Notes to Financial Statements

31 March 2003

1. Corporate Information

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

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consisted of the manufacturing, trading and distribution of car audio equipment and other merchandise, the trading of securities, and the provision of Internet and Internet-related services. During the year, the Group disposed of and discontinued its manufacturing, trading and distribution of garments, shoes and leather goods business. There were no other changes in the nature of the Group's principal activities during the year.

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

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 33: "Discontinuing operations"
- SSAP 34: "Employee benefits"

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

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 21 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserve note.

Notes to Financial Statements

31 March 2003

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

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes and the prior year adjustments that have resulted from them are included in the accounting policy for "Cash and cash equivalents" in note 3 and in note 31 to the financial statements.

SSAP 33 replaces the existing disclosure requirements for discontinuing operations, which were previously included in SSAP 2. The SSAP defines a discontinuing operation and prescribes when an enterprise should commence including discontinuing operations disclosures in its financial statements and the disclosures required. The principal impact of the SSAP is that more extensive disclosures concerning the Group's discontinuing operations are now included in the consolidated profit and loss account, consolidated cash flow statement and note 6 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits as at the balance sheet date. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 29 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), disclosures previously included in the Report of the Directors, which are now included in the notes to the financial statements as a consequence of the SSAP.

Notes to Financial Statements

31 March 2003

3. Summary of Significant Accounting Policies

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2003. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

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

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Notes to Financial Statements

31 March 2003

3. Summary of Significant Accounting Policies (continued)

Goodwill

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

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

SSAP 30 "Business combinations" was adopted as at 1 April 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 April 2001 is treated according to the new accounting policy above.

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

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

Notes to Financial Statements

31 March 2003

3. Summary of Significant Accounting Policies (continued)

Fixed assets and depreciation

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

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

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

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

Construction in progress

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

Notes to Financial Statements

31 March 2003

3. Summary of Significant Accounting Policies (continued)

Impairment of assets

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

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

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

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

Leased assets

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

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

Notes to Financial Statements

31 March 2003

3. Summary of Significant Accounting Policies (continued)

Leased assets (continued)

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

Investment securities

Investment securities are investments in listed and unlisted securities, intended to be held for a long term purpose, and are stated at cost less any provisions for impairments in values on an individual basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Convertible notes

Convertible notes are intended to be held for a long term purpose, and are stated at cost less any impairment losses.

Other securities

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

Inventories

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

Notes to Financial Statements

31 March 2003

3. Summary of Significant Accounting Policies (continued)

Contracts for services

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

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

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

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

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

Provisions

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

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

Deferred tax

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

Notes to Financial Statements

31 March 2003

3. Summary of Significant Accounting Policies (continued)

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 has had no material effect on the amounts of the previously-reported cash flows of the prior year.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Notes to Financial Statements

31 March 2003

3. Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Retirement benefits scheme

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

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

Notes to Financial Statements

31 March 2003

3. Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme 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 recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of 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 are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, based on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" above;

(c) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and

(d) from the trading of listed investments, on the transaction dates.

Notes to Financial Statements

31 March 2003

3. Summary of Significant Accounting Policies (continued)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans, further details of which are included in note 31(a) to the financial statements.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Notes to Financial Statements

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4. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

Continuing operations

(a) the car audio segment manufactures and trades car audio equipment;

(b) the Internet segment comprises the provision of Internet and Internet-related services; and

(c) the corporate and other segment comprises the trading of other merchandise and corporate income and expense items.

Discontinued operations

(d) the garment segment manufactured and traded garments, shoes, leather goods and other merchandise. Further details of the discontinued operations under the garment segment are set out in note 6 to the financial statements.

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

There are no intersegment sales and transfers between the business segments.

Notes to Financial Statements

31 March 2003

4. Segment Information (continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group	Continuing operations						Discontinued operations			
	Car audio		Internet		Corporate and other		Garment		Consolidated	
	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*
Segment revenue:										
Sales to external customers	**12,596**	24,537	**-**	4,201	**-**	–	**84,833**	104,927	**97,429**	133,665
Other revenue	**17**	–	**-**	–	**6**	7,520	**85**	2,068	**108**	9,588
Total	**12,613**	24,537	**-**	4,201	**6**	7,520	**84,918**	106,995	**97,537**	143,253
Segment results	**(19,192)**	(5,970)	**(8,984)**	(49,286)	**(13,791)**	(18,287)	**4,111**	9,955	**(37,856)**	(63,588)
Gain on disposal of subsidiaries relating to discontinued operations									**5,943**	–
Interest income, gains and unallocated revenue									**4,864**	21,667
Unallocated expenses									**(30,689)**	(809)
Loss from operating activities									**(57,738)**	(42,730)
Finance costs									**(4,270)**	(5,566)
Loss before tax									**(62,008)**	(48,296)
Tax									**-**	–
Loss before minority interests									**(62,008)**	(48,296)
Minority interests									**110**	31
Net loss from ordinary activities to shareholders									**(61,898)**	(48,265)

