

Notes to the Financial Statements

31 March 2002

1. Corporate Information

The principal place of business of 139 Holdings Limited is located at Rooms 1603-5, 16/F, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.

During the year, the Company's principal activity was investment holding. The ongoing principal activities of the Group have not changed during the year and consisted of the manufacturing, trading and distribution of garments, shoes, leather goods, car audio equipment and other merchandise, the trading of securities, and the provision of Internet and Internet-related services.

2. Impact of New and Revised Statements of Standard Accounting Practice ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

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2. Impact of New and Revised Statements of Standard Accounting Practice (“SSAPs”) (continued)

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretations are summarised as follows:

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 27 and 31 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. This SSAP requires the amounts of provisions to be discounted to their present value at the balance sheet date, where the effect of discounting is material. This SSAP has had no major impact on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. This SSAP has had no major impact on these financial statements.

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2. Impact of New and Revised Statements of Standard Accounting Practice (“SSAPs”) (continued)

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reason detailed in note 15 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no impact on the preparation of these financial statements.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of other securities, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2002. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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3. Summary of Significant Accounting Policies (continued)

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's investments in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five years.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 April 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

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3. Summary of Significant Accounting Policies (continued)

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Medium term leasehold land and buildings	50 years or over the lease terms, whichever is shorter
Land use rights	Over the terms of the land use rights
Leasehold improvements	Over the remaining lease terms or 3 years, whichever is shorter
Plant and machinery	7 to 10 years
Motor vehicles, furniture, fixtures and equipment	3 to 5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the sales proceeds and the carrying amount of the relevant asset.

Construction in progress

Construction in progress represents buildings under construction which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs incurred during the periods of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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3. Summary of Significant Accounting Policies (continued)

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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3. Summary of Significant Accounting Policies (continued)

Leased assets (continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Investment securities

Investment securities are investments in listed and unlisted securities, intended to be held for a continuing strategic or long term purpose, and are stated at cost less any provisions for impairments in values deemed necessary by the directors, other than those considered to be temporary in nature, on an individual basis.

When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

Other securities

Investments other than investment securities are classified as other securities, and are held for trading purposes and stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair values of securities are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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3. Summary of Significant Accounting Policies (continued)

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date, plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

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3. Summary of Significant Accounting Policies (continued)

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent that it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate in the MPF Scheme in Hong Kong. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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3. Summary of Significant Accounting Policies (continued)

Retirement benefits scheme (continued)

Pursuant to the relevant regulations of the People's Republic of China (the "PRC"), subsidiaries of the Company operating in the PRC participate in a local municipal government retirement benefits scheme (the "PRC Scheme") whereby the subsidiaries are required to contribute a percentage of the basic salaries of their employees to the PRC Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries. The only obligation of the Group with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme mentioned above. Contributions under the PRC Scheme are charged to the profit and loss account as incurred. There are no provisions under the PRC Scheme whereby forfeited contributions may be used to reduce future contributions.

Revenue recognition

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:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, based on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" above;
- (c) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and
- (d) from the trading of listed investments, on the transaction dates.

Related parties

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. Related parties may be individuals or corporate entities.

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3. Summary of Significant Accounting Policies (continued)

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. Segment Information

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the garment segment manufactures and trades garments, shoes, leather goods and other merchandise;
- (b) the car audio segment manufactures and trades car audio equipment;
- (c) the Internet segment comprises the provision of Internet and Internet-related services; and
- (d) the corporate and other segment comprises the trading of other merchandise and corporate income and expense items.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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4. Segment Information (continued)

(a) Business segments

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments.

Group	Garment		Car audio		Internet		Corporate and other		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	104,927	119,366	24,537	38,797	4,201	-	-	97	133,665	158,260
Other revenue	2,068	2,313	-	120	-	-	7,520	1,464	9,588	3,897
Total	106,995	121,679	24,537	38,917	4,201	-	7,520	1,561	143,253	162,157
Segment results	9,955	(110,746)	(5,970)	2,822	(49,286)	(71,848)	(18,287)	(12,983)	(63,588)	(192,755)
Bank interest income, gains and unallocated revenue									21,667	10,693
Unallocated expenses									(809)	(86,266)
Loss from operating activities									(42,730)	(268,328)
Finance costs									(5,566)	(10,042)
Loss before tax									(48,296)	(278,370)
Tax									-	611
Loss before minority interests									(48,296)	(277,759)
Minority interests									31	90
Net loss from ordinary activities to shareholders									(48,265)	(277,669)

