

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

1. GENERAL

The Company was incorporated in Bermuda on 16th December, 1999 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). In the opinion of directors, its ultimate holding company is Tactful Finance Limited, a company which is incorporated in the British Virgin Islands.

The Company acts as an investment holding company and the principal activities of the Group are manufacturing, marketing and research and development of computer motherboards, networking products and related components.

Its shares are listed on The Stock Exchange of Hong Kong Limited.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAP(s)”) issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the inclusion of a statement of changes in equity, but has had no material effect on the results for the current or prior accounting years. Accordingly, nor prior period adjustment has been required.

Foreign currencies

The revisions to SSAP 11 “*Foreign Currency Translation*” have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting years.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (Continued)

Cash Flow Statements

In the current year, the Group has adopted SSAP 15 (Revised) “Cash Flow Statements”. Under SSAP 15 (Revised), cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest paid and dividends paid, which were previously presented under a separate heading, are classified as financing cash flows. Interest received, which was previously presented under a separate heading, is classified as investing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude short-term loans that are financing in nature. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amounts shown in the cash flow statement.

Employee Benefits

In the current year, the Group has adopted SSAP 34 “Employee Benefits”, which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of leasehold land and buildings and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income under operating lease is credited to the income statement on a straight-line basis over the relevant lease term.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and amortisation and accumulated impairment losses.

Leasehold land and buildings are stated at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of leasehold land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in the net carrying amount arising on revaluation of such properties is charged to the income statement to the extent that it exceeds the surplus, if any, held in the asset revaluation reserve relating to previous revaluation of that particular asset. On the subsequent disposal of such asset, the attributable revaluation surplus not yet transferred to retained profits in prior years is transferred to retained profits.

Leasehold improvements, plant and machinery, furniture, fixtures and equipment and motor vehicles are stated at cost less accumulated depreciation and impairment losses.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Depreciation and amortisation are provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	2.5% or over the terms of the leases , if higher
Buildings	2% to 2.5%
Leasehold improvements	50% or over the terms of the leases
Plant and machinery	10% to 25%
Furniture, fixtures and equipment	20% to 25%
Motor vehicles	10% to 25%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant finance leases.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in a subsidiary

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Unlisted investment

Unlisted investment represents the investment in golf club debentures which are stated at cost less any identified impairment loss.

Development expenditure

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. The tax effect of timing differences, which arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements, is computed using the liability method and is recognised as deferred taxation to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operations is disposed of.

Leases

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired are charged to the income statement over the terms of relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the lease terms.

Retirement benefits scheme contributions

Payments to the defined contribution retirement benefits scheme and the Mandatory Provident Fund Scheme are charged as an expenses as they fall due.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business Segments

For management purposes, the Group is currently organised into two operating divisions – design and manufacture of computer motherboard and supply of computer components. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- | | | |
|--|---|---|
| Design and manufacture of computer motherboard | – | Manufacture and research and development of computer motherboard. |
| Supply of computer components | – | Marketing and supply of computer motherboards and related components. |

Segment information about these businesses is presented below.

Year ended 31st March, 2003

	Design and manufacture of computer motherboard	Supply of computer components	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER			
External sales	<u>144,948</u>	<u>1,242,141</u>	<u>1,387,089</u>
RESULT			
Segment result	<u>(8,276)</u>	<u>9,539</u>	1,263
Unallocated corporate income			120
Unallocated corporate expenses			<u>(29,275)</u>
Loss from operations			(27,892)
Finance costs			<u>(757)</u>
Loss before taxation			(28,649)
Taxation			<u>(179)</u>
Loss for the year			<u>(28,828)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business Segments (Continued)

At 31st March, 2003

BALANCE SHEET

	Design and manufacture of computer motherboard <i>HK\$'000</i>	Supply of computer components <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS			
Segment assets	53,738	11,099	64,837
Unallocated corporate assets			24,878
			<u>89,715</u>
Consolidated total assets			<u>89,715</u>
LIABILITIES			
Segment liabilities	13,591	32,728	46,319
Unallocated corporate liabilities			17,009
			<u>63,328</u>
Consolidated total liabilities			<u>63,328</u>

