Notes to the Accounts

1. General information

VST Holdings Limited (the "Company") was incorporated in the Cayman Islands on 5th March 2002 as a company with limited liability under the Companies Law of the Cayman Islands. The Company is an investment holding company with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9th May 2002. The Company's subsidiaries are principally engaged in the distribution of information technology ("IT") products. Details of the subsidiaries are set out in Note 6 to the accounts.

2. Principal accounting policies

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

(a) Basis of preparation

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

In the current year, the Group adopted the Statement of Standard Accounting Practice ("SSAP") No. 12 (revised) – Income taxes, issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

The adoption of the above revised SSAP had no material effect on the Group's accounts for the current and previous years.

(b) Consolidation

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

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

All significant intra-group transactions and balances within the Group are eliminated on consolidation.

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

2. Principal accounting policies (Continued)

(c) Fixed assets

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

(i) Depreciation

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

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

(ii) Impairment and gain or loss on sale

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

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

(d) Assets under leases

(i) Finance leases

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

Assets held under finance leases are depreciated on the same basis as fixed assets.

2. Principal accounting policies (Continued)

(d) Assets under leases (Continued)

(ii) Operating leases

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

(e) Inventories

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

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

(f) Trade receivables

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

(g) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(h) Provisions

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

2. Principal accounting policies (Continued)

(i) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Retirement benefits

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

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

(j) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2. Principal accounting policies (Continued)

(k) Contingent liabilities and contingent assets

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

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

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

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

(l) Revenue recognition

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

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

(m) Borrowing costs

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

(n) Translation of foreign currencies

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

3. Trade receivables

	Group 2004 HK$'000	2003 HK$'000
Trade receivables – third parties	**234,719**	265,875
Less: Provision for doubtful debts	**(1,158)**	(2,950)
	233,561	262,925

The Group grants a credit period to third party customers ranging from 7 to 40 days and may be extended for selected customers depending on their trade volume and settlement history with the Group. However, sales to new customers are only conducted on a cash basis in accordance with the Group's credit control policy. The aging analysis of gross trade receivables as at 31st March 2004 was as follows:

	2004 HK$'000	2003 HK$'000
1 – 30 days	**228,503**	178,140
31 – 60 days	**3,020**	69,287
61 – 90 days	**1,074**	14,959
Over 91 days	**2,122**	3,489
	234,719	265,875

4. Inventories

	2004 HK$'000	2003 HK$'000
Inventories on hand		
– Held for re-sale	**130,551**	135,041
– Held for return to suppliers or exchange to customers	**8,462**	7,078
Inventories-in-transit	**57,995**	20,879
Less: Inventory provision	**(63)**	(1,872)
	196,945	161,126

As at 31st March 2004, the inventories that are carried at net realizable value amounted to approximately HK$138,950,000 (2003: HK$140,247,000).

5. Fixed assets

	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
As at 31st March 2003	14,674	2,540	1,238	5,537	1,427	25,416
Additions	–	284	30	313	388	1,015
Disposals	(2,400)	(53)	(88)	(91)	(330)	(2,962)
As at 31st March 2004	12,274	2,771	1,180	5,759	1,485	23,469
Accumulated depreciation and impairment losses						
As at 31st March 2003	299	2,229	1,158	3,723	996	8,405
Charge for the year	309	122	49	529	281	1,290
Disposals	(63)	(37)	(78)	(66)	(193)	(437)
Impairment charge	1,029	101	24	–	–	1,154
As at 31st March 2004	1,574	2,415	1,153	4,186	1,084	10,412
Net book value						
As at 31st March 2004	10,700	356	27	1,573	401	13,057
As at 31st March 2003	14,375	311	80	1,814	431	17,011

As at 31st March 2004, the net book value of motor vehicles held under finance leases was approximately HK$382,000 (2003: HK$Nil).

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

As at 31st March 2004, the net book value of fixed assets pledged as security for certain of the Group's banking facilities amounted to approximately HK$6,111,000 (2003: HK$8,627,000).

