Product Company Limited	The People's Republic of China <i>Note (e)</i>	Registered capital HK\$23,800,000	Manufacture of HI-CL products	–	100%
Lobelia Holdings (Canada) Limited	Canada	Ordinary CAD1	Investment holding	–	100%
Advance Hitech (Canada) Corporation	Canada	Ordinary CAD200	Investment holding	–	100%
Asian Eagle Co., Ltd.	British Virgin Islands	Ordinary US\$1	Investment holding	–	100%

Notes on Accounts

31 March 2002

13. INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ registration <i>Note (a)</i>	Issued share	Principal activities	Percentage of equity held by the Company	
		capital/ Registered capital <i>Note (c)</i>		Directly	Indirectly
PC-Web (H.K.) Limited	Hong Kong	Ordinary HK\$10,000	Trading of computers and related accessories	–	100%
PC-Web Technology Limited	Hong Kong	Ordinary HK\$100,000	Trading of computers and related accessories and provision of system development and maintenance services	–	70%
Bits Tech Inc. <i>Note (f)</i>	British Virgin Islands	Ordinary US\$50,000	Development, manufacture and distribution of radio-frequency wireless video and computer game controllers and accessories	–	80%
Info-Mission Technology Inc. Limited <i>Note (g)</i>	Hong Kong	Ordinary HK\$757,409	Production, publication and distribution of computer games	–	50.3%

Note (a): All of the above subsidiaries operate in their respective places of incorporation, except for Recor (RCR) Limited, Ecopro Hi-Tech Limited and Bits Tech Inc., all three of which were incorporated in the British Virgin Islands but the former operates in the People's Republic of China and the latter two operate in Hong Kong.

Note (b): The deferred shares carry no rights to dividends (other than a fixed non-cumulative dividend at the rate of one per cent per annum for any financial year during which the net profit of RCR Electronics (Holdings) Limited available for dividends exceeds HK\$100,000,000,000,000,000), no rights to attend or vote at general meetings and no rights to receive any surplus in a return of capital in a winding-up (other than the amount paid up on those shares, provided that the holders of the ordinary shares of RCR Electronics (Holdings) Limited have received by way of a distribution in such a winding-up a sum of HK\$100,000,000,000,000,000 in respect of each ordinary share).

Notes on Accounts

31 March 2002

13. INTERESTS IN SUBSIDIARIES *(Continued)*

Note (c): None of the subsidiaries had any loan capital in issue at any time during the years ended 31 March 2002 and 2001.

Note (d): On 6 August 2001, Recor Enterprises China Limited changed its name to Ecopro Enterprises China Limited, and subsequently on 10 April 2002 changed its name back to Recor Enterprises China Limited.

Note (e): Ecopro Hi-Tech Product Company Limited was established on 15 March 2000 as a wholly foreign owned enterprise in the People's Republic of China with an operational term of 30 years.

Note (f): Bits Tech Inc. was acquired during the year.

Note (g): On 8 May 2001, Profit Promise Enterprises Limited, the holding company of Info-Mission Technology Inc. Limited, subscribed for an additional 306,158 new shares of HK\$1 each in Info-Mission Technology Inc. Limited thereby increasing its shareholding in Info-Mission Technology Inc. Limited from 31.3% to 50.3%.

During the year ended 31 March 2002, the Company disposed of the following subsidiaries that were surplus to the requirement of the Group:

Name of company	Place of incorporation	Issued share capital	Principal activities	Percentage of equity previously held by the Company	
				Directly	Indirectly
Golden Best International Ltd.	British Virgin Islands	Ordinary US\$1	Investment holding	–	100%
Jun Ye International Limited	British Virgin Islands	Ordinary US\$1	Investment holding	–	100%

14. INTEREST IN AN ASSOCIATE

At 31 March 2001, the shareholding in the associate comprised equity shares held through a wholly-owned subsidiary of the Company, details of which were as follows:

Name of company	Place of incorporation	Principal activities	Percentage of equity held by the Company	
			Directly	Indirectly
Info-Mission Technology Inc. Limited	Hong Kong	Production, publication and distribution of computer games	–	31.3%

Notes on Accounts

31 March 2002

14. INTEREST IN AN ASSOCIATE *(Continued)*

During the year ended 31 March 2002, the shareholding in the associate was increased to 50.3% and was therefore classified as an indirect subsidiary of the Company.