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4. Segment Information (continued)

(a) Business segments (continued)

Group	Garment		Car audio		Internet		Corporate and other		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment assets	140,127	146,218	60,865	61,526	8,650	21,330	3,098	3,855	212,740	232,929
Unallocated assets									195,321	129,606
Total assets									408,061	362,535
Segment liabilities	41,792	51,395	6,713	9,582	501	42	1,805	1,141	50,811	62,160
Unallocated liabilities									93,570	93,448
Total liabilities									144,381	155,608
Other segment information:										
Depreciation	3,557	4,314	4,499	4,432	78	25	340	301	8,474	9,072
Impairment losses recognised in the profit and loss account	-	-	-	-	35,039	-	-	-	35,039	-
Other non-cash expenses	1,636	110,478	-	-	12,000	70,000	34	-	13,670	180,478
Capital expenditure	1,259	3,313	699	481	-	111	43	857	2,001	4,762
Unallocated capital expenditure									16	-
									2,017	4,762

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4. Segment Information (continued)

(b) Geographical segments

The following tables present revenue, result and certain assets and expenditure information for the Group's geographical segments.

Group	PRC (including Hong Kong)		United States of America and Europe		Consolidated	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	109,128	119,463	24,537	38,797	133,665	158,260
Other revenue	9,588	3,777	-	120	9,588	3,897
	118,716	123,240	24,537	38,917	143,253	162,157
Segment results	(57,618)	(195,577)	(5,970)	2,822	(63,588)	(192,755)
Other segment information:						
Segment assets	151,875	171,403	60,865	61,526	212,740	232,929
Unallocated assets					195,321	129,606
Total assets					408,061	362,535
Capital expenditure	1,302	4,281	699	481	2,001	4,762
Unallocated capital expenditure					16	-
Total capital expenditure					2,017	4,762

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5. Turnover, Revenue and Gains

Turnover represents revenue arising from the trading of garments, shoes, leather goods, car audio equipment and other merchandise, net of sale returns and trade discounts.

An analysis of the Group's turnover, other revenue and gains is as follows:

	2002 HK\$'000	2001 <i>HK\$'000</i>
Turnover		
Sale of goods	133,665	158,260
Other revenue		
Bank interest income	4,916	10,684
Rendering of services	7,500	–
Other income	2,450	3,906
	14,866	14,590
Gains		
Gain on disposal of other securities	8,001	–
Unrealised gain on other securities	8,388	–
	16,389	–
	31,255	14,590

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6. Loss from Operating Activities

The Group's loss from operating activities is arrived at after charging:

	2002	2001
	HK\$'000	HK\$'000
Cost of inventories sold *	105,319	150,428
Depreciation	8,474	9,072
Write-off of fixed assets	21	–
Loss on disposal of fixed assets	60	3,715
Impairment of goodwill **	35,039	–
Provision for doubtful debts	1,589	64,484
Provision for inventories	–	42,279
Staff costs (including directors' remuneration – note 8)		
Wages and salaries	31,013	30,703
Retirement benefits scheme contributions ***	746	287
	31,759	30,990
Minimum lease payments under operating leases in respect of land and buildings	3,228	3,110
Auditors' remuneration	950	1,480
Exchange losses, net	252	–

* The cost of inventories sold includes approximately HK\$14,950,000 (2001: HK\$55,336,000) relating to staff costs, depreciation and provision for inventory which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

** The impairment of goodwill for the year is included in "Other operating expenses" on the face of the profit and loss account.

*** At 31 March 2002, the Group had no forfeited contributions available to reduce its contributions to the retirement benefits scheme in future years (2001: Nil).

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7. Finance Costs

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on bank loans, overdrafts and other loans wholly repayable within five years	5,525	9,893
Interest on finance leases	41	149
	5,566	10,042

8. Directors' Remuneration

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance is as follows:

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees:		
Executive directors	1,620	1,620
Non-executive directors	538	–
	2,158	1,620
Other emoluments:		
Basic salaries, housing, allowances and benefits in kind for executive directors	4,665	5,844
Retirement benefits scheme contributions to executive directors	84	89
	4,749	5,933
	6,907	7,553

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8. Directors' Remuneration (continued)

In the prior year, certain premises were leased by a director rent free. The rental value of such accommodation in that year was HK\$582,000. This benefit is not included in the directors' remuneration in the prior year disclosed above. The premises were not leased to the director during the current year.