On 29th April 2004, the Group disposed of its leasehold land and buildings together with certain related leasehold improvements, furniture and fixtures for a consideration of HK$10,700,000 to a third party. This resulted in an impairment charge to fixed assets of approximately HK$1,154,000 as at 31st March 2004.

6. Investment in a subsidiary

	Company 2004 HK$'000	Company 2003 HK$'000
Unlisted shares, at cost	**63,683**	63,683
Due from subsidiaries	**33,520**	37,888
	97,203	101,571

The following is a list of the subsidiaries as at 31st March 2004:

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

The amount due from VST Group Limited of HK$11,506,000 (2003: HK$8,000,000) is unsecured and non-interest bearing. The amount has no fixed repayment term.

The amount due from VST Computers (H.K.) Limited of HK$22,014,000 (2003: HK$29,888,000) is unsecured, interest bearing at a rate between 3.39% and 5% (2003: prime rate) and has no fixed repayment term.

7. Trade payables, accruals and other payables

	Group 2004 HK$'000	Group 2003 HK$'000
Trade payables	**248,811**	284,473
Accruals and other payables	**3,697**	3,138
	252,508	287,611

7. Trade payables, accruals and other payables (Continued)

The Group's suppliers grant credit periods ranging from 30 to 90 days to the Group. The aging analysis of trade payables as at 31st March 2004 was as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
1 – 60 days	**247,921**	284,140
61 – 120 days	**890**	333
	248,811	284,473

8. Bank loans and import loans, secured

	2004	2003
	HK$'000	HK$'000
Long-term bank loans	**2,860**	5,522
Short-term bank loan	**–**	4,887
Import loans	**117,822**	98,896
	120,682	109,305
The maturity of the above loans is as follows:		
On demand or within one year	**118,625**	105,000
More than one year but not exceeding two years	**844**	760
More than two years but not exceeding five years	**1,213**	2,423
More than five years	**–**	1,122
	120,682	109,305
Less: Amounts due within one year included under current liabilities	**(118,625)**	(105,000)
	2,057	4,305

The long-term bank loans bear interest at prime rate. As at 31st March 2004, the Group's leasehold land and buildings amounting to approximately HK$6,111,000 (2003: HK$8,627,000) have been pledged as security for certain of the above banking facilities. The Group's banking facilities were also secured by the corporate guarantee provided by the Company and the fixed deposits of HK$24,744,000 (2003: HK$24,203,000) held by the Group.

9. Obligation under finance lease

As at 31st March 2004, the Group's obligation under finance lease was repayable as follows:

	2004 HK$'000	2003 HK$'000
Within one year	**131**	–
In the second year	**98**	–
	229	–
Future finance charges on finance lease	**(11)**	–
Present value of obligation under finance lease	**218**	–

The present value of obligation under finance lease is as follows:

	2004 HK$'000	2003 HK$'000
Within one year	**122**	–
In the second year	**96**	–
	218	–

10. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 16%).

The movement of deferred tax liability during the year is as follows:

Accelerated tax depreciation	**2004** **HK$'000**	2003 HK$'000
At beginning of the year	**320**	–
Charged/(credited) to profit and loss account	**(320)**	320
At end of the year	**–**	320

11. Share capital

	Note	Number of shares HK$'000	Total par value HK$'000
Authorized (ordinary shares of HK$0.10 each)			
As at 31st March 2002		1,000	100
Increase in authorized share capital	(a)	1,999,000	199,900
As at 31st March 2003 and 2004		2,000,000	200,000
Issued and fully paid (ordinary shares of HK$0.10 each)			
As at 31st March 2002		2,000	200
Capitalization issue of shares	(b)	523,000	52,300
New issue on public listing	(c)	175,000	17,500
As at 31st March 2003 and 2004		700,000	70,000

(a) On 16th April 2002, the authorized share capital of the Company was increased from HK$100,000 to HK$200,000,000, by the creation of an additional 1,999,000,000 shares of HK$0.10 each, ranking pari pasu with the then existing shares of the Company.