OTHER INFORMATION

	Design and manufacture of computer motherboard <i>HK\$'000</i>	Supply of computer components <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital additions	3,970	23	3,993
Depreciation and amortisation	7,856	167	8,023
Loss on disposal of property, plant and equipment	(2,630)	–	(2,630)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business Segments (Continued)

Year ended 31st March, 2002

	Design and manufacture of computer motherboard <i>HK\$'000</i>	Supply of computer components <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER			
External sales	<u>177,529</u>	<u>1,283,763</u>	<u>1,461,292</u>
RESULT			
Segment result	<u>6,786</u>	<u>24,365</u>	31,151
Unallocated corporate income			1,239
Unallocated corporate expenses			<u>(29,754)</u>
Profit from operations			2,636
Finance costs			<u>(1,973)</u>
Profit before taxation			663
Taxation			<u>1,088</u>
Profit for the year			<u>1,751</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business Segments (Continued)

At 31st March, 2002

BALANCE SHEET

	Design and manufacture of computer motherboard <i>HK\$'000</i>	Supply of computer components <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS			
Segment assets	72,922	30,301	103,223
Unallocated corporate assets			62,708
Consolidated total assets			<u>165,931</u>
LIABILITIES			
Segment liabilities	23,842	77,891	101,733
Unallocated corporate liabilities			7,137
Consolidated total liabilities			<u>108,870</u>

OTHER INFORMATION

	Design and manufacture of computer motherboard <i>HK\$'000</i>	Supply of computer components <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital additions	555	270	825
Depreciation and amortisation	6,801	873	7,674

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical Segments

The Group's operations are located in Hong Kong and the People's Republic of China (the "PRC"). The Group's manufacture of computer motherboard is carried out in the PRC, and supply of computer components is carried out in Hong Kong.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market		Contribution to (loss) profit from operations	
	Year ended 31.3.2003 HK\$'000	Year ended 31.3.2002 HK\$'000	Year ended 31.3.2003 HK\$'000	Year ended 31.3.2002 HK\$'000
PRC	517,725	429,821	(7,858)	1,523
Hong Kong	292,010	279,781	(6,784)	2,645
North America	180,003	328,542	(4,680)	3,355
Asia Pacific	145,742	244,509	(2,142)	(2,907)
Europe	216,534	172,734	(5,523)	(896)
Others	35,075	5,905	271	(65)
	<u>1,387,089</u>	<u>1,461,292</u>	<u>(26,716)</u>	3,655
Unallocated corporate expenses			<u>(1,176)</u>	<u>(1,019)</u>
(Loss) profit from operations			<u>(27,892)</u>	<u>2,636</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical Segments (Continued)

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment and intangible asset analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible asset	
	At 31.3.2003 HK\$'000	At 31.3.2002 HK\$'000	Year ended 31.3.2003 HK\$'000	Year ended 31.3.2002 HK\$'000
PRC	29,215	34,760	806	15
Hong Kong	60,500	131,171	3,187	810
	<u>89,715</u>	<u>165,931</u>	<u>3,993</u>	<u>825</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

5. (LOSS) PROFIT FROM OPERATIONS

	2003 HK\$	2002 HK\$
(Loss) profit from operations has been arrived at after charging:		
Directors' remuneration (Note 7)		
Fees	180,000	180,000
Other emoluments	1,716,000	1,596,292
Retirement benefits contributions	22,000	16,000
Other staff costs	9,956,339	14,740,435
Total staff costs	11,874,339	16,532,727
Allowance for bad and doubtful debts	246,272	660,842
Allowance for slow-moving and obsolete inventories	2,280,000	–
Amortisation of development costs (included in administrative expenses)	457,197	–
Auditors' remuneration		
Current year	260,570	280,000
Underprovision in prior years	1,616	70,560
Depreciation		
Owned assets	6,138,959	6,246,537
Assets under finance leases	1,426,967	1,426,967
Impairment loss for unlisted investment	300,000	–
Loss on disposal of property, plant and equipment	2,629,713	–
and after crediting:		
Interest income on bank deposits	120,710	1,239,355
Write-back of allowance for slow-moving and obsolete inventories	–	3,843,252
	–	3,843,252