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil – HK\$1,000,000	7	8
HK\$1,000,001 – HK\$1,500,000	–	–
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$3,000,001 – HK\$3,500,000	–	1
	8	10

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, 641,970,000 share options were granted to the directors in respect of their services rendered to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 20 to 22. No value in respect of the such share options granted during the year has been charged to the profit and loss account or included in the above disclosure of directors' remuneration.

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9. Five Highest Paid Employees

The five highest paid employees during the year included four (2001: Four) directors, details of whose remuneration are set out in note 8 above. The details of the remuneration of the remaining one (2001: One) non-director, highest paid employee are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Basic salaries, housing, allowances and benefits in kind	650	715
Retirement benefits scheme contributions	13	4
	663	719

During the year, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

During the year, 5,000,000 share options were granted to the one non-director, highest paid employee in respect of his services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 20 to 22. No value in respect of such share options granted during the year has been charged to the profit and loss account or included in the above disclosure.

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10. Tax

Hong Kong profits tax has not been provided as the Group did not derive any assessable profits arising in Hong Kong during the year (2001: Nil).

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Hong Kong profits tax:		
Overprovision in prior years	-	611
Tax credit for the year	-	611

No provision for PRC corporate income tax has been made since no assessable profits have been generated by the subsidiaries operating in the PRC. The other overseas subsidiaries did not generate any profits subject to foreign taxes during the year (2001: Nil).

Deferred tax has not been provided as there were no significant timing differences at the balance sheet date (2001: Nil).

The principal components of the Group's and the Company's deferred tax liabilities/(assets) not provided for/not recognised in the financial statements at the balance sheet date were as follows:

	Group		Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Accelerated depreciation allowances	(1,475)	2,443	(67)	-
Tax losses carried forward	(43,114)	(13,206)	(3,960)	(34)
At 31 March	(44,589)	(10,763)	(4,027)	(34)

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11. Net Loss from Ordinary Activities Attributable to Shareholders

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2002 dealt with in the financial statements of the Company is HK\$13,226,000 (2001: HK\$312,059,000).

12. Loss Per Share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$48,265,000 (2001: HK\$277,669,000) and the weighted average of 7,788,287,273 (2001: weighted average 5,137,005,961) ordinary shares in issue during the year.

Diluted loss per share amount for the year ended 31 March 2002 has not been disclosed, as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

The diluted loss per share for the year ended 31 March 2001 has not been shown as the exercise prices of the outstanding share options of the Company was greater than the average market price of the Company's shares during that year, and therefore the share options had no dilutive effect on the basic loss per share for that year.

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13. Fixed Assets

Group

	Leasehold land and buildings <i>HK\$'000</i>	Land use rights <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles, furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:						
At beginning of year	32,460	6,803	5,614	21,097	22,006	87,980
Additions	–	–	217	141	1,298	1,656
Disposals	–	–	–	–	(476)	(476)
Write-off	–	–	(3,880)	–	–	(3,880)
At 31 March 2002	32,460	6,803	1,951	21,238	22,828	85,280
Accumulated depreciation:						
At beginning of year	4,637	1,333	5,186	9,215	16,484	36,855
Provided during the year	2,531	317	267	2,516	2,843	8,474
Disposals	–	–	–	–	(411)	(411)
Write-off	–	–	(3,859)	–	–	(3,859)
At 31 March 2002	7,168	1,650	1,594	11,731	18,916	41,059
Net book value:						
At 31 March 2002	25,292	5,153	357	9,507	3,912	44,221
At 31 March 2001	27,823	5,470	428	11,882	5,522	51,125

Notes to the Financial Statements

31 March 2002

13. Fixed Assets (continued)

Company	Furniture, Leasehold fixtures and improvements equipment		Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:			
At beginning of year and at 31 March 2002	299	415	714
Accumulated depreciation:			
At beginning of year	107	138	245
Provided during the year	100	83	183
At 31 March 2002	207	221	428
Net book value:			
At 31 March 2002	92	194	286
At 31 March 2001	192	277	469

All the Group's leasehold land and buildings included above are stated at cost and held under medium term leases outside Hong Kong.

The land use rights are held under medium term leases and the relevant land is situated outside Hong Kong.

