

N o t e s t o t h e A c c o u n t s

1 *Basis of preparation*

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

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP1 (revised)	:	Presentation of financial statements
SSAP11 (revised)	:	Foreign currency translation
SSAP15 (revised)	:	Cash flow statements
SSAP34 (revised)	:	Employee benefits

The adoption of the above SSAPs has no material effect on the Group's prior year accounts.

2 *Principal accounting policies*

(a) *Consolidation*

- (i) The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. Subsidiaries are those entities which the Company, directly or indirectly controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

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

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

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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

- (ii) Translation of foreign currencies

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

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

Notes to the Accounts (cont'd)

2 Principal accounting policies (cont'd)

(b) Fixed assets

(i) Leasehold land and buildings

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

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

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

(ii) Other fixed assets

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

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

(c) Assets under leases

(i) Finance leases

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

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

(ii) Operating leases

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

(d) Inventories

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

2 Principal accounting policies (cont'd)



(e) Accounts receivable

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

(f) Cash and cash equivalents

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

(g) Provisions

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



(h) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to a defined contribution scheme which is available to all relevant employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries and are subject to a cap of monthly earnings of HK\$20,000 and thereafter contributions are voluntary. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the fund.

The assets of the scheme are held separately from those of the Group in the independently administered fund.



(i) Contingent liabilities and contingent assets

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

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

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

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



Notes to the Accounts (cont'd)

2 Principal accounting policies (cont'd)

(j) Deferred taxation

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



(k) Revenue recognition

- (i) Revenue from the sale of goods is recognised on the transfer of ownership, which generally coincides with the time of cash receipt for retail sales or the time when the goods are delivered to customers and the title has passed for credit sales, net of returns and discounts given.
- (ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(l) Borrowing costs

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



(m) Segment reporting

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

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



3 Revenues and turnover

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Turnover – sales of goods	125,186	163,691
Other revenue		
Interest income	474	828
Total revenues	125,660	164,519



Primary reporting format – business segments

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

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

3 Revenues and turnover (cont'd)

Primary reporting format – business segments (cont'd)

	Group	
	2003 HK\$'000	2002 HK\$'000
Segment results		
Turnover		
Wholesale	112,184	157,504
Retail	34,990	45,631
Inter-segment elimination	(21,988)	(39,444)
	<hr/>	<hr/>
Total turnover	125,186	163,691
Cost of goods sold		
Wholesale	77,161	100,907
Retail	23,146	27,797
Inter-segment elimination	(21,988)	(39,444)
	<hr/>	<hr/>
Total cost of goods sold	78,319	89,260
Gross profit		
Wholesale	35,023	56,597
Retail	11,844	17,834
	<hr/>	<hr/>
Total gross profit	46,867	74,431
Other costs, net of other revenues and other income		
Wholesale	(48,288)	(52,778)
Retail	(21,026)	(18,764)
	<hr/>	<hr/>
Total other costs, net of other revenues and other income	(69,314)	(71,542)
Segment operating (loss)/profit		
Wholesale	(13,265)	3,819
Retail	(9,182)	(930)
	<hr/>	<hr/>
Total operating (loss)/profit	(22,447)	2,889
Finance costs	(46)	(783)
	<hr/>	<hr/>
Total operating (loss)/profit after finance cost	(22,493)	2,106
Taxation		
Wholesale	(41)	(84)
Retail	(461)	(727)
	<hr/>	<hr/>
Total taxation	(502)	(811)
	<hr/>	<hr/>
(Loss)/profit for the year	<u>(22,995)</u>	<u>1,295</u>

Notes to the Accounts (cont'd)

3 Revenues and turnover (cont'd)

Primary reporting format – business segments (cont'd)

	Group	
	2003 HK\$'000	2002 HK\$'000
Capital expenditure		
Wholesale	2,597	3,382
Retail	3,217	2,087
Total capital expenditure	<u>5,814</u>	<u>5,469</u>
Depreciation charged to the profit and loss account		
Wholesale	1,689	1,937
Retail	2,424	1,913
Total depreciation charged to the profit and loss account	<u>4,113</u>	<u>3,850</u>
Segment assets		
Wholesale	143,936	163,420
Retail	42,695	58,188
Unallocated	40,618	30,817
Inter-segment elimination	(76,178)	(81,066)
Total assets	<u>151,071</u>	<u>171,359</u>
Segment liabilities		
Wholesale	47,313	49,687
Retail	44,389	44,204
Unallocated	–	–
Inter-segment elimination	(76,178)	(81,066)
Total liabilities	<u>15,524</u>	<u>12,825</u>
	<u>135,547</u>	<u>158,534</u>



