

Notes to the Accounts

1. Group Reorganization, Operations and Basis of Presentation of Accounts

VST Holdings Limited (the "Company") was incorporated in the Cayman Islands on 5th March, 2002 as a company with limited liability under the Companies Law of the Cayman Islands. The Company is an investment holding company with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9th May, 2002. The Company's subsidiaries are principally engaged in the distribution of information technology ("IT") products. Details of the subsidiaries are set out in Note 7 to the accounts.

Pursuant to a group reorganization scheme (the "Reorganization") in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the companies comprising the group (collectively referred to as the "Group") on 16th April, 2002. The Reorganization involved companies under common control, and the Company and its subsidiaries resulting from the Reorganization are regarded as a continuing group.

The Reorganization has been accounted for on the basis of merger accounting, under which the consolidated accounts have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the years ended 31st March, 2003 and 2002.

2. Principal Accounting Policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

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

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 1st January, 2002:

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

Other than certain changes in presentation, the adoption of these new/revised SSAPs had no material effect on the Group's accounts for the current and previous years.

2. Principal Accounting Policies (Cont'd)

(b) Consolidation

The consolidated accounts include the accounts of the company and its subsidiaries made up to 31st March.

Subsidiaries are those entities in 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.

Except for the Reorganization as described in Note 1 above, 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 intra-group transactions and balances within the Group are eliminated on consolidation.

In the Company's balance sheet, the investment in a subsidiary is stated at cost less provision for impairment losses. The results of the subsidiary is accounted for by the Company on the basis of dividend received and receivable.

(c) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

(i) Depreciation

Leasehold land and buildings are depreciated over the period of the lease, while other fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

2. Principal Accounting Policies (Cont'd)

(c) Fixed assets (Cont'd)

- (ii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognized to reduce the asset to its recoverable amount. Such impairment losses are recognized in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

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

(d) 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 capitalized at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

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

2. Principal Accounting Policies (Cont'd)

(e) Inventories

Inventories comprise IT products for distribution and are stated at the lower of cost and net realizable value. Cost, calculated on the first-in, first out basis, comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(f) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(g) 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, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(h) Provisions

Provisions are recognized 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 recognized as a separate asset but only when the reimbursement is virtually certain.

(i) Employee benefits

(i) Employee leave entitlements

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

Employee entitlements to sick leave and maternity or paternity leave are not recognized until the time of leave.

2. Principal Accounting Policies (Cont'd)

(i) Employee benefits (Cont'd)

(ii) Retirement benefits

For eligible employees in Hong Kong, the Group operates defined contribution plans, the assets of which are held in separate trustee-administered funds. The retirement plans are generally funded by payments from employees and by the relevant Group companies. For employees in the People's Republic of China (the "PRC"), the Group participates in defined contribution retirement schemes organised by the relevant local government.

The contributions to these retirement schemes are calculated based on certain percentage of the salaries of employees and are charged to the profit and loss account in the year in which the staff's services are rendered.

(j) Deferred taxation

Deferred taxation is provided under the liability method at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that it is probable that a liability or an asset will crystallize.

(k) 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 recognized 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 recognized but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognized 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 recognized 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 recognized.

2. Principal Accounting Policies (Cont'd)

(l) Revenue recognition

Revenue from the sale of goods is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

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

Operating lease rental income is recognized on a straight-line basis.

(m) Borrowing costs

Borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(n) 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 rates of exchange ruling at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

3. Trade Receivables

	Group	
	2003	2002
	HK\$'000	HK\$'000
Trade receivables		
– Third parties	265,875	107,869
– Related companies	–	387
	265,875	108,256
Less: Provision for doubtful debts	(2,950)	(3,583)
	262,925	104,673

3. Trade Receivables (Cont'd)

The Group grants a credit period to third party customers ranging from 7 to 40 days and may be extended to selected customers depending on their trade volume and settlement history with the Group. However, sales to new customers are only conducted on a cash basis in accordance with the Group's credit control policy. At 31st March, 2003 the aging analysis of gross trade receivables was as follows:

	2003	2002
	HK\$'000	HK\$'000
1 – 30 days	178,140	99,032
31 – 60 days	69,287	2,404
61 – 90 days	14,959	1,732
Over 91 days	3,489	5,088
	265,875	108,256

4. Inventories

	2003	2002
	HK\$'000	HK\$'000
Inventories on hand		
– Held for re-sale	135,041	46,011
– Held for return to suppliers or exchange to customers	7,078	19,159
Inventories-in-transit	20,879	29,005
Less: Inventory provision	(1,872)	(4,030)
	161,126	90,145

As at 31st March, 2003, the inventories that are carried at net realizable value amounted to approximately HK\$140,247,000 (2002: HK\$61,140,000).