(b) On 17th April 2002, 523,000,000 shares of HK$0.10 each were allotted as fully paid to the holders of the shares of the Company by capitalization issue of shares.

(c) On 9th May 2002, to provide additional working capital for the Group, the Company issued 175,000,000 shares of HK$0.10 each to the public at HK$0.25 each resulting in total net cash proceeds of approximately HK$33,243,000.

12. Share option scheme

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

As at 31st March 2004, no options have been granted pursuant to the above share option scheme.

13. Reserves

(a) The Group

	Share premium HK$'000	Retained earnings HK$'000	Total HK$'000
As at 31st March 2002	61,800	1,683	63,483
Capitalization issue of shares (Note 11(b))	(52,300)	–	(52,300)
New issue on public listing (Note 11(c))	26,250	–	26,250
Share issuance costs	(10,507)	–	(10,507)
Profit for the year	–	17,211	17,211
Dividends (Note 20)	–	(3,500)	(3,500)
As at 31st March 2003	25,243	15,394	40,637
Profit for the year	–	20,057	20,057
2003 final dividends paid (Note 20)	–	(4,200)	(4,200)
2004 interim dividends paid (Note 20)	–	(3,500)	(3,500)
Balance as at 31st March 2004	25,243	27,751	52,994
Representing:			
Reserves	25,243	23,551	48,794
2004 final dividends proposed (Note 20)	–	4,200	4,200
Balance as at 31st March 2004	25,243	27,751	52,994

13. Reserves (Continued)

(b) The Company

	Share premium HK$'000	Retained earnings HK$'000	Total HK$'000
As at 31st March 2002	–	–	–
Effect of the reorganization	63,483	–	63,483
Capitalization issue of shares (Note 11(b))	(52,300)	–	(52,300)
New issue on public listing (Note 11(c))	26,250	–	26,250
Expenses incurred in connection with new issue on public listing	(10,507)	–	(10,507)
Profit for the year	–	8,251	8,251
Dividends (Note 20)		(3,500)	(3,500)
As at 31st March 2003	26,926	4,751	31,677
Profit for the year	–	3,391	3,391
2003 final dividends paid (Note 20)	–	(4,200)	(4,200)
2004 interim dividends (Note 20)	–	(3,500)	(3,500)
Balance at 31st March 2004	26,926	442	27,368
Representing:			
Reserves	26,926	(3,758)	23,168
2004 final dividends proposed (Note 20)	–	4,200	4,200
Balance as at 31st March 2004	26,926	442	27,368

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

14. Additional financial information on consolidated balance sheet

As at 31st March 2004, the net current assets of the Group amounted to approximately HK$112,090,000 (2003: HK$98,251,000). On the same date, the total assets less current liabilities was approximately HK$125,147,000 (2003: HK$115,262,000).

15. Turnover, revenues and segment information

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

	2004	2003
	HK$'000	HK$'000
Turnover – Sales of goods	**2,489,257**	2,209,467
Interest income	**212**	676
Rental income	**–**	103
Total revenues	**2,489,469**	2,210,246

No business segment information (primary segment information) is presented for the years ended 31st March 2004 and 2003 as the Group is operating in a single business segment which is the distribution of IT products.

The Group's operation is conducted in Hong Kong. Generally, the risks and rewards of ownership of goods are transferred upon delivery to the customers, which takes place in Hong Kong. Accordingly, all of the sales of the Group's inventories are concluded in Hong Kong and therefore no geographical segment information is presented for the years ended 31st March 2004 and 2003.