Jiang
(Gradual)



Guei-me
(Marriage)



Fong
(Abundance)



Lu
(Traveling)

Secondary reporting format – geographical segments

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

4 Operating (loss)/profit

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Auditors' remuneration		
– current year	590	725
– under provision in last year	–	424
Depreciation of owned fixed assets	3,864	3,780
Depreciation of fixed assets held under finance leases	249	70
Legal and professional fees	3,329	2,115
Net exchange gains	(493)	(240)
Payments under operating leases for leasehold land and buildings	13,795	12,064
Provision/(write-back of provision) for doubtful debts	1,843	(1,181)
Write-back of provision for slow-moving inventories, included in cost of sales	(3,913)	(6,378)
Staff costs, including directors' emoluments (<i>note 9</i>)	29,844	38,980

5 Finance costs

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest on bank borrowings	14	748
Interest element of finance leases	32	35
	46	783

6 Taxation

(a) Hong Kong profits tax is calculated at the rate of 16% (2002: 16%) on the estimated assessable profits for the year.

	Group	
	2003 HK\$'000	2002 HK\$'000
Hong Kong profits tax		
– current year	461	921
– over provision in previous year	–	(9)
Deferred taxation (<i>note 6(b)</i>)	41	(101)
	502	811

Notes to the Accounts (cont'd)

6 Taxation (cont'd)

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Brought forward	291	392
Charged to/(transfer from) profit and loss account (note 6(a))	41	(101)
Carried forward	<u>332</u>	<u>291</u>



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

7 (Loss)/profit for the year

Included in the loss for the year is a loss of HK\$1,820,000 (2002: profit of HK\$1,155,000) which is dealt with in the accounts of the Company.



8 (Loss)/earnings per share

The calculation of the basic loss per share for the year ended 31 March 2003 is based on the Group's loss for the year of HK\$22,995,000 and on the outstanding number of 200,000,000 shares in issue during the year.

The calculation for the basic earnings per share for last year was based on the Group's profit for the year of HK\$1,295,000 and on the outstanding number of 200,000,000 shares in issue

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



9 Staff costs

	Group	
	2003 HK\$'000	2002 HK\$'000
Wages and salaries	28,571	37,170
Pension costs – defined contribution plans	1,273	1,810
	<u>29,844</u>	<u>38,980</u>



10 Directors' and senior management's emoluments

(a) Directors' remuneration

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Fees (i)	240	244
Other emoluments		
– Basic salaries and allowances	8,772	8,805
– Retirement scheme contributions	96	250
	<u>9,108</u>	<u>9,299</u>

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

The emoluments of the directors fell within the following bands:

Emolument bands	2003	Number of directors	
		2002	
HK\$Nil – HK\$1,000,000		3*	6*
HK\$1,000,001 – HK\$1,500,000		5	3
HK\$1,500,001 – HK\$2,000,000		1	2
		<u>1</u>	<u>2</u>

* Include the two independent non-executive directors.

Mr. LEE Chi Wah, Rhodes, resigned as a director of the Company on 17 July 2003. Mr. LEE entered into an agreement with the Company to terminate the service contract between him and the Company and waive the respective parties' rights as set out in the service contract.

Mr. LEUNG Ka Cheung, resigned as a director of the Company during the year ended 31 March 2002. Mr. LEUNG entered into an agreement with the Company during the year to terminate the service contract between him and the Company and waive the respective parties' rights as set out in the service contract.