The amount due by the associate at 31 March 2001 represented fund advances and expenses paid on behalf of the associate and was unsecured, interest-free and had no fixed terms of repayment.

15. INVENTORIES

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Raw materials	2,058	252
Finished goods	525	1,095
	2,583	1,347

At 31 March 2002, the carrying amount of inventories that were carried at net realisable value amounted to approximately HK\$231,000 (2001 – HK\$266,000).

16. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Trade debtors <i>(Note (i))</i>	1,612	1,822	–	–
Other debtors, deposits and prepayments	3,382	1,516	522	505
Loan to a supplier <i>(Note (ii))</i>	2,775	4,975	–	–
Loan for research and development <i>(Note (iii))</i>	–	3,000	–	–
Deposits paid for acquisition of investments <i>(Note (iv))</i>	15,000	20,000	–	–
Deposit paid for acquisition of tangible fixed assets	6,472	6,472	–	–
	29,241	37,785	522	505

Notes on Accounts

31 March 2002

16. TRADE AND OTHER RECEIVABLES (Continued)

Notes:

- (i) The ageing analysis of the Group's trade debtors is as follows:

	2002 HK\$'000	2001 HK\$'000
0-60 days	741	882
61-90 days	45	14
>90 days	826	926
	<u>1,612</u>	<u>1,822</u>

Credit is offered to customers following financial assessment and based on established payment record. Credit limits are set for individual customers and these are exceeded only with the approval of senior officials of the Group. Senior staff of the Group monitor trade debts and follow up collections periodically. General credit terms are payment by the end of the month following the month in which sales took place.

- (ii) The balance represents a loan advanced from a wholly-owned subsidiary of the Company to an independent third party which is a supplier of the subsidiary. The advance is secured, carries interest at Hong Kong prime rate per annum and repayable on demand and by way of deducting future purchases by the subsidiary from this supplier.
- (iii) The balance at 31 March 2001 represented a loan of HK\$3,000,000 advanced from a wholly-owned subsidiary of the Company to an independent third party which was unsecured, interest-free and repayable within one year of the balance sheet date, to assist financing the development of certain computer games and related products. Pursuant to a cooperative agreement entered into between the subsidiary and the borrower, should the development of the computer games and related products prove to be successful, the advance may be converted into part of the consideration for the acquisition of the proprietary technology and related intellectual property rights associated with the computer games and related products.

During the year under review, a subsidiary of the Company has successfully launched the computer games and related products developed under the aforesaid cooperative agreement. Pursuant to a supplementary agreement, the subsidiary agreed to convert and apply the loan as full consideration for the acquisition of the aforesaid proprietary technology and related intellectual property rights associated with the computer games and related products, and accordingly the entire amount was expensed as research and development expenditure in respect of the year ended 31 March 2002 which has been included in other operating expenses.

- (iv) Deposits paid for acquisition of investments include the following:
- (a) On 6 October 2000, a wholly-owned subsidiary of the Company entered into a conditional sale and purchase agreement for the acquisition of the entire equity interest in a company which engages in trading of mobile phones and related accessories, for a consideration of HK\$15,000,000. As at 31 March 2002, the Group had paid HK\$15,000,000 representing the entire consideration for the acquisition. The acquisition had not been completed as at 31 March 2002 due to the non-fulfillment of certain conditions as stipulated in the agreement, which included, inter alia, the reduction of indebtedness in the target company to a level acceptable to the Group, and the balance had been shown as a deposit paid for acquisition of investment accordingly.