At 31 March 2002, certain of the Group's leasehold land and buildings and land use rights, with an aggregate net book value of approximately HK\$22,634,000 (2001: HK\$23,474,000), were pledged to secure banking facilities granted to the Group (note 25).

The net book value of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 March 2002 amounted to HK\$206,000 (2001: HK\$1,397,000).

Notes to the Financial Statements

31 March 2002

14. Construction in Progress

	Group	
	2002 HK\$'000	2001 HK\$'000
At beginning of year	841	764
Additions during the year	361	77
At 31 March	1,202	841

15. Goodwill

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions, which occurred prior to 1 April 2001, to remain eliminated against the Group's consolidated reserves.

The amounts of the goodwill remaining in the Group's consolidated reserves, arising from the acquisition of subsidiaries prior to 1 April 2001, are as follows:

Group	Goodwill eliminated against consolidated reserves HK\$'000
Cost:	
At 1 April 2001 and at 31 March 2002	44,662
Accumulated impairment:	
At 1 April 2001	–
Impairment provided during the year	35,039
At 31 March 2002	35,039
Net amount:	
At 31 March 2002	9,623
At 31 March 2001	44,662

Notes to the Financial Statements

31 March 2002

15. Goodwill (continued)

Due to the adoption of SSAP 31, the Group has adopted a policy to assess goodwill eliminated against consolidated reserves for impairment. As a result, the Group has recognised an impairment of part of the goodwill previously eliminated against consolidated reserves, of HK\$35,039,000 during the year. The impairment losses are provided for relating to the goodwill arising the acquisition of Star Express Resources Limited and its subsidiaries (note 17). The impairment losses are estimated by the directors based on the recoverable amounts of the goodwill. In the opinion of the directors, such impairment losses arose from the prevailing unfavourable economic environment in the high-technology sector.

16. Investments in Securities

Investment securities

	Group	
	2002 HK\$'000	2001 HK\$'000
Unlisted equity investments		
outside Hong Kong, at cost	90,160	90,160
Provisions for impairments in values	(82,000)	(70,000)
	8,160	20,160

Other securities

	Group	
	2002 HK\$'000	2001 HK\$'000
Listed equity investments in		
Hong Kong, at market value	105,565	67,246
Unlisted investment fund	6,315	–
	111,880	67,246

The market value of the Group's other securities at the date of approval of these financial statements was approximately HK\$99,599,000 (2001: HK\$76,921,000).

At 31 March 2002, the unlisted investment fund of HK\$6,315,000 was pledged to secure the bank facilities granted to the Group (note 25).

Notes to the Financial Statements

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17. Investments in Subsidiaries

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	43,889	43,889
Less: Provision for impairment	(43,889)	(43,889)
	-	-
Due from subsidiaries	795,685	725,121
Less: Provision	(513,309)	(508,161)
	282,376	216,960
Portion classified as current assets	(247,409)	(181,993)
Non-current portion (Note)	34,967	34,967

The amounts due from the subsidiaries are unsecured and interest-free, except for an amount of HK\$369,000,000 (2001: HK\$353,735,000) which bears interest at the rate of 0.08% (2001: 2.5%) per annum.

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

Note:

The Company has undertaken not to demand repayment of this amount within a two-year period from 31 March 2001, and only when the subsidiaries have sufficient working capital in excess of their respective normal requirements.

Notes to the Financial Statements

31 March 2002

17. Investments in Subsidiaries (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Chaifa Holdings (B.V.I.) Limited	British Virgin Islands	Ordinary US\$50,000	100	–	Investment holding
Hoshing Limited	British Virgin Islands	Ordinary US\$1	100	–	Investment holding
Chaifa Investment Limited	Hong Kong	Ordinary HK\$2 Deferred* HK\$1,000,000	–	100	Trading of garments and shoes
Chaifa Shoes Limited	Hong Kong	Ordinary HK\$10,000	–	100	Trading of garments and shoes
Shantou S.E.Z. Chaifa Industrial Company, Limited	People's Republic of China	HK\$20,000,000	–	100	Manufacturing of garments
Sino Electronics Limited	British Virgin Islands/ Hong Kong	Ordinary US\$2	–	100	Investment holding
Chongqing Electronics Limited	Hong Kong	Ordinary HK\$2	–	100	Trading of car audio equipment
Dongguan Chongqing Electrical Limited	People's Republic of China	RMB13,675,000	–	100	Manufacturing of car audio equipment