5. Fixed Assets

	Leasehold land and buildings	Leasehold improvements	Furniture and fixtures	Office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost						
As at 31st March, 2002	680	2,455	1,201	5,385	1,427	11,148
Additions	12,274	184	80	231	–	12,769
Transfer from investment properties (Note 6)	1,720	–	–	–	–	1,720
Disposals	–	(99)	(43)	(79)	–	(221)
As at 31st March, 2003	14,674	2,540	1,238	5,537	1,427	25,416
Accumulated depreciation						
As at 31st March, 2002	1	2,153	1,154	3,251	711	7,270
Charge for the year	298	101	43	498	285	1,225
Disposals	–	(25)	(39)	(26)	–	(90)
As at 31st March, 2003	299	2,229	1,158	3,723	996	8,405
Net book value						
As at 31st March, 2003	14,375	311	80	1,814	431	17,011
As at 31st March, 2002	679	302	47	2,134	716	3,878

As at 31st March, 2003, the net book value of motor vehicles held under finance leases was HK\$ Nil (2002: HK\$457,000).

The Group's interests in leasehold land and buildings at their net book values are held in Hong Kong under medium-term leases.

At 31st March, 2003, the net book value of fixed assets pledged as security for certain of the Group's banking facilities amounted to HK\$8,627,000 (2002: HK\$679,000).

6. Investment Properties

The investment properties were revalued on an open market basis on 31st March, 2002 by LCH (Asia-Pacific) Surveyors Limited, an independent professional valuer, at HK\$1,720,000. During the year ended 31st March, 2003, the Group occupied the investment properties for its own use on a long-term basis. Accordingly, the investment properties have been reclassified as leasehold land and buildings as at 31st March, 2003.

7. Investment in a Subsidiary

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	63,683	–
Due from subsidiaries	37,888	–
	101,571	–

The following is a list of the subsidiaries at 31st March, 2003:

Name	Place of incorporation	Principal activities and place of operations	Particulars of issued share capital	Percentage of interest held	
				Directly	Indirectly
VST Group Limited	British Virgin Islands	Investment holding, British Virgin Islands	4 ordinary shares of US\$1 each	100%	–
VST Computers (H.K.) Limited	Hong Kong	Distribution of IT products, Hong Kong	2 ordinary shares of HK\$1 each 62,000,000 non-voting deferred shares of HK\$1 each	–	100%

The amount due from VST Group Limited of HK\$8,000,000 (2002: HK\$ Nil) is unsecured, non-interest bearing and has no fixed repayment term.

The amount due from VST Computers (H.K.) Limited of HK\$29,888,000 (2002: HK\$ Nil) is unsecured, interest bearing at prime rate and has no fixed repayment term.

8. Trade Payables, Accruals and Other Payables

	Group	
	2003	2002
	HK\$'000	HK\$'000
Trade payables	284,473	86,649
Accruals and other payables	3,138	2,163
	287,611	88,812

The Group's suppliers grant credit periods ranging from 30 to 90 days to the Group. At 31st March, 2003, the aging analysis of trade payables was as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
1 – 60 days	284,140	86,310
61 – 120 days	333	339
	284,473	86,649

9. Bank Loans and Import Loans, Secured

	2003	2002
	HK\$'000	HK\$'000
Long-term bank loans	5,522	1,074
Short-term bank loan	4,887	4,670
Import loans	98,896	121,444
	109,305	127,188
The maturity of the above loans is as follows:		
On demand or within one year	105,000	126,636
More than one year but not exceeding two years	760	522
More than two years but not exceeding five years	2,423	30
More than five years	1,122	–
	109,305	127,188
Less: Amounts due within one year included under current liabilities	(105,000)	(126,636)
	4,305	552

9. Bank Loans and Import Loans, Secured (Cont'd)

The long-term bank loans bear interest at prime rate. As at 31st March, 2003, the Group's leasehold land and buildings amounted to HK\$8,627,000 (2002: HK\$679,000) have been pledged as security for certain of the above banking facilities. The Group's banking facilities were also secured by the corporate guarantee provided by the Company and the fixed deposits of HK\$24,203,000 held by the Group.