Notes to Financial Statements

31 March 2003

4. Segment Information (continued)

(a) Business segments (continued)

Group	Continuing operations						Discontinued operations			
	Car audio		Internet		Corporate and other		Garment		Consolidated	
	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*
Segment assets	**17,226**	60,865	**5**	8,650	**5,336**	3,098	**-**	140,127	**22,567**	212,740
Unallocated assets									**203,132**	195,321
Total assets									**225,699**	408,061
Segment liabilities	**7,483**	6,713	**701**	501	**1,652**	1,805	**-**	41,792	**9,836**	50,811
Unallocated liabilities									**8,426**	93,570
Total liabilities									**18,262**	144,381
Other segment information:										
Depreciation	**4,544**	4,499	**33**	78	**302**	340	**2,990**	3,557	**7,869**	8,474
Unallocated depreciation									**3**	–
									7,872	8,474
Impairment losses recognised in the profit and loss account	**5,000**	–	**-**	35,039	**210**	–	**-**	–	**5,210**	35,039
Other non-cash expenses	**2,138**	–	**8,438**	12,000	**746**	34	**3,819**	1,636	**15,141**	13,670
Unallocated other non-cash expenses									**28,762**	–
									43,903	13,670
Capital expenditure	**852**	699	**-**	–	**138**	43	**4,212**	1,259	**5,202**	2,001
Unallocated capital expenditure									**-**	16
									5,202	2,017

Notes to Financial Statements

31 March 2003

4. Segment Information (continued)

(b) Geographical segments

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

Group	People's Republic of China (including Hong Kong)		United States of America and Europe		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**84,833**	109,128	**12,596**	24,537	**97,429**	133,665
Other revenue	**91**	9,588	**17**	–	**108**	9,588
	84,924	118,716	**12,613**	24,537	**97,537**	143,253
Other segment information:						
Segment assets	**5,341**	151,875	**17,226**	60,865	**22,567**	212,740
Unallocated assets					**203,132**	195,321
Total assets					**225,699**	408,061
Capital expenditure	**4,350**	1,302	**852**	699	**5,202**	2,001
Unallocated capital expenditure					**–**	16
Total capital expenditure					**5,202**	2,017

Notes to Financial Statements

31 March 2003

5. Turnover, Other Revenue and Gain

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

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

	2003	2002
	HK$'000	*HK$'000*
		(Restated)
Turnover		
Sale of goods:		
Continuing operations	**12,596**	28,738
Discontinued operations	**84,833**	104,927
	97,429	133,665
Other revenue		
Interest income	**3,224**	4,916
Rendering of services	**–**	7,500
Other income	**1,716**	2,450
	4,940	14,866
Gain		
Gain on disposal of fixed assets	**32**	–
	4,972	14,866

Notes to Financial Statements

31 March 2003

6. Discontinued Operations

In light of sluggish sales, the ageing of the trademarks owned by the Group, significant downward pricing pressure, the high incidence of bad debts and stock obsolescence and the highly competitive business environment of the garment and shoes retail markets, the directors decided to restructure the Group's existing business operations by disposing of the Group's entire garment, shoes and leather goods business (the "Discontinuance").

On 16 September 2002, the Group entered into a sale and purchase agreement with an independent third party for the disposal of the entire issued capital in Chaifa Holdings (B.V.I.) Limited, an investment holding company, which holds the entire garment, shoes and leather goods business of the Group, for a consideration of HK$17,000,000 in cash (the "Disposal"). The Disposal effectively resulted in the completion of the Discontinuance on 14 March 2003. Further details of the Disposal are set out in note 31(b) and in the Company's published announcement dated 17 September 2002.

The garment, shoes and leather goods business is reported under the "Garment" business segment in note 4.

Further details of the discontinued operations are set out in note 31(b) to the financial statements.