Notes to the Financial Statements

31 March 2002

17. Investments in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Inter System Technology Limited	British Virgin Islands/Hong Kong	Ordinary US\$2	–	100	Investment holding
Vestgo Investments Limited	British Virgin Islands/Hong Kong	Ordinary US\$2	–	100	Investment holding
Star Express Resources Limited	British Virgin Islands	Ordinary US\$10	–	60	Investment holding
Win Tech Resources Limited	British Virgin Islands	Ordinary US\$2	–	100	Investment holding
139 Enterprises Limited	Hong Kong	Ordinary US\$2	–	100	Provision of administrative services
Chaifa Finance Limited	Hong Kong	Ordinary HK\$2	–	100	Provision of finance services
Main Purpose Investments Limited	British Virgin Islands/Hong Kong	Ordinary US\$1	–	100	Trading of securities

* The deferred shares carry no rights to dividends (other than a non-cumulative dividend at a fixed rate of 1% per annum on the excess of the net profits the company may determine to distribute in respect of any financial year over HK\$1,000,000,000,000,000); no rights to attend or vote at annual general meetings; and no rights to receive any surplus assets in a return of capital in a winding-up (other than 1% of the surplus assets of the company available for distribution after a total of HK\$100,000,000,000,000,000 has been distributed to the holders of the ordinary shares of the company in such a winding-up).

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

Notes to the Financial Statements

31 March 2002

18. Convertible Note Receivable

On 5 September 2000, the Group subscribed for a convertible note of HK\$50,000,000 issued by Yugang International Limited (“Yugang”), a company listed on The Stock Exchange of Hong Kong Limited and independent of the Group. The convertible note bears interest at the rate of 5% per annum, is unsecured and matures on 4 September 2002. The convertible note is convertible into approximately 384,615,000 shares of Yugang at a conversion price of HK\$0.13 per share (subject to adjustment) at any time from 5 September 2000 to 4 September 2002. Upon maturity, Yugang will repay the outstanding principal amount of the convertible note, together with interest accrued, in cash to the Group.

On 31 May 2001, the Group subscribed for a convertible note of HK\$18,000,000 issued by Wonson International Holdings Limited (“Wonson”), a company listed on The Stock Exchange of Hong Kong Limited and independent of the Group. The convertible note bears interest at the rate of 7% per annum, is unsecured and matures on 2 July 2004. The convertible note is convertible into approximately 642,857,000 ordinary shares of Wonson at an initial price of HK\$0.028 per share and the conversion prices will be HK\$0.031 and HK\$0.034 per share for the period from the date immediately following the first anniversary from the date of issue of the convertible note (the “Issue Date”) to the second anniversary from the Issue Date and for the period from the date immediately following the second anniversary from the Issue Date to the third anniversary of the Issue Date, respectively. These conversion prices are subject to adjustment. Upon maturity, Wonson will repay the outstanding principal amount of the convertible note, together with interest accrued, in cash to the Group.

19. Inventories

	Group	
	2002	2001
	HK\$'000	HK\$'000
Raw materials	5,330	9,152
Work in progress	7,041	3,297
Finished goods	28,424	30,512
	40,795	42,961

No inventories were carried at net realisable value at 31 March 2002 (2001: Nil).

Notes to the Financial Statements

31 March 2002

20. Trade Receivables

An aged analysis of the Group's trade receivables is as follows:

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
0 – 120 days	35,122	56,055
121 – 210 days	21,705	17,567
211 – 270 days	9,179	4,541
	66,006	78,163

Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Invoices are normally payable within three months of issuance, except for established customers when the terms are extended to six months. Each customer has a maximum credit limit, which is granted and approved by senior management. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are regularly reviewed by senior management. Trade receivables are recognised and carried at their original invoiced amount less provisions for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

21. Cash And Cash Equivalents And Pledged Deposits

	Group		Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Cash and bank balances	4,399	6,108	799	853
Time deposits	57,480	40,883	–	10
	61,879	46,991	799	863
Less: Pledged time deposits for bank loans and bank overdrafts facilities (note 25)	(13,082)	(22,242)	–	–
Cash and cash equivalents	48,797	24,749	799	863

Notes to the Financial Statements

31 March 2002

22. Trade and Bills Payables

The aged analysis of the Group's trade and bills payables as at balance sheet date, based on invoice date, is as follows:

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
0 – 120 days	22,665	24,146
121 – 210 days	4,355	6,905
Over 210 days	7,246	10,889
	34,266	41,940