16. Operating profit

Operating profit is stated after crediting and charging the following:

	2004 HK$'000	2003 HK$'000
Crediting		
Net exchange gains	**343**	314
Write-back of inventory provision	**1,809**	–
Charging		
Cost of inventories	**2,439,473**	2,156,213
Inventory provision	**–**	822
Provision for/write-off of bad and doubtful debts	**1,608**	3,071
Staff costs, including directors' emoluments		
– Salaries, allowance and welfare	**11,417**	14,366
– Provident fund contributions (net of forfeitures)	**314**	167
Auditors' remuneration	**494**	527
Operating lease rentals in respect of premises and warehouse	**1,751**	1,679
Depreciation		
– Owned fixed assets	**1,283**	1,225
– Leased fixed assets	**7**	–
Loss on disposal of fixed assets	**955**	102
Impairment charge on fixed assets	**1,154**	–

17. Finance costs, net

	2004 HK$'000	2003 HK$'000
Interest expense on:		
– Bank loans, overdrafts and import loans	**3,186**	4,233
– Finance lease	**2**	23
	3,188	4,256
Interest income from:		
– Bank deposits	**(212)**	(676)
	2,976	3,580

18. Taxation

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

	2004	2003
	HK$'000	HK$'000
Current taxation		
– Hong Kong profits tax	**4,530**	3,389
– PRC tax	**117**	99
Over-provisions of Hong Kong profits tax in prior years	**(38)**	(8)
Deferred taxation	**(320)**	320
	4,289	3,800

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profit for the year.

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

There was no significant unprovided deferred taxation as at 31st March 2004.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2004	2003
	HK$'000	HK$'000
Profit before taxation	**24,346**	21,011
Calculated at a taxation rate of 17.5% (2003: 16%)	**4,261**	3,362
Income not subject to taxation	**–**	(48)
Expenses not deductible for taxation purposes	**31**	395
Over-provision of current tax liabilities in prior years	**(38)**	(8)
Over-provision of deferred tax liabilities in prior years	**(82)**	–
Deemed Enterprise Income Tax in PRC	**117**	99
Taxation charge	**4,289**	3,800

19. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$3,391,000 (2003: HK$8,251,000).

20. Dividends

	2004 HK$'000	2003 HK$'000
Interim, paid, of HK0.5 cents (2003: HK0.5 cents) per ordinary share of the Company	**3,500**	3,500
Final, proposed, of HK0.6 cents (2003: HK0.6 cents) per ordinary share of the Company	**4,200**	4,200
	7,700	7,700

At a meeting held on 7th July 2004, the directors proposed a final dividend of HK0.6 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st March 2005.

21. Earnings per share

The calculation of basic earnings per share was based on the Group's profit attributable to shareholders of HK$20,057,000 (2003: HK$17,211,000) and on the weighted average of 700,000,000 (2003: 681,780,822) ordinary shares of the Company deemed to have been issued throughout the years.

No dilutive financial instrument is outstanding or deemed to be outstanding throughout the years ended 31st March 2004 and 2003 and accordingly, no diluted earnings per share has been presented.

22. Directors' and senior management's emoluments

(a) Directors' emoluments

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

	2004	2003
	HK$'000	HK$'000
Fees	**–**	–
Other emoluments		
– Basic salaries and housing allowances	**3,998**	4,621
– Discretionary bonuses	**–**	38
– Contributions to pension schemes	**186**	221
	4,184	4,880

Directors' emoluments disclosed above include approximately HK$220,000 (2003: HK$197,000) paid to independent non-executive directors.

The emoluments of the directors fell within the following bands:

	Number of directors	
Emolument bands	**2004**	2003
Nil – HK$1,000,000	**3**	4
HK$1,500,001 – HK$2,000,000	**1**	1
HK$2,000,001 – HK$2,500,000	**1**	1

During the year, no director of the Company waived any emoluments (2003: Nil).