Notes to Financial Statements

31 March 2003

6. Discontinued Operations (continued)

The turnover, other revenue, expenses and results attributable to the discontinued operations for the two years ended 31 March 2003 were as follows:

	2003 HK$'000	2002 HK$'000
TURNOVER	**84,833**	104,927
Cost of sales	**(52,802)**	(71,014)
Gross profit	**32,031**	33,913
Other revenue	**190**	2,330
Selling and distribution costs	**(8,026)**	(7,698)
Administrative expenses	**(15,682)**	(15,951)
Other operating expenses	**(4,297)**	(2,377)
Gain on disposal of subsidiaries relating to discontinued operations	**5,943**	–
PROFIT FROM OPERATING ACTIVITIES	**10,159**	10,217
Finance costs	**(3,918)**	(5,347)
PROFIT BEFORE TAX	**6,241**	4,870
Tax	**–**	–
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**6,241**	4,870

The carrying amounts of the total assets and liabilities relating to the discontinued operations at 31 March were as follows:

	2003 HK$'000	2002 HK$'000
Total assets	**–**	143,211
Total liabilities	**–**	(443,794)
	–	(300,583)

Notes to Financial Statements

31 March 2003

7. Loss from Operating Activities

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

	Notes	2003 HK$'000	2002 HK$'000
Cost of inventories sold *		**58,809**	90,235
Depreciation	14	**7,872**	8,474
Write off of fixed assets	14	**195**	21
Loss on disposal of fixed assets		**–**	60
Impairment of goodwill **	16	**5,210**	35,039
Provision for inventories		**121**	–
Provision for bad and doubtful debts:			
Trade receivables		**3,321**	1,589
Other receivables		**3,368**	–
Staff costs (including directors' remuneration – note 9)			
Wages and salaries		**24,419**	31,013
Retirement benefits scheme contributions ***		**618**	746
		25,037	31,759
Minimum lease payments under operating leases in respect of land and buildings		**2,584**	3,228
Auditors' remuneration		**980**	950
Exchange losses, net		**137**	252

* The cost of sales includes approximately HK$11,595,000 (2002: HK$14,950,000) relating to staff costs, depreciation and provision for inventories which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

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

*** At 31 March 2003, the Group had no forfeited contributions available to reduce its contributions to the retirement benefits scheme in future years (2002: Nil).

Notes to Financial Statements

31 March 2003

8. Finance Costs

	Group	
	2003	2002
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**4,256**	5,525
Interest on finance leases	**14**	41
	4,270	5,566

9. Directors' Remuneration

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Fees:		
Executive directors	**2,160**	1,620
Non-executive directors	**300**	538
	2,460	2,158
Other emoluments:		
Basic salaries, housing, allowances and benefits in kind for executive directors	**3,400**	4,665
Retirement benefits scheme contributions to executive directors	**48**	84
	3,448	4,749
	5,908	6,907

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9. Directors' remuneration (continued)

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

	Number of directors	
	2003	2002
Nil – HK$1,000,000	**6**	7
HK$1,500,001 – HK$2,000,000	**1**	1
	7	8

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

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

10. Five Highest Paid Employees

The five highest paid employees during the year included four (2002: four) directors, details of whose remuneration are set out in note 9 above. The details of the remuneration of the remaining one (2002: one) non-director, highest paid employee are as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Basic salaries, housing, allowances and benefits in kind	**650**	650
Retirement benefits scheme contributions	**13**	13
	663	663

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

11. Tax

Hong Kong profits tax has not been provided as the Group did not derive any assessable profits arising in Hong Kong during the year (2002: Nil).

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11. Tax (continued)

No provision for Mainland China corporate income tax has been made since no assessable profits have been generated by the subsidiaries operating in Mainland China. The other overseas subsidiaries did not generate any profits subject to foreign taxes during the year (2002: Nil).

Deferred tax has not been provided as there were no significant timing differences at the balance sheet date (2002: Nil).

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

	Group		**Company**	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accelerated depreciation allowances	**149**	(1,475)	**(86)**	(67)
Tax losses carried forward	**(28,423)**	(43,114)	**(5,274)**	(3,960)
At 31 March	**(28,274)**	(44,589)	**(5,360)**	(4,027)

12. Net Loss from Ordinary Activities Attributable to Shareholders

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2003 dealt with in the financial statements of the Company, was HK$56,133,000 (2002: HK$13,226,000).

13. Loss Per Share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$61,898,000 (2002: HK$48,265,000), and the 8,619,360,478 (2002: weighted average 7,788,287,273) ordinary shares in issue during the year.