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

6. FINANCE COSTS

	2003	2002
	HK\$	HK\$
Interest on:		
Bank borrowings wholly repayable within five years	680,384	1,590,476
Obligations under finance leases	76,550	382,536
	756,934	1,973,012
	756,934	1,973,012

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of the directors and the five highest paid individuals for the year are as follows:

(a) Directors' emoluments

	2003	2002
	HK\$	HK\$
Directors' fees		
Executive	–	–
Independent non-executive	180,000	180,000
	180,000	180,000
Other emoluments of executive directors		
Salaries and other benefits	1,716,000	1,596,292
Contribution to pension scheme	22,000	16,000
	1,918,000	1,792,292
	1,918,000	1,792,292

The aggregate emoluments of each of the directors were within the following bands:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	4	5
	4	5
	4	5

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

The five highest paid individuals of the Group included two directors (2002: two), details of whose emoluments are set out above. The emoluments of the remaining three (2002: three) highest paid individuals are as follows:

	2003 HK\$	2002 HK\$
Salaries and other benefits	1,798,224	2,077,673
Contribution to pension scheme	36,000	36,000
	<u>1,834,224</u>	<u>2,113,673</u>

The aggregate emoluments of each of the employees were less than HK\$1,000,000 for both years.

During two years ended 31st March, 2002 and 2003, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, one (2002: two) director has waived emoluments of HK\$156,000 (2002: HK\$888,000) during the year.

8. TAXATION

	2003 HK\$	2002 HK\$
The charge (credit) comprises:		
Under(over) provision of Hong Kong Profits Tax in previous years	178,469	(154,595)
Deferred taxation (Note 20)	—	(933,000)
	<u>178,469</u>	<u>(1,087,595)</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Hong Kong subsidiaries of the Company have no assessable profit for both years.

Details of the deferred taxation are set out in note 20.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

9. DIVIDENDS

	2003	2002
	HK\$	HK\$
Ordinary shares:		
Final dividend paid – HK\$0.01 per share for 2002 (2002: HK\$0.10 per share for 2001)	<u>1,881,150</u>	<u>18,800,000</u>

10. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share for the year is based on the following data:

	2003	2002
	HK\$	HK\$
(Loss) earnings for the purpose of basic and diluted earnings per share	<u>(28,827,509)</u>	<u>1,751,080</u>
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	188,110,301	188,000,000
Effect of dilutive potential ordinary shares in respect of share options	<u>–</u>	<u>3,276,000</u>
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	<u>188,110,301</u>	<u>191,276,000</u>

No amount had been presented for the diluted loss per share for the year ended 31st March, 2003, as the effect of the exercise of the outstanding share options of the Company would result in a decrease in the loss per share.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