10. Deferred Taxation

The movement of deferred taxation during the year is as follows:

	2003	2002
	HK\$'000	HK\$'000
At beginning of year	-	-
Provision for the year	320	-
At end of year	320	-

The deferred taxation represents the taxation effect of the accelerated depreciation allowance for taxation purposes.

11. Share Capital

	Note	Number of shares issued '000	Total par value HK\$'000
Authorized (ordinary shares of HK\$0.10 each)			
Upon incorporation	(a)	1,000	100
Increase in authorised share capital	(b)	1,999,000	199,900
As at 31st March, 2003		2,000,000	200,000
Issued and fully paid (ordinary shares of HK\$0.10 each)			
Shares allotted and issued nil paid upon incorporation	(a)	1,000	–
Shares issued as consideration for the acquisition of the entire issued share capital of VST Group Limited	(c)	1,000	100
Credited as fully paid as consideration for the acquisition of the entire issued share capital of VST Group Limited	(c)	–	100
Capitalization issue of shares	(d)	523,000	52,300
New issue on public listing	(e)	175,000	17,500
As at 31st March, 2003		700,000	70,000

- (a) On 5th March, 2002, the Company was incorporated with an authorized share capital of HK\$100,000, divided into 1,000,000 shares of HK\$0.10 each. All of these shares were issued and credited as nil paid on 18th March, 2002.
- (b) On 16th April, 2002, the authorized share capital of the Company was increased from HK\$100,000 to HK\$200,000,000, by the creation of an additional 1,999,000,000 shares of HK\$0.10 each, ranking pari pasu with the then existing shares of the Company.
- (c) On 16th April, 2002, the Company acquired the entire issued share capital of VST Group Limited, a company incorporated in the British Virgin Islands, the consideration of which comprised (i) the issue of 1,000,000 shares of HK\$0.10 each credited as fully paid by the Company; and (ii) credited as fully paid the 1,000,000 shares of HK\$0.10 each issued as nil paid on 18th March, 2002 (Note 11 (a)).
- (d) On 17th April, 2002, 523,000,000 shares of HK\$0.10 each were allotted as fully paid to the holders of the shares of the Company that appear on the register of members of the Company in proportion to their respective shareholdings as at the close of business on 17th April, 2002, by capitalization issue of shares (Note 13).

11. Share Capital (Cont'd)

- (e) On 9th May, 2002, to provide additional working capital for the Group, 175,000,000 shares of HK\$0.10 each were issued to the public at HK\$0.25 each resulting in total net cash proceeds of approximately HK\$33,243,000 (Note 13).
- (f) For the purpose of the preparation of the accounts, the comparative of share capital shown in the consolidated balance sheet represented 2,000,000 shares of HK\$0.10 each in the share capital of the Company upon completion of the Reorganization.

12. Share Option Scheme

On 17th April, 2002, the Company approved a share option scheme (the "Share Option Scheme") under which the Directors may, at their discretion, invite employees (including both full time and part time employees, and executive Directors), non-executive Directors, suppliers, customers and other corporations or individuals that provide support to the Group (as defined in the share option scheme) to take up options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the Share Option Scheme may not exceed 10% of the issued share capital of the Company. The subscription price will be determined by the Company's Board of Directors and will not be less than the higher of (i) the nominal value of the Company's ordinary share; (ii) the closing price of the Company's ordinary share as stated in the daily quotation sheets issued by the Stock Exchange on the date of offer; and (iii) the average closing price of the Company's ordinary share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer. The Share Option Scheme became effective upon the listing of the Company's shares on 9th May, 2002.

As at 31st March, 2003, no options have been granted pursuant to the Share Option Scheme.