Except for the above, no director waived or agreed to waive their emoluments in respect of the years ended 31 March 2003 and 2002.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2003: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2002: three) individual during the year are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Basic salaries and allowances	1,380	2,706
Retirement scheme contributions	48	61
	<u>1,428</u>	<u>2,767</u>

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2003	2002
HK\$1,000,001 – HK\$1,500,000	1	3
	<u>1</u>	<u>3</u>

Notes to the Accounts (cont'd)

11 Fixed assets

	Group					
	Land and buildings under long leases in Hong Kong	Land and buildings under long leases in the PRC (Note (b))	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation						
At 1 April 2002	14,000	813	16,376	13,171	1,468	45,828
Additions	-	-	3,231	1,338	1,245	5,814
Acquisition of a subsidiary	-	960	-	-	-	960
Disposal	-	-	-	(4)	-	(4)
At 31 March 2003	14,000	1,773	19,607	14,505	2,713	52,598
Accumulated depreciation						
At 1 April 2002	391	-	8,715	8,524	1,092	18,722
Charge for the year	195	13	2,258	1,281	366	4,113
At 31 March 2003	586	13	10,973	9,805	1,458	22,835
Net book value						
At 31 March 2003	13,414	1,760	8,634	4,700	1,255	29,763
At 31 March 2002	13,609	813	7,661	4,647	376	27,106
The analysis of the cost or valuation of the above assets at 31 March 2003 is as follows:						
At cost	-	1,773	19,607	14,505	2,713	38,598
At 2000 professional valuation (note a)	14,000	-	-	-	-	14,000
	14,000	1,773	19,607	14,505	2,713	52,598

- (a) The leasehold land and buildings were revalued by Vigers Hong Kong Limited, an independent firm of professional valuers, at 31 January 2000 on the basis of open market value. The revaluation of the Group's leasehold land and buildings does not constitute a timing difference for tax purposes. The directors have reviewed the carrying value of leasehold land and buildings as at 31 March 2003 and are of the opinion that there is no material change in the carrying value of the assets since the date of the previous valuation. The carrying amount of the property would have been approximately HK\$3,690,000 (2002: HK\$3,885,000) had they been stated at cost less accumulated depreciation.
- (b) The directors have reviewed the carrying value of the properties in the PRC as at 31 March 2003 and are of the opinion that there was no material difference between the cost of the property acquired by the Group during the year and the carrying value of the asset as at 31 March 2003.
- (c) At 31 March 2003, the cost and accumulated depreciation of fixed assets held by the Group under finance leases amounted to approximately HK\$249,000 (2002: Nil).



12 Investments in subsidiaries

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares/investments, at cost	90,917	90,917

Particulars of the subsidiaries as at 31 March 2003 are as follows:

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

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

12 Investments in subsidiaries (cont'd)

Name	Country/ place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Principal activities and place of operation	Equity interest held
Interests held indirectly:-				
Massford Holdings Limited	British Virgin Islands	1 ordinary share of US\$1 each	Investment holding in Hong Kong	100%
Techpro Trading Limited	Hong Kong	2 ordinary shares of HK\$1 each	Importing and sale of architectural builders hardware in Hong Kong	100%
Massford (Hong Kong) Limited	Hong Kong	2 ordinary shares of HK\$1 each	Supplying architectural builders hardware and bathroom collections for property development in Hong Kong	100%
Bonco Ironmongery Limited	Hong Kong	2 ordinary shares of HK\$1 each	Importing and sale of architectural builders hardware in Hong Kong	100%
Kitchen Pro Limited	Hong Kong	2 ordinary shares of HK\$1 each	Importing and sale of kitchen fittings in Hong Kong	100%
D.I.Y. Limited	Hong Kong	2 ordinary shares of HK\$1 each	Handling of the human resources planning and development activities of the Group	100%
Sanfield Properties Limited	Hong Kong	2 ordinary shares of HK\$1 each	Property holding in mainland China	100%
Tech Pro (China) Limited	Hong Kong	2 ordinary shares of HK\$1 each	Investment holding in Hong Kong	100%
Bonlex Properties Limited (Acquired on 18th March 2003)	Hong Kong	9,998 ordinary shares of HK\$1 each	Property holding in mainland China	100%

13 Amounts due from/(to) subsidiaries

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

14 Inventories

	Group	
	2003 HK\$'000	2002 HK\$'000
Inventories	68,584	74,542
Less: Provision for slow-moving inventories	(25,406)	(29,319)
	<u>43,178</u>	<u>45,223</u>

At 31 March 2003, the carrying amount of inventories that are carried at net realisable value amounted to HK\$7,069,000 (2002: HK\$6,372,000).