The diluted loss per share for the year ended 31 March 2003 has not been shown as the exercise prices of the outstanding share options of the Company was greater than the average market price of the Company's shares during the year, and therefore the share options had no dilutive effect on the basic loss per share for that year.

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

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14. Fixed Assets

Group

	Leasehold land and buildings HK$'000	Land use rights HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Motor vehicles, furniture, fixtures and equipment HK$'000	Total HK$'000
Cost:						
At beginning of year	32,460	6,803	1,951	21,238	22,828	85,280
Additions	–	–	84	43	1,575	1,702
Disposals	–	–	–	(17)	(471)	(488)
Write off	–	–	(41)	–	(287)	(328)
Disposal of subsidiaries *(note 31(b))*	(19,222)	(5,982)	(1,567)	(7,578)	(18,627)	(52,976)
At 31 March 2003	13,238	821	427	13,686	5,018	33,190
Accumulated depreciation:						
At beginning of year	7,168	1,650	1,594	11,731	18,916	41,059
Provided during the year	4,272	153	241	2,178	1,028	7,872
Disposals	–	–	–	(15)	(455)	(470)
Write off	–	–	(23)	–	(110)	(133)
Disposal of subsidiaries *(note 31(b))*	(4,083)	(982)	(1,391)	(5,259)	(16,126)	(27,841)
At 31 March 2003	7,357	821	421	8,635	3,253	20,487
Net book value:						
At 31 March 2003	5,881	–	6	5,051	1,765	12,703
At 31 March 2002	25,292	5,153	357	9,507	3,912	44,221

Notes to Financial Statements

31 March 2003

14. Fixed Assets (continued)

Company

	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Total *HK$'000*
Cost:			
At beginning of year and at 31 March 2003	299	415	714
Accumulated depreciation:			
At beginning of year	207	221	428
Provided during the year	92	83	175
At 31 March 2003	299	304	603
Net book value:			
At 31 March 2003	–	111	111
At 31 March 2002	92	194	286

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

Pursuant to a sale and purchase agreement (the "S&P Agreement") entered into between the Group and an independent third party in 1991, the Group acquired certain land use rights (the "Land") in Mainland China which had a fully-depreciated carrying amount of nil at 31 March 2003. Pursuant to the S&P Agreement, the Group is required to pay an annual fee of HK$57,000 in respect of the Land up to 2006 with an annual increment of 5% commencing from 1993. The annual fee paid by the Group during the year amounted to HK$92,000 (2002: HK$88,000).

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15. Construction in Progress

	Group	
	2003	2002
	HK$'000	*HK$'000*
At beginning of year	**1,202**	841
Additions during the year	**3,500**	361
Disposal of subsidiaries *(note 31(b))*	**(4,702)**	–
At 31 March	**–**	1,202

16. Goodwill

The amounts of the goodwill remaining in the Group's consolidated reserves as at 31 March 2003, arising from the acquisition of subsidiaries prior to 1 April 2001, are as follows:

Group

	Goodwill eliminated against consolidated reserves
	HK$'000
Cost:	
At 1 April 2002 and at 31 March 2003	44,662
Accumulated impairment:	
At 1 April 2002	35,039
Impairment provided during the year	5,210
At 31 March 2003	40,249
Net amount:	
At 31 March 2003	4,413
At 31 March 2002	9,623

Notes to Financial Statements

31 March 2003

16. Goodwill (continued)

The Group has recognised an impairment of part of the HK$9,413,000 goodwill previously eliminated against consolidated reserves, relating to the car audio segment, during the year. The impairment loss amounted to HK$5,000,000 relates to the goodwill arising from the acquisition of Sino Electronics Limited and its subsidiaries (note 18). The impairment losses are estimated by the directors based on the recoverable amounts of the goodwill. In the opinion of the directors, such impairment losses arose from the prevailing unfavourable economic environment in the United States of America and Europe, which are the principal markets of the Group's car audio equipment.

In addition, the Group has recognised an impairment of the entire goodwill previously eliminated against reserves, of HK$210,000 arising from the acquisition of Antech (Asia) Limited, during the year. In the opinion of the directors, such impairment losses arose from the prevailing unfavourable economic environment in the high-technology sector.