Notes on Accounts

31 March 2002

16. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

Pursuant to the supplemental agreement, the transaction was extended to be finalised on 30 September 2002. The directors expect that as and when the indebtedness in the target company had been reduced to a level acceptable to the Group, the acquisition would be completed as originally intended and the deposit would be transferred to investment in subsidiaries and the target company would be consolidated as a wholly-owned subsidiary of the Group. However, the directors are currently unable to determine with reasonable certainty the time required by the target company for the reduction of its indebtedness, which is not wholly within the control of the Group. Notwithstanding the above, the directors are of the opinion that completion of the aforesaid acquisition will take place in due course and are satisfied that the deposit is worth at least its carrying value and accordingly, no provision is considered necessary at the balance sheet date.

- (b) Pursuant to a share transfer agreement entered into by a wholly-owned subsidiary of the Company and an independent third party in May 2000, the Group was committed to acquire a 39.4% equity interest in a company, which engages in property development in the People's Republic of China, at a consideration of HK\$25,000,000. As at 31 March 2001, HK\$5,000,000 had been paid by the Group. The transaction had not been completed at 31 March 2001 as the conditions precedent as stipulated in the share transfer agreement had not been fulfilled. Consequently, the Group and the independent third party entered into a further agreement, pursuant to which interest was charged on the deposit paid until the completion of the transaction, which was conditional upon the satisfaction of certain conditions precedent in the share transfer agreement, and in the event that the parties could not complete the transaction, the deposit paid would be refundable to the Group on demand.

As the transaction has not yet been completed as at 31 March 2002 and the Group is uncertain about the recoverability of the deposit, the Group has made a full provision for the deposit in respect of the year ended 31 March 2002. The Group is currently consulting with its legal advisors to initiate appropriate recovery action against the vendor.

17. OTHER INVESTMENTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Equity securities listed in Hong Kong, at market value	—	24,551

Notes on Accounts

31 March 2002

18. OBLIGATION UNDER A HIRE-PURCHASE CONTRACT

As at the balance sheet date, the Group had obligation under a hire-purchase contract repayable as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within one year	275	7
After one year but within two years	252	–
	<u>527</u>	<u>7</u>
Finance charges relating to future periods	(48)	–
	<u>479</u>	<u>7</u>
Amount falling due within one year	(250)	(7)
	<u>229</u>	<u>–</u>

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Trade creditors (<i>Note (i)</i>)	3,357	1,818	–	–
Other creditors	19,033	22,986	19,033	19,033
Accrued expenses	14,775	6,161	2,436	1,366
Sales deposits received	–	227	–	–
	<u>37,165</u>	<u>31,192</u>	<u>21,469</u>	<u>20,399</u>

Note:

(i) The ageing analysis of the Group's trade creditors is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
0-60 days	2,565	1,692
61-90 days	109	23
>90 days	683	103
	<u>3,357</u>	<u>1,818</u>

Notes on Accounts

31 March 2002



20. UNSECURED LOAN

The loan is unsecured, bears interest at 10% per annum and repayable on demand.

21. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and has no fixed terms of repayment.

22. SHARE CAPITAL

Authorised:

Ordinary shares of HK\$0.01 each:

	Number of shares (<i>'000</i>)	Total value (<i>HK\$'000</i>)
As at 1 April 2000, 31 March 2001 and 31 March 2002	<u>30,000,000</u>	<u>300,000</u>

Issued and fully paid:

Ordinary shares of HK\$0.01 each:

	Number of shares (<i>'000</i>)	Total value (<i>HK\$'000</i>)
As at 1 April 2000	4,534,386	45,344
New issue of shares (<i>Note(a) and Note(b)</i>)	1,813,771	18,137
Repurchase of shares (<i>Note(c)</i>)	<u>(84,220)</u>	<u>(842)</u>
As at 31 March 2001	6,263,937	62,639
New issue of shares (<i>Note(d)</i>)	<u>1,200,000</u>	<u>12,000</u>
As at 31 March 2002	<u><u>7,463,937</u></u>	<u><u>74,639</u></u>

Changes in share capital

- (a) On 1 March 2000, the Company announced a rights issue of 1,813,754,410 ordinary shares of HK\$0.01 each (the "March 2000 Rights Issue"), on the basis of two rights shares for every five existing shares of the Company at a subscription price of HK\$0.05 per rights share. The March 2000 Rights Issue became unconditional on 7 April 2000 and net proceeds of approximately HK\$87,500,000 were received by the Company in April 2000.