15 Trade receivables, other receivables, deposits and prepayments

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

	Group	
	2003 HK\$'000	2002 HK\$'000
0 – 30 days	6,181	12,313
31– 60 days	3,346	2,633
61–90 days	3,982	8,728
Over 90 days	25,924	39,680
	<u>39,433</u>	<u>63,354</u>
Provision for doubtful debts	(11,751)	(9,908)
	<u>27,682</u>	<u>53,446</u>

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

16 Trade payables, accruals and deposits received

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

	Group	
	2003 HK\$'000	2002 HK\$'000
0 – 30 days	4,541	3,627
31–60 days	877	564
61–90 days	584	2,561
Over 90 days	422	1,769
	<u>6,424</u>	<u>8,521</u>

Notes to the Accounts (cont'd)

17 Share capital

	Company	
	2003 HK\$'000	2002 HK\$'000
<i>Authorised</i> 1,000,000,000 ordinary shares at HK\$0.1	100,000	100,000
<i>Issued and fully paid</i> 200,000,000 ordinary share at HK\$0.1	20,000	20,000

18 Non-current liabilities

	Group	
	2003 HK\$'000	2002 HK\$'000
Obligations under finance leases	880	-
Less: amounts payable within one year shown under current liabilities	246	-
Deferred taxation (<i>note 6(b)</i>)	332	291
	966	291

19 Reserves

(a) Group

	Share premium HK\$'000	Revaluation reserve HK\$'000	Merger reserve HK\$000	Capital reserve (<i>note (i)</i>) HK\$000	Exchange reserve HK\$'000	Retained earnings HK\$000	Total HK\$000
At 1 April 2001	41,261	9,947	6,979	2,896	-	78,200	139,283
Exchange difference	-	-	-	-	(44)	-	(44)
Profit for the year	-	-	-	-	-	1,295	1,295
2001 final dividend paid	-	-	-	-	-	(2,000)	(2,000)
At 31 March 2002	41,261	9,947	6,979	2,896	(44)	77,495	138,534
At 1 April 2002	41,261	9,947	6,979	2,896	(44)	77,495	138,534
Exchange difference	-	-	-	-	8	-	8
Loss for the year	-	-	-	-	-	(22,995)	(22,995)
At 31 March 2003	41,261	9,947	6,979	2,896	(36)	54,500	115,547

19 Reserves (cont'd)

(b) Company

	Share premium (note (ii)) HK\$'000	Retained earnings HK\$000	Total HK\$000
At 1 April 2001	130,078	4,735	134,813
Profit for the year	–	1,155	1,155
2001 final dividend paid	–	(2,000)	(2,000)
	<hr/>	<hr/>	<hr/>
At 31 March 2002	130,078	3,890	133,968
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 1 April 2002	130,078	3,890	133,968
Loss for the year	–	(1,820)	(1,820)
	<hr/>	<hr/>	<hr/>
At 31 March 2003	130,078	(2,070)	132,148
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

- (i) The capital reserve represented contribution surplus made by the then shareholders to certain subsidiaries of the Company before the group reorganisation.
- (ii) The balance included the difference between the consolidated net worth of E. Bon (BVI) at the date on which its shares were acquired by the Company, and the nominal value of the Company's shares issued for the acquisition of HK\$90,817,000. Under Section 34 of the Companies Law (Revised) of the Cayman Islands, the share premium is available for distribution to shareholders subject to a solvency test on the Company and the provisions of the Articles of Association of the Company.