17. Investments in Securities

Investment securities

	Group	
	2003	2002
	HK$'000	*HK$'000*
Unlisted equity investments outside Hong Kong, at cost	**90,000**	90,160
Provisions for impairments in values	**(90,000)**	(82,000)
	–	8,160

Other securities

	Group	
	2003	2002
	HK$'000	*HK$'000*
Unlisted debt investments in Hong Kong, at fair value	**26,200**	–
Listed equity investments in Hong Kong, at market value	**136,549**	105,565
Unlisted investment fund	**3,857**	6,315
	166,606	111,880

Notes to Financial Statements

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17. Investments in Securities (continued)

The market value of the Group's listed other securities at the date of approval of these financial statements was approximately HK$188,536,000 (2002: HK$99,599,000).

At 31 March 2003, the unlisted investment fund of HK$3,857,000 (2002: HK$6,315,000) was pledged to secure the banking facilities granted to the Group (note 25).

18. Investments in Subsidiaries

	Company	
	2003	2002
	HK$'000	*HK$'000*
Unlisted shares, at cost	**–**	43,889
Less: Provision for impairment	**–**	(43,889)
	–	–
Due from subsidiaries	**497,416**	795,685
Less: Provision	**(269,874)**	(513,309)
	227,542	282,376
Portion classified as current assets	**(197,210)**	(247,409)
Non-current portion *(note)*	**30,332**	34,967

The amounts due from subsidiaries are unsecured and interest-free except for an amount of HK$369,000,000 as at 31 March 2002 which bore interest at the rate of 0.08% per annum.

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

Note:

The Company has undertaken not to demand repayment of this amount within a two-year period from 31 March 2003, and then only when the subsidiaries have sufficient working capital in excess of their respective normal requirements.

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18. Investments in Subsidiaries (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company 2003	2002	Principal activities
Directly held:					
Hoshing Limited	British Virgin Islands	Ordinary US$1	**100**	100	Investment holding
Chaifa Holdings (B.V.I.) Limited #	British Virgin Islands	Ordinary US$50,000	**–**	100	Investment holding
Indirectly held:					
Chaifa Investment Limited #	Hong Kong	Ordinary HK$2 Deferred* HK$1,000,000	**–**	100	Trading of garments and shoes
Chaifa Shoes Limited #	Hong Kong	Ordinary HK$10,000	**–**	100	Trading of garments and shoes
Shantou S.E.Z. Chaifa Industrial Company, Limited # +	Mainland China	HK$20,000,000	**–**	100	Manufacturing of garments
Sino Electronics Limited	British Virgin Islands/Hong Kong	Ordinary US$2	**100**	100	Investment holding
Chongqing Electronics Limited	Hong Kong	Ordinary HK$2	**100**	100	Trading of car audio equipment
Dongguan Chongqing Electrical Limited +	Mainland China	RMB13,675,000	**100**	100	Manufacturing of car audio equipment
Inter System Technology Limited	British Virgin Islands/Hong Kong	Ordinary US$2	**100**	100	Investment holding

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18. Investments in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company 2003	2002	Principal activities
Indirectly held (continued):					
Vestgo Investments Limited	British Virgin Islands/Hong Kong	Ordinary US$2	**100**	100	Investment holding
Win Tech Resources Limited	British Virgin Islands	Ordinary US$2	**100**	100	Investment holding
139 Enterprises Limited	Hong Kong	Ordinary US$2	**100**	100	Provision of administrative services
Chaifa Finance Limited	Hong Kong	Ordinary HK$2	**100**	100	Provision of finance services
Main Purpose Investments Limited	British Virgin Islands/Hong Kong	Ordinary US$1	**100**	100	Trading of securities

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

Subsidiaries disposed of during the year in connection with the disposal of the discontinued operations (note 6).

\+ Wholly-owned foreign enterprises.

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

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19. Convertible Notes

On 31 May 2001, the Group subscribed for convertible notes issued by Wonson International Holdings Limited ("Wonson Convertible Notes"), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and independent of the Group. The convertible notes bear interest at the rate of 7% per annum, are unsecured and mature on 2 July 2004. The convertible notes are convertible into approximately 642,857,000 ordinary shares of Wonson at an initial price of HK$0.028 per share and the conversion prices will be HK$0.031 and HK$0.034 per share for the period from the date immediately following the first anniversary from the date of issue of the convertible notes (the "Issue Date") to the second anniversary from the Issue Date and for the period from the date immediately following the second anniversary from the Issue Date to the third anniversary of the Issue Date, respectively. These conversion prices are subject to adjustment. Upon maturity, Wonson International Holdings Limited will repay the outstanding principal amount of the convertible notes, together with interest accrued, in cash to the Group. During the year, part of Wonson Convertible Notes with a principal amount of HK$7,500,000 was disposed of at cost.