11. PROPERTY, PLANT AND EQUIPMENT

	Medium term leasehold land and buildings in Hong Kong HK\$	Leasehold improvements HK\$	Plant and machinery HK\$	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Total HK\$
THE GROUP						
COST OR VALUATION						
At 1st April, 2002	5,760,000	6,904,907	56,155,905	14,576,762	2,237,661	85,635,235
Additions	–	–	1,265,612	68,886	–	1,334,498
Disposals	–	–	(23,797,108)	(693,035)	–	(24,490,143)
	<u>5,760,000</u>	<u>6,904,907</u>	<u>33,624,409</u>	<u>13,952,613</u>	<u>2,237,661</u>	<u>62,479,590</u>
At 31st March, 2003	5,760,000	6,904,907	33,624,409	13,952,613	2,237,661	62,479,590
Comprising:						
At cost	–	6,904,907	33,624,409	13,952,613	2,237,661	56,719,590
At valuation – 2000	5,760,000	–	–	–	–	5,760,000
	<u>5,760,000</u>	<u>6,904,907</u>	<u>33,624,409</u>	<u>13,952,613</u>	<u>2,237,661</u>	<u>62,479,590</u>
DEPRECIATION AND AMORTISATION						
At 1st April, 2002	359,572	4,410,177	32,324,814	9,298,559	1,459,212	47,852,334
Provided for the year	179,786	772,742	4,803,487	1,270,071	539,840	7,565,926
Eliminated on disposals	–	–	(19,067,464)	(389,730)	–	(19,457,194)
	<u>539,358</u>	<u>5,182,919</u>	<u>18,060,837</u>	<u>10,178,900</u>	<u>1,999,052</u>	<u>35,961,066</u>
At 31st March, 2003	539,358	5,182,919	18,060,837	10,178,900	1,999,052	35,961,066
NET BOOK VALUES						
At 31st March, 2003	<u>5,220,642</u>	<u>1,721,988</u>	<u>15,563,572</u>	<u>3,773,713</u>	<u>238,609</u>	<u>26,518,524</u>
At 31st March, 2002	<u>5,400,428</u>	<u>2,494,730</u>	<u>23,831,091</u>	<u>5,278,203</u>	<u>778,449</u>	<u>37,782,901</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

The leasehold land and buildings were revalued at 29th February, 2000 by Chesterton Petty Limited, an independent international property consultants, on an open market value basis, at an amount of HK\$5,760,000.

At 31st March, 2003, the directors have considered the carrying amount of the Group's leasehold land and buildings carried at revalued amounts and have estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current year.

At 31st March, 2003, had the Group's leasehold land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value would have been approximately HK\$6,758,000 (2002: HK\$6,937,000).

The net book value of plant and machinery includes an amount of approximately HK\$9,307,000 (2002: HK\$10,734,000) in respect of assets held under finance leases.

12. DEVELOPMENT COSTS

	Development cost HK\$
THE GROUP	
COST	
Addition during the year and at March 31, 2003	2,658,814
AMORTISATION	
Provided for the year and at March 31, 2003	<u>457,197</u>
NET BOOK VALUE	
At March 31, 2003	<u><u>2,201,617</u></u>

The amount represents direct development cost incurred for the development of "VCT 維思達" products, which is amortised on a straight-line basis over three years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

13. UNLISTED INVESTMENT

	THE GROUP	
	2003	2002
	HK\$	HK\$
Unlisted investment, at cost	911,407	911,407
Less: Impairment loss recognised	(300,000)	–
	<u>611,407</u>	<u>911,407</u>

The investment represents a golf club debenture. The directors reviewed the carrying value of the unlisted investment of the Group at the balance sheet date and identified that the recoverable amount of the unlisted investment to be lower than the carrying amount with reference to the market value of the golf club debenture. Accordingly, an impairment loss of HK\$300,000 was recognised in the income statement during the year.

14. INVESTMENT IN A SUBSIDIARY

	THE COMPANY	
	2003	2002
	HK\$	HK\$
Unlisted shares, at cost	60,138,804	60,138,804
Less: Impairment loss recognised	(52,800,000)	(24,800,000)
	<u>7,338,804</u>	<u>35,338,804</u>

The carrying value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group under a group reorganisation on 29th April, 2001 (the "Group Reorganisation"), net of accumulated impairment loss recognised in respect of the subsidiary amounting to HK\$52,800,000 (2002: HK\$24,800,000).

The directors have reviewed the carrying amounts of assets of the subsidiaries. In light of the current market conditions and the existing operating plan, the directors have identified the recoverable amount of the investment cost to be lower than its carrying value. Accordingly, an additional impairment loss of HK\$28,000,000 has been recognised in the income statement for the year ended 31st March, 2003.

Details of the Company's subsidiaries at 31st March, 2003 are set out in note 29.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

15. INVENTORIES

	THE GROUP	
	2003 HK\$	2002 HK\$
Raw materials	13,625,854	23,169,313
Work in progress	1,671,535	895,066
Finished goods	11,996,613	30,978,215
	<u>27,294,002</u>	<u>55,042,594</u>

Included above are raw materials of approximately HK\$13,626,000 (2002: HK\$1,616,000) and finished goods of approximately HK\$11,997,000 (2002: HK\$21,705,000) which are carried at net realisable value.

16. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit period of 30 days to its trade customers. Included in trade and other receivables are trade receivables of HK\$4,364,120 (2002: HK\$4,944,908), the aged analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2003 HK\$	2002 HK\$
Up to 30 days	4,183,513	4,903,642
31 – 60 days	9,401	4,760
61 – 90 days	12,148	22,776
More than 90 days	159,058	13,730
	<u>4,364,120</u>	<u>4,944,908</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

17. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$41,247,133 (2002: HK\$70,554,440), the aged analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2003 HK\$	2002 HK\$
Up to 30 days	28,731,644	68,776,828
31 – 60 days	10,299,795	1,574,134
61 – 90 days	731,999	21,172
More than 90 days	1,483,695	182,306
	<u>41,247,133</u>	<u>70,554,440</u>

18. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
The maturity of obligations under finance leases is as follows:				
Within one year	31,992	3,511,947	31,788	3,435,339
In the second to fifth year inclusive	–	31,992	–	31,788
	<u>31,992</u>	<u>3,543,939</u>	<u>31,788</u>	<u>3,467,127</u>
Less: Future finance charges	(204)	(76,812)		
Present value of lease obligations	<u>31,788</u>	<u>3,467,127</u>		
Less: Amount due from settlement within one year (shown under current liabilities)			(31,788)	(3,435,339)
			<u>–</u>	<u>31,788</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

18. OBLIGATIONS UNDER FINANCE LEASES (Continued)

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is 3 years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

19. SECURED SHORT-TERM BANK BORROWINGS

	THE GROUP	
	2003 HK\$	2002 HK\$
Secured short-term bank borrowings comprise:		
Trust receipt loans	16,913,381	1,520,879
Bank overdraft	—	2,075,335
	<u>16,913,381</u>	<u>3,596,214</u>

20. DEFERRED TAXATION

	THE GROUP	
	2003 HK\$	2002 HK\$
Balance at beginning of the year	—	933,000
Credit for the year	—	(933,000)
	<u>—</u>	<u>—</u>
Balance at end of the year	<u>—</u>	<u>—</u>

Neither the Group nor the Company had any other significant unprovided deferred taxation in respect of timing differences for the year or at the balance sheet dates.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

21. SHARE CAPITAL

	Number of shares	Value HK\$
Authorised:		
Ordinary shares of HK\$0.10 each		
At 1st April, 2001, 31st March, 2002 and at 31st March, 2003	<u>1,000,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1st April, 2001 and at 31st March, 2002	188,000,000	18,800,000
Exercise of share options	<u>145,000</u>	<u>14,500</u>
At 31st March, 2003	<u>188,145,000</u>	<u>18,814,500</u>

During the year, 145,000 share options were exercised resulting in issue of 145,000 ordinary shares of HK\$0.10 each at an exercise price of HK\$0.24 per share. These issued shares ranked pari passu with the existing shares in all respects.

22. RESERVES

	Share premium HK\$	Contributed surplus HK\$	Accumulated losses HK\$	Total HK\$
THE COMPANY				
At 1st April, 2001	22,998,827	59,938,804	(26,707,847)	56,229,784
Profit for the year	–	–	516,932	516,932
Dividends (Note 9)	<u>–</u>	<u>(18,800,000)</u>	<u>–</u>	<u>(18,800,000)</u>
At 31st March, 2002	22,998,827	41,138,804	(26,190,915)	37,946,716
Share issued at premium	20,300	–	–	20,300
Loss for the year	–	–	(28,621,940)	(28,621,940)
Dividends (Note 9)	<u>–</u>	<u>(1,881,150)</u>	<u>–</u>	<u>(1,881,150)</u>
At 31st March, 2003	<u>23,019,127</u>	<u>39,257,654</u>	<u>(54,812,855)</u>	<u>7,463,926</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

22. RESERVES (Continued)

The contributed surplus of the Company represents the difference between the book value of the underlying net assets of the subsidiaries acquired by the Company under the Group Reorganisation and the nominal value of the Company's shares issued for the acquisition. In addition to accumulated profits, under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company had no distributable profits (2002: HK\$14,947,889) as at 31st March, 2003, which comprised contributed surplus and accumulated losses in aggregate.

23. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2003	2002
	HK\$	HK\$
Minimum lease payments paid under operating leases for premises recognised in the income statement for the year	<u>2,213,912</u>	<u>2,399,414</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases for premises which fall due as follows:

	THE GROUP	
	2003	2002
	HK\$	HK\$
Within one year	1,810,161	2,267,152
In the second to fifth year inclusive	5,954,512	6,740,916
Over five years	—	1,567,284
	<u>7,764,673</u>	<u>10,575,352</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

23. OPERATING LEASE ARRANGEMENTS (Continued)

The Group as lessee (Continued)

Operating lease payments represent rentals payable by the Group for certain of its warehouses and factory premises. Leases are negotiated for an average term of five years and rentals are fixed during the lease period.

The Group as lessor

Property rental income earned during the year was HK\$318,949 (2002: Nil). The Group has sub-leased its factory premises and committed tenants for next three and a half years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2003	2002
	HK\$	HK\$
Within one year	921,892	–
In the second to fifth year inclusive	1,867,030	–
	<u>2,788,922</u>	<u>–</u>

The Company had no significant operating lease commitments as lessee or lessor as at the balance sheet date.

24. BANKING FACILITIES

At the balance sheet date, the Group's banking facilities were secured by the following:

1. bank deposits of the Group of HK\$5,500,000 (2002: HK\$5,500,000);
2. the Group's leasehold land and buildings with a net book value of approximately HK\$3,200,000 (2002: HK\$3,290,000);
3. cross-guarantees between subsidiaries.

As at 31st March, 2003 and 2002, the Company provided an unlimited corporate guarantee in respect of credit facilities granted to a subsidiary.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

25. OTHER COMMITMENTS

At the balance sheet date, the Group had annual commitments payable in the following year as follows:

	2003 HK\$	2002 HK\$
Contracted for the contribution of registered capital to PRC subsidiaries	19,929,000	19,929,000
Contracted for the payment of a management fee to a party in the PRC under a management agreement which expires over five years	47,000	47,000
	<u>19,976,000</u>	<u>19,976,000</u>

26. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 29th April, 2000 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 28th April, 2010. Under the Scheme, the Board of Directors of the Company may grant options to full-time employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At 31st March, 2003, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 13,360,000, representing approximately 7% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time excluding shares issued upon exercise of options granted pursuant to the Scheme. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 25% of the number of shares issued and issuable under the Scheme.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per each grant of option(s). Options may generally be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Board of Directors may at their discretion determine the specific exercise period and exercise price. The exercise price will not be less than the higher of the 80% of average closing price of the Company's shares for the five business days immediately preceding the date of grant, and the nominal value of the Company's shares.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

26. SHARE OPTION SCHEME (Continued)

Movements in the share options granted to the directors and the employees of the Company during the year are as follows:

	Option type	Exercise price HK\$	Notes	Number of share options outstanding at beginning of the year	Granted during the year	Exercised during the year	Number of Lapsed/ cancelled during the year	Number of share options outstanding at end of the year
2002								
Directors	5th September, 2000	0.770	(1)	600,000	-	-	-	600,000
	21st May, 2001	0.260	(2)	-	10,000,000	-	-	10,000,000
				<u>600,000</u>	<u>10,000,000</u>	<u>-</u>	<u>-</u>	<u>10,600,000</u>
Former director	15th July, 2000	0.568	(3)	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>(1,000,000)</u>	<u>-</u>
Employees	15th July, 2000	0.568	(3)	5,675,000	-	-	(2,625,000)	3,050,000
	29th January, 2001	0.240	(4)	2,260,000	-	-	(690,000)	1,570,000
				<u>7,935,000</u>	<u>-</u>	<u>-</u>	<u>(3,315,000)</u>	<u>4,620,000</u>
			<u>9,535,000</u>	<u>10,000,000</u>	<u>-</u>	<u>(4,315,000)</u>	<u>15,220,000</u>	
2003								
Directors	5th September, 2000	0.770	(1)	600,000	-	-	-	600,000
	21st May, 2001	0.260	(2)	10,000,000	-	-	(600,000)	9,400,000
				<u>10,600,000</u>	<u>-</u>	<u>-</u>	<u>(600,000)</u>	<u>10,000,000</u>
Employees	15th July, 2000	0.568	(3)	3,050,000	-	-	(850,000)	2,200,000
	29th January, 2001	0.240	(4)&(5)	1,570,000	-	(145,000)	(265,000)	1,160,000
				<u>4,620,000</u>	<u>-</u>	<u>(145,000)</u>	<u>(1,115,000)</u>	<u>3,360,000</u>
			<u>15,220,000</u>	<u>-</u>	<u>(145,000)</u>	<u>(1,715,000)</u>	<u>13,360,000</u>	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

26. SHARE OPTION SCHEME (Continued)

Notes:

- (1) The exercise period is divided into two trenches with 50% exercisable during the period from 26th August, 2001 to 25th August, 2005 and the other 50% exercisable during the period from 26th August, 2002 to 25th August, 2005.
- (2) The exercise period is from 7th May, 2002 to 6th May, 2006.
- (3) The exercise period is divided into three trenches with 40% exercisable during the period from 15th January, 2001 to 14th July, 2005, 30% exercisable during the period from 15th July, 2001 to 14th July, 2005 and 30% exercisable during the period from 15th January, 2002 to 14th July, 2005.
- (4) The exercise period is divided into two trenches with 50% exercisable during the period from 29th January, 2002 to 28th January, 2006 and the other 50% exercisable during the period 29th July, 2002 to 28th January, 2006.
- (5) The closing price of the Company's shares immediately before 24th May, 2002 and 6th November, 2002, the date on which the options were exercised, was HK\$0.49 and HK\$0.28 respectively.

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise price
15th July, 2000	15th July, 2000	15th July, 2000 to 14th July, 2005	15th January, 2001 to 14th July, 2005	HK\$0.568
5th September, 2000	5th September, 2000	5th September, 2000 to 25th August, 2005	26th August, 2001 to 25th August, 2005	HK\$0.770
29th January, 2001	29th January, 2001	29th January, 2001 to 28th January, 2006	29th January, 2002 to 28th January, 2006	HK\$0.240
21st May, 2001	21st May, 2001	21st May, 2001 to 6th May, 2006	7th May, 2002 to 6th May, 2006	HK\$0.260

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

26. SHARE OPTION SCHEME (Continued)

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

27. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme ("MPF") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

The MPF is available to all employees aged 18 to 64 and with at least 60 days of service under the employment of the Group in Hong Kong. Contributions are made by the Group at 5% based on the staff's relevant income. The maximum relevant income from contribution purpose is HK\$20,000 per month. Staff members are entitled to 100% of the Group's contributions together with accrued returns irrespective of their length of service with the Group, but the benefits are required by law to be preserved until the retirement age of 65.

The Group's cost for the MPF charged to income statement for the year ended 31st March, 2003 amounted to approximately HK\$267,000 (2002: HK\$566,000).

The employees in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government.