22. Directors' and senior management's emoluments (Continued)

(b) Five highest paid individuals

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

	2004	2003
	HK$'000	HK$'000
Basic salaries and allowances	**1,474**	1,073
Discretionary bonuses	**130**	52
Contributions to pension schemes	**80**	56
	1,684	1,181

The emoluments fell within the following bands:

	Number of individuals	
Emolument bands	**2004**	2003
Nil – HK$1,000,000	**3**	2

23. Retirement scheme arrangements

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

Prior to 1st December 2000, certain companies now comprising the Group had arranged for their employees to join a defined contribution scheme in Hong Kong. The scheme covered full-time employees and provided for contributions ranging from 5% to 10% of the employees' earnings. The forfeited contribution made by the Group and the related accrued interest can be used to reduce the employer's contribution. During the year ended 31st March 2004, approximately HK$211,000 (2003: HK$403,000) of the aforesaid contributions were forfeited and utilized by the Group to reduce the employer's contribution.

23. Retirement scheme arrangements (Continued)

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

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

The aggregate amount of employer's contribution made by the Group to the retirement schemes for employees is approximately HK$314,000 (2003: HK$167,000).

24. Consolidated cash flow statement

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

	2004	2003
	HK$'000	HK$'000
Profit before taxation	**24,346**	21,011
Interest income	**(212)**	(676)
Interest expense	**3,188**	4,256
Depreciation of fixed assets	**1,290**	1,225
Loss on disposal of fixed assets and impairment charge	**2,109**	102
Decrease/(increase) in trade receivables, net	**29,364**	(158,252)
(Increase)/decrease in prepayments and other current assets	**(808)**	6,295
(Increase)/decrease in inventories, net	**(35,819)**	(70,981)
Decrease/(increase) in due from related companies	**–**	24,230
(Decrease)/increase in trade payables, accruals and other payables	**(35,103)**	198,799
Net cash inflow/(outflow) from operations	**(11,645)**	26,009

24. Consolidated cash flow statement (Continued)

(b) Analysis of changes in financing activities:

	Share capital HK$'000	Share premium HK$'000	Bank loans and import loans HK$'000	Dividend payable HK$'000	Obligation under finance lease HK$'000
As at 31st March 2003	70,000	25,243	109,305	–	–
New import loans	–	–	722,812	–	–
Repayment of import loans	–	–	(703,886)	–	–
Repayment of long-term bank loans	–	–	(2,662)	–	–
Repayment of short-term bank loans	–	–	(4,887)	–	–
Dividends	–	–	–	7,700	–
Dividends paid	–	–	–	(7,700)	–
At inception of finance lease	–	–	–	–	250
Repayment of obligation under finance lease	–	–	–	–	(32)
As at 31st March 2004	70,000	25,243	120,682	–	218

	Share capital HK$'000	Share premium HK$'000	Bank loans and import loans HK$'000	Dividend payable HK$'000	Obligation under finance lease HK$'000
As at 31st March 2002	200	61,800	127,188	14,920	137
Capitalization issue of shares	52,300	(52,300)	–	–	–
New issue on public listing	17,500	26,250	–	–	–
Share issuance costs	–	(10,507)	–	–	–
New import loans	–	–	98,896	–	–
Repayment of import loans	–	–	(121,444)	–	–
New long-term bank loans	–	–	5,304	–	–
Repayment of long-term bank loans	–	–	(856)	–	–
New short-term bank loans	–	–	5,838	–	–
Repayment of short-term bank loans	–	–	(5,621)	–	–
Dividends	–	–	–	3,500	–
Dividends paid	–	–	–	(18,420)	–
Repayment of obligation under finance lease	–	–	–	–	(137)
As at 31st March 2003	70,000	25,243	109,305	–	–

25. Commitments under operating leases

As at 31st March 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings	
	2004	2003
	HK$'000	HK$'000
Not later than one year	**2,149**	160
Later than one year and not later than five years	**1,693**	–
	3,842	160

26. Related party transactions

On 28th April 2003, the Group entered into a rental agreement with Mr. Li Jialin, the Chairman and an executive Director of the Company, in respect of a director quarter. Pursuant to the agreement, the Group paid a monthly rental of HK$80,000 to Mr. Li Jialin for a term of 12 months from 1st April 2003 to 31st March 2004.

27. Approval of accounts

The accounts were approved by the board of directors on 7th July 2004.