On 5 September 2000, the Group subscribed for convertible notes issued by Yugang International Limited ("Yugang Convertible Notes"), a company listed on the Stock Exchange and independent of the Group. The convertible notes bore interest at the rate of 5% per annum, were unsecured and matured on 4 September 2002. The convertible notes were convertible into approximately 384,615,000 shares of Yugang at a conversion price of HK$0.13 per share (subject to adjustment) at any time from 5 September 2000 to 4 September 2002. The Yugang Convertible Notes were fully repaid by Yugang International Limited during the year.

	Group	
	2003	2002
	HK$'000	*HK$'000*
Wonson Convertible Notes	**10,500**	18,000
Yugang Convertible Notes	**–**	50,000
	10,500	68,000
Portion classified as current assets	**–**	(50,000)
Non-current portion	**10,500**	18,000

Notes to Financial Statements

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20. Inventories

	Group	
	2003	2002
	HK$'000	*HK$'000*
Raw materials	**1,563**	5,330
Work in progress	**1,222**	7,041
Finished goods	**809**	28,424
	3,594	40,795

The carrying amount of inventories carried at net realisable value included in the above balance was HK$1,345,000 (2002: Nil) as at 31 March 2003.

21. Trade Receivables

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

	Group	
	2003	2002
	HK$'000	*HK$'000*
0 – 120 days	**581**	35,122
121 – 210 days	**–**	21,705
211 – 270 days	**–**	9,179
	581	66,006

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

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22. Cash and Cash Equivalents and Pledged Deposits

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**1,731**	4,399	**73**	799
Time deposits	**25,953**	57,480	**3,002**	–
	27,684	61,879	**3,075**	799
Less: Pledged time deposits for bank overdraft facilities *(note 25)*	**(6,493)**	(13,082)	**–**	–
Cash and cash equivalents	**21,191**	48,797	**3,075**	799

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$30,000 (2002: HK$1,108,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

23. Trade and Bills Payables

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

	Group	
	2003	2002
	HK$'000	*HK$'000*
0 – 120 days	**2,547**	22,665
121 – 210 days	**197**	4,355
Over 210 days	**6**	7,246
	2,750	34,266

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24. Interest-bearing Bank and Other Borrowings

		Group	
		2003	2002
	Notes	***HK$'000***	*HK$'000*
Bank overdrafts – secured	*25*	**7,820**	6,541
Bank loans:	*25*		
Trust receipt loans – secured		**–**	29,582
Other bank loans – secured		**–**	11,224
Other loan – secured	*26*	**–**	45,501
Finance lease payables	*27*	**–**	116
		7,820	92,964

All the interest-bearing bank and other borrowings of the Group are repayable within one year or on demand.

25. Pledge of Assets

As at 31 March 2003, the Group's banking facilities were secured by the following:

(a) Fixed deposits of HK$6,493,000 (2002: HK$13,082,000) owned by the Group (note 22); and

(b) An unlisted investment fund of HK$3,857,000 (2002: HK$6,315,000) owned by the Group (note 17).

26. Other Loan, Secured

The loan was secured by all of the shares in Chaifa Holding (B.V.I.) Limited, a former wholly-owned subsidiary of the Company which was disposed of during the year (note 6), and certain of its directly and indirectly wholly-owned subsidiaries. The other loan bore interest at 4% per annum.

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27. Finance Lease Payables

The Group leased certain motor vehicles for its car audio business. These leases were classified as finance leases with the leases negotiated for terms of one year. As at 31 March 2003, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments **2003** ***HK$'000***	Minimum lease payments 2002 *HK$'000*	Present value of minimum lease payments **2003** ***HK$'000***	Present value of minimum lease payments 2002 *HK$'000*
Amounts payable within one year and total minimum finance lease payments	**-**	123	**-**	116
Future finance charges	**-**	(7)		
Total net finance lease payables classified as current liabilities *(note 24)*	**-**	116		

28. Share Capital

	2003 ***HK$'000***	2002 *HK$'000*
Authorised:		
60,000,000,000 ordinary shares of HK$0.01 each	**600,000**	600,000
Issued and fully paid:		
8,619,360,478 ordinary shares of HK$0.01 each	**86,194**	86,194