The Company is required to make contributions to the defined contribution pension scheme in the PRC based on 8% of the monthly salaries of its current employees to fund the benefits. The PRC government is responsible for the pension liability to these retired staff. The pension scheme contributions made by the Company for the year is approximately HK\$395,000 (2002: HK\$385,000).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

28. POST BALANCE SHEET EVENTS

Pursuant to a placing agreement dated 3rd June, 2003, an aggregate of 16,000,000 ordinary shares of HK\$0.1 each in the Company were placed by Tactful Finance Limited, a controlling shareholder of the Company, to independent investors at the price of HK\$0.238 per share. On completion of placing, Tactful Finance Limited subscribed for an aggregate of 16,000,000 new shares in the Company at the price of HK\$0.238 each so as to raise further working capital for the Company. These shares ranked pari passu with the then existing shares in all respects. The net proceeds from the subscription of approximately HK\$3.5 million will be used by the Group to enhance the brandname "VCT 維思達" in the PRC which is used in the development, design and manufacturing of network products of the Group.

29. SUBSIDIARIES

Details of the Company's subsidiaries at 31st March, 2003 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and paid up share capital/ registered capital	Principal activities
Barron Limited	Western Samoa/ Hong Kong	Ordinary US\$20,000	Inactive
Dailyview Limited	Hong Kong	Ordinary HK\$10,000	Property holding
Frontline Group Limited	British Virgin Islands/ Hong Kong	Ordinary US\$10,000	Investment holding
Gladons Limited	Western Samoa/ Hong Kong	Ordinary US\$20,000	Inactive
Goldenet International Limited	British Virgin Islands/ Hong Kong	Ordinary US\$50,000	Investment holding

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

29. SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and paid up share capital/ registered capital	Principal activities
華電資訊科技 (深圳)有限公司 Huadian Information Technologies (Shenzhen) Company Limited ("Huadian")	PRC	Registered capital US\$2,500,000 (Note (i))	Inactive
Macrocal SDN BHD	Malaysia/ Hong Kong	Ordinary RM\$2	Inactive
Netous Technologies Limited	Hong Kong	Ordinary HK\$10,000	Manufacturing, marketing research and development of networking products
Peair Design Limited	Hong Kong	Ordinary HK\$10,000	Inactive
深圳華基粵海科技 有限公司 Shenzhen Huaji Yuehai Technologies Company Limited ("Shenzhen Huaji") (Note (ii))	PRC	Registered capital US\$5,000,000 (Note (iii))	Manufacturing, marketing and research and development of computer motherboards and networking products
Treasureland Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US\$10,000	Investment holding

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

29. SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and paid up share capital/ registered capital	Principal activities
Vida Design Limited	Hong Kong	Ordinary HK\$20,000	Marketing, development and supply of computer motherboards and related components
Zida Industrial Limited	Hong Kong	Ordinary HK\$10,000	Manufacture of computer motherboards and system
Zida Information Technologies Limited	Hong Kong	Ordinary HK\$10,000	Marketing, development and supply of computer motherboards and related components
Zida International Holding Limited	British Virgin Islands/ Hong Kong	Ordinary US\$12,500	Investment holding
Zida Manufacturing Holding Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	Investment holding
Zida Technologies Holding Limited	Hong Kong	Ordinary HK\$10,000	Investment holding
Zida Technologies Limited	Hong Kong	Ordinary HK\$2,000,000	Manufacture, marketing and research and development on computer motherboards and related components and network products

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2003

29. SUBSIDIARIES (Continued)

Notes:

- (i) As at 31st March, 2003, the registered capital was paid up to the extent of US\$411,700 (2002: US\$411,700).
- (ii) Shenzhen Huaji was established as a co-operative joint venture enterprise for a term of 30 years commencing from 16th July, 1999. Under the relevant joint venture agreement, the Group is responsible for managing the operations of this company. The Group accounts for this enterprise as a wholly-owned subsidiary since the Group is accountable for all of the results of the operations and is also responsible for all its assets and liabilities after the payment of a fixed amount to the PRC party each year during the term of the joint venture.
- (iii) As at 31st March, 2003, the registered capital was paid up to the extent of US\$4,536,707 (2002: US\$4,536,707).

The above subsidiaries are owned indirectly by the Company, with the exception of Zida International Holding Limited. All subsidiaries are wholly-owned by the Company.

Huadian is a wholly-owned foreign investment enterprise while Shenzhen Huaji is a sino-foreign cooperative enterprise.

None of the subsidiaries had issued any debt securities at the end of the year.