Notes on Accounts

31 March 2002

22. SHARE CAPITAL (Continued)

Changes in share capital (Continued)

- (b) In April 2000, 16,640 ordinary shares of HK\$0.01 each were issued at HK\$0.05 per share as a result of the exercise of 16,640 warrants of the Company by certain warrant-holders, thereby giving rise to net proceeds of approximately HK\$832. At 31 March 2001, the Company had approximately 541,695,467 outstanding warrants, upon full exercise of which would result in the issue of 541,695,467 additional ordinary shares by the Company.
- (c) In April 2000, the Company repurchased certain of its own shares on The Stock Exchange of Hong Kong Limited for the purpose of enhancing its earnings per share. All of these shares had been cancelled upon repurchase. Details of the repurchase were as follows:

Month/Year	Number of shares repurchased	Price per share paid		Aggregate price paid HK\$
		Highest HK\$	Lowest HK\$	
April 2000	84,220,000	0.050	0.045	4,160,980

- (d) Pursuant to the sale and purchase agreement dated 11 August 2001 entered into between Wise China Limited as Vendor, Ecopro Hi-Tech Limited, a wholly-owned subsidiary of the Company, as Purchaser and the Company in relation to the purchase of 80% of the issued share capital in Bits Tech Inc., the Company agreed to allot and issue 1,200,000,000 new shares of HK\$0.01 each in the capital of the Company at a price of HK\$0.014 per share to Wise China Limited credited as fully paid as part consideration thereof. The transaction was completed on 30 August 2001. These new shares rank pari passu in all respects with the then existing shares in issue.

Share options

Under the terms of the Company's share option scheme approved by the shareholders on 21 September 1993, the board of directors may, at its discretion, invite employees, including full-time directors of the Company and its subsidiaries upon a payment of HK\$10 to take up options to subscribe for shares of the Company during a three-year period commencing on the expiry of six calendar months after the date upon which the relevant option is deemed to be granted and accepted. The exercise price (subject to adjustments as provided therein) is to be determined by the directors at their absolute discretion provided that in no event shall such price be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the option.

Notes on Accounts

31 March 2002



22. SHARE CAPITAL *(Continued)*

Share options *(Continued)*

The maximum number of shares in respect of which options may be granted under the share option scheme when aggregated with any securities subject to any other scheme may not exceed 10% of the shares which have been duly allotted and issued and that the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the share option scheme. The share option scheme will remain in force for a period of 10 years from the date of adoption of the scheme.

The particulars of the share options outstanding as at 31 March 2002 are set out below:

	Number of share options		
1st lot <i>(Note 1)</i>	2nd lot <i>(Note 2)</i>		Outstanding as at 31 March 2002
25,046,000	114,834,000		139,880,000 <i>(Note 3)</i>

Notes:

1. These share options were granted on 24 November 1999 and are exercisable at a price of HK\$0.056 per share during the period from 1 June 2000 to 24 November 2002.
2. These share options were granted on 9 June 2000 and are exercisable at a price of HK\$0.029 per share during the period from 1 January 2001 to 9 June 2003.
3. All of the Company's share options lapsed in May 2002.

Warrants

At 31 March 2001, the Company had approximately 541,695,467 outstanding warrants entitling the warrant-holders to subscribe in cash at any time on or before 31 December 2001 for fully paid ordinary shares of HK\$0.01 each in the Company at the initial subscription price of HK\$0.050 and at the adjusted subscription price of HK\$0.040 with effect from 7 April 2000. The exercise in full of such warrants would result in the issue of 541,695,467 additional ordinary shares by the Company.