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29. Share Option Scheme

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

On 22 February 1994, the Company adopted a share option scheme (the "Scheme") in order to attract, retain and motivate high-calibre employees of the Group. Under the Scheme, the directors may, on or before 21 February 2004, at their discretion, make an offer to any employee of the Company or any of its subsidiaries, including directors of the Company or any such subsidiary, for the grant of options to subscribe for shares of the Company. The subscription price is the higher of 80% of the average of the closing share price on the Stock Exchange for the five trading days immediately preceding the date of offer of the option and the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time which have been duly allotted and issued. The maximum number of shares in respect of which options may be granted to any one employee or director may not exceed 25% of the aggregate number of shares in respect of which options are issued and issuable under the Scheme. The offer for the grant of share options may be accepted within 40 days from the date of the offer. An amount of HK$1 is payable by the grantee of an option upon acceptance of the grant of the option.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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29. Share Option Scheme (continued)

The following share options were outstanding under the Scheme during the year:

	Number of share options						
Name or category of participant	At 1 April 2002	Lapsed during the year	At 31 March 2003	Date of grant of share options *	Exercise period of share options	Exercise price of share options **	Price of Company's shares at grant date of options ***
Directors							
Chan Chun Tung, John	2,400,000	–	2,400,000	29 September 1997	27 March 2000 to 21 February 2004 #	0.1888	0.155
Wong Howard	212,990,000	–	212,990,000	17 August 2001	21 August 2001 to 21 February 2004	0.0215	0.026
Wong Yat Fai	212,990,000	–	212,990,000	17 August 2001	21 August 2001 to 21 February 2004	0.0215	0.026
Wu Qing	212,990,000	–	212,990,000	17 August 2001	21 August 2001 to 21 February 2004	0.0215	0.026
	641,370,000	–	641,370,000				
Other employees							
In aggregate	80,500,000	(400,000)	80,100,000	17 August 2001	21 August 2001 to 21 February 2004	0.0215	0.026
	721,870,000	(400,000)	721,470,000				

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.

\# The number of shares exercisable and the exercise price of the share options granted were adjusted following the rights issue of shares of the Company on 27 March 2000.

No share options were granted during the year.

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29. Share Option Scheme (continued)

No share options were exercised during the year.

No theoretical value of share options is disclosed as no share options were granted during the year.

On 23 August 2001, the Stock Exchange announced amendments to Chapter 17 of the Listing Rules in respect of share option scheme, which subsequently came into effect on 1 September 2001. As most of the terms of the Scheme of the Company do not comply with the afore-mentioned Chapter 17 of the Listing Rules, the directors are considering to terminate the Scheme of the Company and to adopt a new share option scheme in compliance with the amendments to the Listing Rules and the announcement of the Stock Exchange.

The share options granted by the Company to the grantees under the Scheme will not be affected by the proposed new share option scheme.

At the balance sheet date, the Company had 721,470,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 721,470,000 additional ordinary shares of HK$0.01 each at a total consideration, before related expenses, of approximately HK$15,913,000.

30. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 21 of the financial statements.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against reserves, as explained in note 16 to the financial statements.

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

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30. Reserves (continued)

(a) Group (continued)

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

(b) Company

	Share premium account	Capital redemption reserve	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2001	215,866	556	492,681	(562,034)	147,069
Premium upon issue of shares	45,488	–	–	–	45,488
Share issue expenses	(1,955)	–	–	–	(1,955)
Net loss for the year	–	–	–	(13,226)	(13,226)
At 31 March 2002 and at 1 April 2002	259,399	556	492,681	(575,260)	177,376
Net loss for the year	–	–	–	(56,133)	(56,133)
At 31 March 2003	259,399	556	492,681	(631,393)	121,243

Note:

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

In addition, the reduction in share capital described in (a) above also resulted in a credit of approximately HK$448,992,000 being transferred to the Company's contributed surplus account.

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31. Notes to the Consolidated Cash Flow Statement

(a) Prior year adjustments

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout.

The method of calculation of certain items in the consolidated cash flow statement has changed under the revised SSAP 15, as explained under the heading "Foreign currencies" in note 3 to the financial statements. Cash flows of overseas subsidiaries are now translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year. Previously, the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. There is no material change to the comparative cash flows operating activities, investing activities and financing activities.