13. Reserves

(a) The Group

	Share premium	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2001	61,800	22,038	83,838
Profit for the year	–	30,245	30,245
Dividends (Note 20)	–	(50,600)	(50,600)
At 31st March, 2002	61,800	1,683	63,483
Capitalization issue of shares (Note 11 (d))	(52,300)	–	(52,300)
New issue on public listing (Note 11 (e))	26,250	–	26,250
Share issuance costs	(10,507)	–	(10,507)
Profit for the year	–	17,211	17,211
Dividends (Note 20)	–	(3,500)	(3,500)
Balance at 31st March, 2003	25,243	15,394	40,637
Representing:			
Reserves	25,243	11,194	36,437
2003 final dividend proposed	–	4,200	4,200
Balance at 31st March, 2003	25,243	15,394	40,637

13. Reserves (Cont'd)

(b) The Company

	Share premium	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000
At 31st March, 2002	–	–	–
Effect of the Reorganization	63,483	–	63,483
Capitalization issue of shares (Note 11 (d))	(52,300)	–	(52,300)
New issue on public listing (Note 11 (e))	26,250	–	26,250
Expenses incurred in connection with new issue on public listing	(10,507)	–	(10,507)
Net profit for the year	–	8,251	8,251
Dividends (Note 20)	–	(3,500)	(3,500)
Balance at 31st March, 2003	<u>26,926</u>	<u>4,751</u>	<u>31,677</u>
Representing:			
Reserves	26,926	551	27,477
2003 final dividend proposed	–	4,200	4,200
Balance at 31st March, 2003	<u>26,926</u>	<u>4,751</u>	<u>31,677</u>

The share premium account of the Group includes: (a) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Reorganization over the nominal value of the share capital of the Company issued in exchange; (b) the capitalization issue during the year; and (c) the premium arising from the new issue on public listing, net of share issuance costs in connection therewith.

The share premium of the Company represents the difference between the book values of the underlying net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued under the Reorganization.

13. Reserves (Cont'd)

(b) The Company (Cont'd)

In accordance with the Companies Law (revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

14. Additional Financial Information on Consolidated Balance Sheet

As at 31st March, 2003, the net current assets of the Group amounted to approximately HK\$98,251,000 (2002: HK\$58,637,000). On the same date, the total assets less current liabilities was approximately HK\$115,262,000 (2002: HK\$64,235,000).

15. Turnover, Revenues and Segment Information

The Group is principally engaged in the distribution of IT products. Turnover represents gross invoiced sales, net of discounts and returns. Revenues recognized during the year are as follows:

	2003	2002
	HK\$'000	HK\$'000
Turnover – Sales of goods	2,209,467	1,634,218
Interest income	676	2,139
Rental income	103	146
Total revenues	2,210,246	1,636,503

No business segment information (primary segment information) was presented for the years ended 31st March, 2003 and 2002 as the Group is operating in a single business segment which is the distribution of IT products.

The Group's operation is conducted in Hong Kong. Generally, the risks and rewards of ownership of goods are transferred upon delivery to the customers, which takes place in Hong Kong. Accordingly, all of the sales of the Group's inventories are concluded in Hong Kong and therefore no geographical segment information is presented for the years ended 31st March, 2003 and 2002.

16. Operating Profit

Operating profit is stated after crediting and charging the following:

	2003	2002
	HK\$'000	HK\$'000
Crediting		
Net exchange gains	314	280
Charging		
Cost of inventories	2,156,213	1,720,649
Inventory provision	822	701
Provision for/ write-off of bad and doubtful debts	3,071	–
Staff costs, including directors' emoluments		
– Salaries, allowance and welfare	14,366	17,945
– Provident fund contributions	167	739
Auditors' remuneration	527	470
Operating lease rentals in respect of premises and warehouse	1,679	3,018
Depreciation		
– Owned fixed assets	1,225	1,022
– Leased fixed assets	–	219
Loss on disposal of fixed assets	102	114

17. Finance Costs, Net

	2003	2002
	HK\$'000	HK\$'000
Interest expense on:		
– Bank loans, overdrafts and import loans	4,233	7,192
– Finance leases	23	44
	4,256	7,236
Interest income from:		
– Bank deposits	(676)	(152)
– Advances to a related company	–	(1,987)
	(676)	(2,139)
	3,580	5,097

18. Taxation

The amount of taxation charged to consolidated profit and loss account represents:

	2003	2002
	HK\$'000	HK\$'000
Current taxation		
– Hong Kong profits tax	3,389	6,399
– PRC tax	99	191
Over-provisions of Hong Kong profits tax in prior years	(8)	(9)
Deferred taxation	320	–
	3,800	6,581

Hong Kong profits tax has been provided at the rate of 16% (2002: 16%) on the estimated assessable profit for the year.