All of the Company's warrants lapsed on 31 December 2001.

Notes on Accounts

31 March 2002

23. RESERVES

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group:					
At 1 April 2000	196,815	861	110,578	(211,396)	96,858
Net loss for the year	–	–	–	(82,506)	(82,506)
Issue of shares at a premium	72,550	–	–	–	72,550
Repurchase of shares	(3,320)	–	–	–	(3,320)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2001 and at 1 April 2001	266,045	861	110,578	(293,902)	83,582
Net loss for the year	–	–	–	(67,821)	(67,821)
Issue of shares at a premium	4,800	–	–	–	4,800
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2002	<u>270,845</u>	<u>861</u>	<u>110,578</u>	<u>(361,723)</u>	<u>20,561</u>

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Company:					
At 1 April 2000	196,815	861	241,054	(310,655)	128,075
Net loss for the year	–	–	–	(22,716)	(22,716)
Issue of shares at a premium	72,550	–	–	–	72,550
Repurchase of shares	(3,320)	–	–	–	(3,320)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2001 and at 1 April 2001	266,045	861	241,054	(333,371)	174,589
Net loss for the year	–	–	–	(12,454)	(12,454)
Issue of shares at a premium	4,800	–	–	–	4,800
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2002	<u>270,845</u>	<u>861</u>	<u>241,054</u>	<u>(345,825)</u>	<u>166,935</u>

Notes on Accounts

31 March 2002

23. RESERVES (Continued)

Contributed surplus

The contributed surplus of the Group represents the difference between the nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued by the Company as consideration for the acquisition under the corporate reorganisation prior to the listing of the Company's shares in 1993.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition at the time of the corporate reorganisation prior to the listing of the Company's shares in 1993.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus 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 be less than the aggregate of its liabilities and its issued share capital and share premium account.

As at 31 March 2002, the Company had no reserves available for distribution.

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operations to net cash inflow/(outflow) from operating activities

	2002 HK\$'000	2001 HK\$'000
Loss from operations	(68,061)	(78,217)
Interest income	(34)	(2,062)
Amortisation and depreciation	22,366	11,809
Impairment losses	7,601	–
Loss on disposal of tangible fixed assets	282	742
Changes in working capital:		
Properties held for resale	–	19,284
Trade and other receivables	10,954	15,212
Amount due by an associate	2,865	(2,865)
Inventories	(1,236)	(998)
Other investments	24,551	(14,298)
Amounts due to directors	(4,279)	762
Trade and other payables	5,279	(26,497)
Net cash inflow/(outflow) from operating activities	<u>288</u>	<u>(77,128)</u>

Notes on Accounts

31 March 2002

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries

	<i>HK\$'000</i>
Net liabilities acquired	
Intangible assets – patent	383
Tangible fixed assets	547
Trade and other receivables	2,410
Cash and bank balances	20
Amounts due to directors	(6,375)
Trade and other payables	(694)
Minority shareholders' interests	(78)
	<hr/>
	(3,787)
Goodwill	22,393
	<hr/>
	18,606
	<hr/> <hr/>
Satisfied by	
Shares allotted	16,800
Cash	1,806
	<hr/>
	18,606
	<hr/> <hr/>
Net cash outflow arising on acquisition of subsidiaries:	
Consideration paid in cash	(1,806)
Cash and bank balances acquired	20
	<hr/>
	(1,786)
	<hr/> <hr/>

Notes on Accounts

31 March 2002



24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Analysis of changes in financing during the year

	Share capital and premium <i>HK\$'000</i>	Convertible bonds <i>HK\$'000</i>	Unsecured loan <i>HK\$'000</i>	Obligations under hire- purchase contracts <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
Balance at 1 April 2000	353,598	60,000	1,980	5,850	–
Loss for the year attributable to minority shareholders	–	–	–	–	(19)
Cash flows from financing	86,525	(60,000)	–	(5,843)	30
Balance at 31 March 2001 and at 1 April 2001	440,123	–	1,980	7	11
Loss for the year attributable to minority shareholders	–	–	–	–	(448)
Inception of a hire-purchase contract	–	–	–	500	–
Issue of shares at a premium	16,800	–	–	–	–
Acquisition of a subsidiary	–	–	–	–	78
Cash flows from financing	–	–	–	(28)	377
Balance at 31 March 2002	456,923	–	1,980	479	18