Also, the definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 3 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31 March 2002 has been adjusted to remove trust receipt loans amounting to HK$27,339,000, previously included at that date. The year's movement in trust receipt loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

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

(b) Disposal of subsidiaries

	Notes	2003 HK$'000	2002 HK$'000
Net assets disposed of:			
Fixed assets	14	25,135	–
Construction in progress	15	4,702	–
Investment securities		160	–
Inventories		26,764	–
Trade receivables		71,534	–
Tax recoverable		8	–
Prepayments, deposits and other receivables		1,452	–
Pledged time deposits		11,195	–
Cash and bank balances		1,639	–
Trade and bills payables		(23,979)	–
Other payables and accruals		(21,115)	–
Interest-bearing bank and other borrowings		(87,303)	–
		10,192	–
Incidental costs of disposal		310	–
Release of reserves on disposal		555	–
Gain on disposal of discontinued operations recognised in the consolidated profit and loss account*	6	5,943	–
		17,000	–
Satisfied by:			
Cash		17,000	–

* There was no tax arising from the disposal.

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31 March 2003

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

(b) Disposal of subsidiaries (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries relating to discontinued operations is as follows:

	2003	2002
	HK$'000	*HK$'000*
Cash consideration	**17,000**	–
Incidental costs of disposal	**(310)**	–
Cash and bank balances disposed of	**(1,639)**	–
Pledged time deposits disposed of	**(11,195)**	–
Bank overdrafts disposed of	**1,073**	–
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries relating to discontinued operations	**4,929**	–

The subsidiaries disposed of during the year contributed HK$84,833,000 (2002: HK$104,927,000) to the Group's turnover and reduced the consolidated loss after tax and before minority interests for the year ended 31 March 2003 by HK$6,241,000 (2002: HK$4,870,000).

(c) Major non-cash transaction

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK$267,000 (2002: Nil).

Notes to Financial Statements

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32. Operating Lease Arrangements

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

At 31 March 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Within one year	**919**	3,022
In the second to fifth years, inclusive	**673**	487
	1,592	3,509

In addition, pursuant to a sale and purchase agreement entered into between the Group and an independent third party in Mainland China, the Group is required to pay an annual fee of HK$57,000 in respect of the land use rights of the Group in Mainland China, which had a fully depreciated carrying amount of nil at 31 March 2003, up to 2006 with an annual increment of 5% commencing from 1993. The annual fee payable within one year and in the second to fifth years, inclusive, from the balance sheet date amounted to HK$97,000 and HK$236,000, respectively.

33. Commitments

In addition to the operating lease commitments detailed in note 32 above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments

	Group	
	2003	2002
	HK$'000	*HK$'000*
Contracted, but not provided for, in respect of construction of buildings	**–**	4,336

Notes to Financial Statements

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33. Commitments (continued)

(b) Commitments under forward foreign exchange contracts

	Group	
	2003	2002
	HK$'000	*HK$'000*
Forward foreign exchange contracts	**1,513**	–

At balance sheet date, the Company did not have any significant commitments.

34. Contingent Liabilities

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

	Company	
	2003	2002
	HK$'000	*HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	**12,997**	50,740

As at 31 March 2002, the banking facilities granted to the subsidiaries subject to corporate guarantees given to the banks by the Company were utilised to the extent of approximately HK$30,147,000.

As at 31 March 2003, the credit facilities granted to a subsidiary of the Company in respect of securities trading subject to unlimited corporate guarantees provided by the Company were not utilised.

As 31 March 2003, the banking facilities granted to Chaifa Investment Limited ("Chaifa Investment"), a previously wholly-owned subsidiary of the Company which was disposed of during the year (note 6), subject to corporate guarantees given to banks by the Company which remained outstanding were utilised to the extent of approximately HK$12,997,000.

Notes to Financial Statements

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35. Related Party Transactions

(a) During the year, Mr. Chan Chun Tung, John, a director of the Company, executed personal guarantees to the extent of HK$54,740,000 and pledged a personal fixed deposit for the banking facilities granted to certain subsidiaries which were disposed of by the Group during the year (note 6), at nil consideration.

(b) During the year, a rental expense of HK$270,000 relating to office premises was paid to Mr. Chan Chun Tung, John. The amount of the rental paid was determined between the Group and Mr. Chan Chun Tung, John.

(c) The Company provided corporate guarantees for banking facilities granted to Chaifa Investment, a company of which Mr. Chan Chun Tung, John is a director, to the extent of HK$12,997,000 at nil consideration.

36. Comparative Amounts

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

37. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 17 July 2003.