PRC tax represents the Enterprise Income Tax related to a subsidiary that has representative offices established in the PRC and has been calculated based on the estimated deemed taxable profit for the year in accordance with the relevant PRC tax laws at the rate prevailing in the PRC municipal jurisdiction.

There was no significant unprovided deferred taxation as at 31st March, 2003.

19. Profit Attributable to Shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$8,251,000 (2002: HK\$Nil).

20. Dividends

	2003	2002
	HK\$'000	HK\$'000
Interim, paid, of HK0.5 cents (2002: HK\$Nil) per ordinary share of the Company	3,500	–
Interim dividends paid/declared by a subsidiary, VST Computers (H.K.) Limited to its then shareholders prior to the Reorganization	–	50,600
Final, proposed, of HK0.6 cents (2002: HK\$Nil) per ordinary share of the Company	4,200	–
	7,700	50,600

20. Dividends (Cont'd)

At a meeting held on 9th July, 2003, the directors proposed a final dividend of HK0.6 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ended 31st March 2004.

21. Earnings Per Share

The calculation of basic earnings per share was based on the Group's net profit attributable to shareholders of HK\$17,211,000 (2002: HK\$30,245,000) and on the weighted average of 681,780,822 (2002: 525,000,000) ordinary shares of the Company deemed to have been issued throughout the years on the assumption that the Reorganization has been completed as at 1st April 2001.

No dilutive financial instrument is outstanding or deemed to be outstanding throughout the years ended 31st March, 2003 and 2002 and accordingly, no diluted earnings per share has been presented.

22. Directors' and Senior Management's Emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2003	2002
	HK\$'000	HK\$'000
Fees	–	–
Other emoluments:		
Basic salaries and housing allowances	4,620	4,490
Discretionary bonuses	38	–
Contributions to pension schemes	221	224
	4,879	4,714

The emoluments of the directors fell within the following bands:

	Number of directors	
Emolument bands	2003	2002
Nil – HK\$1,000,000	4	4
HK\$1,500,001 – HK\$2,000,000	1	2
HK\$2,000,001 – HK\$2,500,000	1	–

During the year, no director of the Company waived any emoluments (2002: Nil).

22. Directors' and Senior Management's Emoluments (Cont'd)

(b) Five highest paid individuals

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

	2003	2002
	HK\$'000	HK\$'000
Basic salaries and allowances	1,073	1,236
Discretionary bonuses	52	–
Contributions to pension schemes	56	54
Contractual payments for compensation for loss of office	–	156
	1,181	1,446

The emoluments fell within the following band:

	Number of individuals	
Emolument band	2003	2002
Nil – HK\$1,000,000	2	2

23. Retirement Scheme Arrangements

The Group arranges for the employees of its subsidiaries and representative offices to join retirement schemes operated in Hong Kong and the PRC.

Prior to 1st December 2000, certain companies now comprising the Group had arranged for their employees to join a defined contribution scheme in Hong Kong. The scheme covered full-time employees and provided for contributions ranging from 5% to 10% of the employees' earnings. The forfeited contribution made by the Group and the related accrued interest can be used to reduce the employer's contribution. During the year ended 31st March, 2003, approximately HK\$403,000 (2002: HK\$82,000) of the aforesaid contributions were forfeited and utilized by the Group to reduce the employer's contribution.

23. Retirement Scheme Arrangements (Cont'd)

Since 1st December 2000, the subsidiary in Hong Kong has arranged for its employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme") pursuant to the Mandatory Provident Fund Legislation. Under the MPF Scheme, the Group and each of the employees make monthly contribution to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Legislation. For those employees who joined the Group on or before 1st December 2000, the employees' contribution is subject to a cap of monthly earnings of HK\$20,000 per employee. For those employees who joined the Group after 1st December 2000, both the employer's and employees' contributions are subject to a cap of monthly earnings of HK\$20,000 per employee.