23. Interest-bearing Bank and Other Borrowings

	<i>Notes</i>	Group	
		2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Bank overdrafts – secured	24, 25	6,541	5,705
Current portion of bank and other loans – secured	24, 25, 26	86,307	72,019
Current portion of finance lease payables	27	116	333
		92,964	78,057

Notes to the Financial Statements

31 March 2002

24. Interest-bearing Bank and Other Loans

	Notes	Group	
		2002 HK\$'000	2001 HK\$'000
Bank overdrafts – secured	25	6,541	5,705
Bank loans:			
Trust receipt loans – secured	25	29,582	30,589
Other bank loans – secured	25	11,224	11,224
		40,806	41,813
Other loan – secured	26	45,501	44,840
		92,848	92,358
Bank overdrafts repayable within one year or on demand		6,541	5,705
Bank loans repayable within one year		40,806	41,813
Other loan repayable:			
Within one year		45,501	30,206
In the second year		–	14,634
		45,501	44,840
Total interest-bearing bank and other loans		92,848	92,358
Portion classified as current liabilities	23	(92,848)	(77,724)
Non-current portion		–	14,634

Notes to the Financial Statements

31 March 2002

25. Pledge of Assets

As at 31 March 2002, the Group's banking facilities were secured by the following:

- (a) Legal charges on the Group's medium term leasehold land and buildings with land use rights situated in the PRC with an aggregate net book value of approximately HK\$22,634,000 (note 13);
- (b) Fixed deposits of HK\$13,082,000 owned by the Group (note 21);
- (c) Corporate guarantees executed by the Company up to the extent of HK\$50,740,000;
- (d) Corporate guarantees executed severally by certain subsidiaries of the Company to the extent of HK\$6,000,000;
- (e) Personal guarantees executed by Mr. Chan Chun Tung, John, a director of the Company, to the extent of HK\$54,740,000 (note 34);
- (f) A fixed deposit of HK\$2,727,000 owned by Mr. Chan Chun Tung, John (note 34);
and
- (g) An unlisted investment fund of HK\$6,315,000 owned by the Group (note 16).

26. Other Loan, Secured

The loan is secured by all of the shares in Chaifa Holding (B.V.I.) Limited, a wholly-owned subsidiary of the Company, and certain of its directly and indirectly wholly-owned subsidiaries. The other loan bears interest at 4% per annum.

Notes to the Financial Statements

31 March 2002

27. Finance Lease Payables

The Group leases certain motor vehicles for its car audio business. These leases are classified as finance leases and have remaining lease terms of one year.

At 31 March 2002, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum	Minimum	Present value	Present value
	lease	lease	of minimum	of minimum
	payments	payments	lease	lease
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	123	356	116	333
In the second year	-	123	-	106
Total minimum finance lease payments	123	479	116	439
Future finance charges	(7)	(40)		
Total net finance lease payables	116	439		
Portion classified as current liabilities (<i>note 23</i>)	(116)	(333)		
Long term portion	-	106		

SSAP 14 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

Notes to the Financial Statements

31 March 2002

28. Share Capital

	2002 HK\$'000	2001 <i>HK\$'000</i>
Authorised:		
60,000,000,000 ordinary shares of HK\$0.01 each	600,000	600,000
Issued and fully paid:		
8,619,360,478 (2001: 5,985,800,478) ordinary shares of HK\$0.01 each	86,194	59,858

The following changes in the Company's issued share capital took place during the year:

- (i) On 11 June 2001, the Company and Tai Fook Securities Company Limited entered into a placing agreement in respect of the placing of 1,197,000,000 ordinary shares of HK\$0.01 each issued to independent investors at a price of HK\$0.03 per share. The placement was completed on 29 June 2001 and proceeds of approximately HK\$34,933,000, net of related expenses, were received by the Company for additional working capital of the Group. The excess of the consideration received for the shares issued over their nominal value, amounting to approximately HK\$22,963,000, net of related expenses, was credited to the share premium account.
- (ii) On 3 August 2001, the Company and Tai Fook Securities Company Limited entered into a placing agreement in respect of the placing of 1,436,560,000 ordinary shares of HK\$0.01 each issued to independent investors at a price of HK\$0.025 per share. The placement was completed on 16 August 2001 and proceeds of approximately HK\$34,936,000, net of related expenses, were received by the Company for additional working capital of the Group. The excess of the consideration received for the shares issued over their nominal value, amounting to approximately HK\$20,570,000, net of related expenses, was credited to the share premium account.