20 Notes to consolidated cash flow statement

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

	2003 HK\$'000	2002 HK\$'000
Operating (loss)/profit	(22,447)	2,889
Interest income	(474)	(828)
Depreciation of owned fixed assets	3,864	3,780
Depreciation of fixed assets held under finance leases	249	70
Loss on disposal of fixed assets	4	–
	<hr/>	<hr/>
Operating (loss)/profit before working capital changes	(18,804)	5,911
Decrease/(increase) in inventories	2,045	(7,358)
Decrease in trade receivables, other receivables, deposits and prepayments	28,984	19,712
Increase/(decrease) in trade payables, accruals and deposits received and bills payable	1,067	(2,306)
Effect on foreign exchange rate changes, net	8	(44)
	<hr/>	<hr/>
Net cash inflow from operating activities	13,300	15,915
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Accounts (cont'd)

20 Notes to consolidated cash flow statement (cont'd)

(b) Analysis of changes in financing during the year

	Obligations under finance leases		Bank loans		Trust receipt loans	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance brought forward	-	244	-	9,764	-	34,077
Bank loans repaid	-	-	-	(9,764)	-	-
Repayment of capital element of finance leases	(365)	(244)	-	-	-	-
Inception of finance leases	1,245	-	-	-	-	-
Net trust receipt loans repaid	-	-	-	-	-	(34,077)
Balance carried forward	<u>880</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(c) Purchase of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets acquired		
Fixed assets	960	813
Bank balances and cash	-	6
Payables and accruals	-	(819)
	<u>960</u>	<u>-</u>
Satisfied by		
Cash	960	-
	<u>960</u>	<u>-</u>

The subsidiaries acquired during the year did not contribute (2002: Nil) to the Group's net operating cash flows, did not make payment (2002: Nil) in respect of the net returns on investments, servicing of finance, taxation and investing activities.

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

	2003 HK\$'000	2002 HK\$'000
Cash consideration	960	-
Bank balances and cash in hand acquired	-	(6)
Net cash outflow/(inflow) in respect of the purchase of subsidiaries	<u>960</u>	<u>(6)</u>

(e) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of fixed assets with total capital value at the inception of the leases of HK\$1,245,000. No finance leases were entered into by the Group during 2002.

21 Contingent liabilities

- (a) In August 2001, a subsidiary of the Company ("the Subsidiary") sued one of its customers ("Defendant A") for recovery of an amount of approximately HK\$5,333,000 in respect of goods sold and delivered to Defendant A. In September 2001, Defendant A filed a counter-claim in a sum of approximately HK\$6,148,000 against the Subsidiary for the alleged losses and damages as a result of the alleged breach of the supply agreement entered into between Defendant A and the Subsidiary. The proceedings are still in the pleading stage and the directors of the Company, on the basis of independent legal advice obtained, consider the Subsidiary has a good arguable case against Defendant A for the counter-claim and accordingly no provision in respect of the amount of the counter-claim has been made in the accounts of the Group.
- (b) In August 2001, the Subsidiary sued another customer ("Defendant B") for recovery of an amount of approximately HK\$1,017,000 in respect of goods sold and delivered to Defendant B. In late September 2001, Defendant B filed a counter-claim in a sum of approximately HK\$1,443,000 against the Subsidiary for the alleged losses and damages as a result of the alleged breach of contract by the Subsidiary. The counter-claim amount was further revised to HK\$2,475,000 in April 2003. The proceedings are still in the pleading stage and the directors of the Company, on the basis of independent legal advice obtained, consider the Subsidiary has a good arguable case against Defendant B for the counter-claim and accordingly no provision in respect of the amount of the counter-claim has been made in the accounts of the Group.
- (c) As at 31 March 2003, the Group had indemnities in respect of performance bonds amounting to approximately HK\$322,000 (2002: HK\$2,153,000) given to certain customers in respect of commitments for the supply of goods to such customers.
- (d) As at 31 March 2003, the Company had guarantees given to certain banks for banking facilities to the extent of approximately HK\$14,000,000 to be utilised by certain subsidiaries.

Apart from the above, the Group and the Company had no material litigation or contingent liabilities as at 31 March 2003 and up to the date of the approval of these accounts.

22 Commitments

Commitments under operating leases

As at 31 March 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Not later than one year	13,730	9,623
Later than one year and not later than five years	20,428	3,305
	<u>34,158</u>	<u>12,928</u>

The Company did not have any capital or operating lease commitments at 31 March 2003 (2002: Nil).

Notes to the Accounts (cont'd)

23 Related party transactions

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Rental expense paid to NCL	2,729	2,736

24 Ultimate holding company

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

25 Approval of accounts

The accounts were approved by the board of directors on 17 July 2003.