Pursuant to the sale and purchase agreement dated 11 August 2001, the Company issued and allotted 1,200,000,000 new ordinary shares of HK\$0.01 each, at a value of HK\$0.014 each, to the vendor for acquisition of a subsidiary, further details of which are set out in Note 22.

Notes on Accounts

31 March 2002

25. CONTINGENT LIABILITIES

As at 31 March 2002, there were contingent liabilities in respect of the following:

- (i) During the year ended 31 March 2001, Merway Limited, a wholly-owned subsidiary of the Company, brought legal actions against a customer claiming a sum of HK\$1,050,000 in relation to sub-contracting charges due to Merway Limited by the customer pursuant to a sub-contracting agreement between the Company and the customer. The customer filed a defence in response to the claim, and filed a counterclaim against the Company for alleged breach of contract. As a result, claims for damages and loss of profits in aggregate of HK\$20,000,000 together with interests and costs have been brought against the Company. The Company has sought appropriate legal advice and is going to vigorously pursue its original claim against the customer and defend the counterclaim brought by the customer. As at the date of this report, the proceedings are still ongoing. After taking into consideration the advice of the Group's legal counsel, the directors consider the outcome of the proceedings will not have material adverse financial effect in the Group.
- (ii) The Company is also a defendant in a law suit brought by a supplier during the year ended 31 March 1998 claiming approximately HK\$1,962,000 together with interest and costs relating to a guarantee in respect of a credit facility granted to RCR Electronics Manufacturing Limited, a former subsidiary of the Company. The Company filed a defence in March 1999 in response to the claim and since then, the supplier has taken no further action against the Company. Since the outcome of the litigation could not be determined with reasonable certainty at this stage, no provision has been made in the financial statements.

26. CAPITAL COMMITMENTS

As at 31 March 2002, the Group had the following commitments which were not provided for in the accounts:

	2002	2001
	HK\$'000	HK\$'000
<i>Authorised and contracted for:</i>		
Acquisition of investment	<u>20,000</u>	<u>20,000</u>

At 31 March 2002, the Company had no significant capital commitments.

Notes on Accounts

31 March 2002



27. OPERATING LEASE COMMITMENTS

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

	2002	2001
	HK\$'000	HK\$'000
Within one year	1,451	1,067
In second to fifth years	421	349
	<u>1,872</u>	<u>1,416</u>

At 31 March 2002, the Company did not have any commitments under operating leases.

28. RETIREMENT BENEFITS SCHEME

Certain subsidiaries of the Group in Hong Kong participate in a pension scheme, which was registered under the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), for all the employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance. During the year under review, the total amount contributed by the Group to the scheme and charged to the consolidated income statement amounted to approximately HK\$371,000 (2001 – HK\$58,000) and no contributions were forfeited.

29. POST BALANCE SHEET EVENTS

- (a) On 10 May 2002, the Company entered into an agreement with an independent third party to obtain a loan of HK\$5,000,000 for the general working capital of the Group. The loan is unsecured, bears interest at a rate of 0.5% per calendar month and repayable by one lump sum on or before 31 December 2002.
- (b) On 25 June 2002, an agreement for sale and purchase was entered into between Harbour City International Limited and a wholly-owned subsidiary of the Company to acquire 30% equity interest in Faithful Technologies Limited at a cash consideration of HK\$28,000,000. Faithful Technologies Limited is a limited liability company incorporated in Hong Kong and is principally engaged in communications related business. The transaction is scheduled to be completed in October 2002.

30. AUTHORISATION FOR ISSUE OF ACCOUNTS

The accounts were approved and authorised for issue by the Board of Directors on 23 July 2002.