Notes to the Financial Statements

31 March 2002

28. Share Capital (continued)

A summary of the above movements in the share capital of the Company is as follows:

	<i>Notes</i>	Number of shares in issue	Issued capital <i>HK\$'000</i>
At 1 April 2001		5,985,800,478	59,858
Shares issued on placement	(i), (ii)	2,633,560,000	26,336
At 31 March 2002		<u>8,619,360,478</u>	<u>86,194</u>

Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 20 to 22.

Summary details of the movements in the number of outstanding share options of the Company during the year are summarised as follows:

Exercise price per share	At 1 April 2001	Granted during the year	Lapsed during the year	At 31 March 2002	Exercise period of share options
HK\$0.1888	4,800	–	(2,400)	2,400	27-3-2000 to 21-2-2004
HK\$0.1000	1,000	–	(1,000)	–	24-10-1998 to 21-2-2004
HK\$0.1000	18,000	–	(18,000)	–	3-1-2000 to 21-2-2004
HK\$0.0215	–	725,570	(6,100)	719,470	21-8-2001 to 21-2-2004
	<u>23,800</u>	<u>725,570</u>	<u>(27,500)</u>	<u>721,870</u>	

Notes to the Financial Statements

31 March 2002

28. Share Capital (continued)

Share options (continued)

At the balance sheet date, the Company had 721,870,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 721,870,000 additional shares of HK\$0.01 each at a total consideration, before related expenses, of approximately HK\$15,922,000.

29. Reserves

Group	Share	Capital	Exchange	Acc-			
	premium	Goodwill redemption	Contributed	fluctuation	umulated	Total	
	account	reserve	reserve	reserve	losses		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2000	206,297	(9,413)	556	828	(1,161)	(195,681)	1,426
Arising from capital cancellation of the Company's shares (Note)	-	-	-	448,992	-	-	448,992
Premium upon issue of shares	9,970	-	-	-	-	-	9,970
Share issue expenses	(401)	-	-	-	-	-	(401)
Goodwill on acquisition	-	(35,249)	-	-	-	-	(35,249)
Net loss for the year	-	-	-	-	-	(277,669)	(277,669)
At 31 March 2001	215,866	(44,662)	556	449,820	(1,161)	(473,350)	147,069
Premium upon issue of shares	45,488	-	-	-	-	-	45,488
Share issue expenses	(1,955)	-	-	-	-	-	(1,955)
Impairment of goodwill	-	35,039	-	-	-	-	35,039
Net loss for the year	-	-	-	-	-	(48,265)	(48,265)
At 31 March 2002	259,399	(9,623)	556	449,820	(1,161)	(521,615)	177,376

Notes to the Financial Statements

31 March 2002

29. Reserves (continued)

Company	Share premium account	Capital redemption reserve	Con- tributed surplus	Accu- mulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2001	206,297	556	43,689	(249,975)	567
Arising from capital cancellation of the Company's shares	–	–	448,992	–	448,992
Premium upon issue of shares	9,970	–	–	–	9,970
Share issue expenses	(401)	–	–	–	(401)
Net loss for the year	–	–	–	(312,059)	(312,059)
At 31 March 2001	215,866	556	492,681	(562,034)	147,069
Premium upon issue of shares	45,488	–	–	–	45,488
Share issue expenses	(1,955)	–	–	–	(1,955)
Net loss for the year	–	–	–	(13,226)	(13,226)
At 31 March 2002	259,399	556	492,681	(575,260)	177,376

Note:

The contributed surplus of the Group arose as a result of the Group reorganisation on the listing of the Company's shares in 1994, and represents the difference between the nominal value of the shares of the former holding company of the Group prior to the Group reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company arose as a result of the same Group reorganisation scheme and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefor.

In addition, pursuant to special and ordinary resolutions passed at a special general meeting held on 22 September 2000, the issued and fully paid share capital of the Company was reduced by HK\$448,992,000 through a reduction in the nominal value of the share capital of the Company. The credit arising as a result of the reduction of the share capital account of approximately HK\$448,992,000 was transferred to the contributed surplus account.