The Group's employees in the representative offices in the PRC participate in the retirement schemes regulated by the respective Province and/or the State. In accordance with the respective provincial laws and regulations, the Group is required to contribute a sum of not more than 20% of the total wages payable to each employee of the registered representative offices established in the PRC whilst the relevant employees are required to contribute a sum of not more than 8% of their respective wages as the employees' basic contribution. The Group has no further retirement benefit obligation beyond the above required contribution to the retirement schemes.

The aggregate amount of employer's contribution made by the Group to the retirement schemes for employees is approximately HK\$167,000 (2002: HK\$739,000).

24. Consolidated Cash Flow Statement

(a) Reconciliation of profit before tax to net cash inflow/(outflow) from operations:

	2003	2002
	HK\$'000	HK\$'000
Profit before tax	21,011	36,826
Interest income	(676)	(2,139)
Interest expense	4,256	7,236
Depreciation of fixed assets	1,225	1,241
Loss on disposal of fixed assets	102	114
(Increase)/decrease in accounts receivable, net	(158,252)	15,734
Decrease in prepayments and other current assets	6,295	251
(Increase)/decrease in inventories, net	(70,981)	50,150
Decrease/(increase) in due from related companies	24,230	(3,735)
Increase/(decrease) in trade payables, accruals and other payables	198,799	(124,915)
Net cash inflow/(outflow) from operations	26,009	(19,237)

24. Consolidated Cash Flow Statement (Cont'd)

(b) Analysis of changes in financing activities:

	Share capital		Share premium		Bank loans and import loans		Dividend payable		Obligations under finance leases	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year	200	200	61,800	61,800	127,188	79,722	14,920	-	137	411
Capitalization issue of shares	52,300	-	(52,300)	-	-	-	-	-	-	-
New issue on public listing	17,500	-	26,250	-	-	-	-	-	-	-
Shares issuance costs	-	-	(10,507)	-	-	-	-	-	-	-
New import loans	-	-	-	-	98,896	121,444	-	-	-	-
Repayment of import loans	-	-	-	-	(121,444)	(71,613)	-	-	-	-
New long-term bank loans	-	-	-	-	5,304	-	-	-	-	-
Repayment of long-term bank loans	-	-	-	-	(856)	(522)	-	-	-	-
New short-term bank loans	-	-	-	-	5,838	5,596	-	-	-	-
Repayment of short-term bank loans	-	-	-	-	(5,621)	(7,439)	-	-	-	-
Dividends	-	-	-	-	-	-	3,500	50,600	-	-
Dividends paid	-	-	-	-	-	-	(18,420)	(35,680)	-	-
Repayments of obligations under finance leases	-	-	-	-	-	-	-	-	(137)	(274)
At end of year	70,000	200	25,243	61,800	109,305	127,188	-	14,920	-	137

25. Commitments under Operating Leases

As at 31st March, 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings	
	2003 HK\$'000	2002 HK\$'000
Not later than one year	160	553
Later than one year and not later than five years	-	71
	160	624

26. Related Party Transactions

During the year ended 31st March, 2003, the Group had the following significant related party transactions, which were carried out in the normal course of the Group's business:

- (a) On 17th April, 2002 and prior to the listing of the Company's shares on 9th May, 2002, the Group purchased six properties in Hong Kong for use as the Group's storage and ancillary office from a related company at a consideration based on an open market valuation as at 28th February, 2002 performed by LCH (Asia-Pacific) Surveyors Limited, an independent valuer, of approximately HK\$11,880,000.
- (b) On 17th April, 2002, the Group entered into a trademark licensing agreement with VST Group Limited, a company incorporated in Hong Kong ("VST Group Hong Kong"), whereby VST Group Hong Kong agreed to grant a non-exclusive licence to the Group to use certain trade/service marks as the Group's logo on the letterheads, name cards and other stationery of the Group for an initial term of 20 years from the date of the agreement at a nominal consideration of HK\$1.
- (c) On 28th May, 2002, the Group entered into a rental agreement with Mr. Li Jialin, the Chairman and an executive Director of the Company, in respect of a director quarter. Pursuant to the agreement, the Group paid a monthly rental of HK\$80,000 to Mr. Li Jialin for a term of 10 months from 1st June, 2002 to 31st March, 2003.

27. Approval of Accounts

The accounts were approved by the board of directors on 9th July, 2003.