Notes to the Financial Statements

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30. Notes to the Consolidated Cash Flow Statement

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

	2002	2001
	HK\$'000	HK\$'000
Loss from operating activities	(42,730)	(268,328)
Interest income	(4,916)	(10,684)
Depreciation	8,474	9,072
Write-off of fixed assets	21	–
Loss on disposal of fixed assets	60	3,715
Impairment of goodwill	35,039	–
(Gain)/loss on disposal of other securities	(8,001)	21,702
Unrealised (gain)/loss on other securities	(8,388)	63,943
Provisions for impairments in values of investment securities	12,000	70,000
Provision for doubtful debts	1,589	64,484
Provision for inventories	–	42,279
Decrease/(increase) in trade receivables	10,568	(37,337)
Decrease in inventories	2,166	8,248
Increase in prepayments, deposits and other receivables	(870)	(856)
Decrease in trust receipt loans with original maturity over three months	(1,050)	(20,089)
Increase/(decrease) in trade and bills payables	(7,674)	83
Increase/(decrease) in other payables and accruals	(3,716)	6,626
Net cash outflow from operating activities	(7,428)	(47,142)

Notes to the Financial Statements

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30. Notes to the Consolidated Cash Flow Statement (continued)

(b) Analysis of changes in financing activities during the year

	Issued capital (including	Other bank	Obligations	Minority
	share	loans and an	under finance	interests
	premium)	other loan	leases	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 1 April 2000	703,177	43,016	1,409	–
Inception of finance lease contract	–	–	314	–
Arising from capital cancellation of the Company's shares	(448,992)	–	–	–
Cash inflow/(outflow) from financing activities, net	21,539	13,048	(1,284)	–
Balance at 31 March 2001 and 1 April 2001	275,724	56,064	439	–
Cash inflow/(outflow) from financing activities, net	69,869	661	(323)	141
Share of loss	–	–	–	(31)
	<u>345,593</u>	<u>56,725</u>	<u>116</u>	<u>110</u>

Notes to the Financial Statements

31 March 2002

30. Notes to the Consolidated Cash Flow Statement (continued)

(c) Acquisition of subsidiaries

	2002 HK\$'000	2001 <i>HK\$'000</i>
Net assets acquired		
Fixed assets	-	232
Prepayments, deposits and other receivable	-	740
Cash and bank balances	-	1,849
Other payables and accruals	-	(2,560)
Minority interests	-	(90)
	-	171
Goodwill on acquisition	-	35,249
	-	35,420
Satisfied by:		
Cash consideration	-	35,420

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries

	2002 HK\$'000	2001 <i>HK\$'000</i>
Cash consideration	-	(35,420)
Cash and bank balances acquired	-	1,849
	-	(33,571)

Notes to the Financial Statements

31 March 2002

30. Notes to the Consolidated Cash Flow Statement (continued)

(c) Acquisition of subsidiaries (continued)

The subsidiaries acquired in the prior year made no significant contribution to the Group's net operating cash flows. There were no significant cash flows in respect of returns on investments and servicing of finance, tax, investing activities or financing activities.

The subsidiaries acquired in the prior year made no significant contribution to the Group's turnover and net loss from ordinary activities attributable shareholders for the year ended 31 March 2001.

(d) Major non-cash transaction

During the year ended 31 March 2001, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately HK\$314,000.

31. Operating Lease Arrangements

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for a term of two years.

At 31 March 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002	2001
	HK\$'000	<i>HK\$'000</i> <i>(Restated)</i>
Within one year	3,022	3,564
In the second to fifth years, inclusive	487	1,933
	3,509	5,497

SSAP 14 (Revised) requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases have been restated to accord with the current year's presentation.

Notes to the Financial Statements

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32. Commitments

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the balance sheet date:

	Group		Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Contracted, but not provided for, in respect of construction of buildings	4,336	–	–	–

33. Contingent Liabilities

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Guarantees given to banks in connection with facilities granted to subsidiaries	50,740	50,740

As at 31 March 2002, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$30,147,000 (2001: HK\$33,614,000).

Notes to the Financial Statements

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34. Related Party Transactions

- (a) During the year, Mr. Chan Chun Tung, John, a director of the Company, executed personal guarantees to the extent of HK\$54,740,000 and pledged personal fixed deposit for the banking facilities granted to certain subsidiaries of the Company at nil consideration (note 25).
- (b) During the year, rental expense of HK\$94,000 relating to office premises was paid to Mr. Chan Chun Tung, John, a director of the Company. The amount of the rental paid was determined between the Group and Mr. Chan Chun Tung, John.

35. Comparative Amounts

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

36. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 18 July 2002.