

Notes to Financial Statements

31 March 2004

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. There were no significant changes in the nature of the Group's principal activities during the year.

2. Impact of a Revised Statement of Standard Accounting Practice ("SSAP")

The revised SSAP 12 "Income taxes" is effective for the first time for the current year's financial statements.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- a deferred tax liability has been recognised relating to the fair value adjustments arising from the acquisition of subsidiaries in prior periods.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 11 and 24 to the financial statements and include a reconciliation between the accounting profit/(loss) and the tax expense/(income) for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in notes 3 and 24 to the financial statements.

Notes to Financial Statements

31 March 2004

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 2004. 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 investment in subsidiaries are stated at cost less any impairment losses.

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 the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to SSAP 30 goodwill accounting policy above.

Notes to Financial Statements

31 March 2004

3. Summary of Significant Accounting Policies (continued)

Goodwill (continued)

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.

Fixed assets and depreciation

Fixed assets 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 net sales proceeds and the carrying amount of the relevant asset.

Notes to Financial Statements

31 March 2004

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 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 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 impairment 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.

Notes to Financial Statements

31 March 2004

3. Summary of Significant Accounting Policies (continued)

Convertible notes

Convertible notes 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.

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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Notes to Financial Statements

31 March 2004

3. Summary of Significant Accounting Policies (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Notes to Financial Statements

31 March 2004

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.

Employee benefits

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.

Notes to Financial Statements

31 March 2004

3. Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

Retirement benefits schemes

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.

Share option schemes

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.

Notes to Financial Statements

31 March 2004

3. Summary of Significant Accounting Policies (continued)

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) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable;
- (c) from the trading of listed investments, on the transaction dates; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

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 changes 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.

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

Notes to Financial Statements

31 March 2004

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 2004

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		Consolidated	
	Car audio		Internet		Corporate and other		Garment			
	2004 HK\$'000	2003 HK\$'000 (Restated)	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000 (Restated)
Segment revenue:										
Sales to external customers	15,410	12,596	-	-	-	-	-	84,833	15,410	97,429
Other revenue	-	17	-	-	-	6	-	85	-	108
Total	15,410	12,613	-	-	-	6	-	84,918	15,410	97,537
Segment results	(14,848)	(23,592)	(218)	(8,984)	(12,459)	(13,791)	-	4,111	(27,525)	(42,256)
Gain on disposal of subsidiaries relating to discontinued operations									-	5,943
Interest income, gains and unallocated revenue									31,592	4,864
Unallocated expenses									(2,589)	(30,689)
Profit/(loss) from operating activities									1,478	(62,138)
Finance costs									(274)	(4,270)
Profit/(loss) before tax									1,204	(66,408)
Tax									-	1,600
Profit/(loss) before minority interests									1,204	(64,808)
Minority interests									-	110
Net profit/(loss) from ordinary activities attributable to shareholders									1,204	(64,698)

Notes to Financial Statements

31 March 2004

4. Segment Information (continued)

(a) Business segments (continued)

Group	Continuing operations						Discontinued operations			
	Car audio		Internet		Corporate and other		Garment		Consolidated	
	2004 HK\$'000	2003 HK\$'000 (Restated)	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000 (Restated)
Segment assets	13,835	17,226	5	5	19,553	5,336	-	-	33,393	22,567
Unallocated assets									209,140	203,132
Total assets									242,533	225,699
Segment liabilities	6,590	7,483	901	701	1,678	1,652	-	-	9,169	9,836
Unallocated liabilities									4,979	8,426
Total liabilities									14,148	18,262
Other segment information:										
Depreciation	4,439	4,544	-	33	188	302	-	2,990	4,627	7,869
Unallocated depreciation									4	3
									4,631	7,872
Impairment losses recognised in the profit and loss account	4,413	9,400	-	-	-	210	-	-	4,413	9,610
Other non-cash expenses	158	2,138	-	8,438	-	746	-	3,819	158	15,141
Unallocated other non-cash expenses									1,761	28,762
									1,919	43,903
Capital expenditure	203	852	-	-	5	138	-	4,212	208	5,202

Notes to Financial Statements

31 March 2004

4. Segment Information (continued)

(b) Geographical segments

The following table presents 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	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	-	84,833	15,410	12,596	15,410	97,429
Other revenue	-	91	-	17	-	108
	-	84,924	15,410	12,613	15,410	97,537
Other segment information:						
Segment assets	32,674	21,995	719	572	33,393	22,567
Unallocated assets					209,140	203,132
Total assets					242,533	225,699
Capital expenditure	208	5,202	-	-	208	5,202

Notes to Financial Statements

31 March 2004

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:

	2004 HK\$'000	2003 <i>HK\$'000</i>
Turnover		
Sale of goods:		
Continuing operations	15,410	12,596
Discontinued operations	–	84,833
	15,410	97,429
Other revenue		
Interest income	921	3,224
Other income	1,074	1,716
	1,995	4,940
Gain		
Gain on disposal of fixed assets	–	32
	1,995	4,972

Notes to Financial Statements

31 March 2004

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") during the year ended 31 March 2003.

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 held 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 28(a) 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 28(a) to the financial statements.

Notes to Financial Statements

31 March 2004

6. Discontinued Operations (continued)

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

	<i>HK\$'000</i>
TURNOVER	84,833
Cost of sales	(52,802)
Gross profit	32,031
Other revenue	190
Selling and distribution costs	(8,026)
Administrative expenses	(15,682)
Other operating expenses	(4,297)
Gain on disposal of subsidiaries relating to discontinued operations	5,943
PROFIT FROM OPERATING ACTIVITIES	10,159
Finance costs	(3,918)
PROFIT BEFORE TAX	6,241
Tax	–
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>6,241</u>

Notes to Financial Statements

31 March 2004

7. Profit/(Loss) from Operating Activities

The Group's profit/(loss) from operating activities is arrived at after charging:

	Notes	2004 HK\$'000	2003 HK\$'000 (Restated)
Cost of inventories sold *		13,501	58,809
Depreciation	14	4,631	7,872
Write off of fixed assets		–	195
Loss on disposal of fixed assets		15	–
Impairment of goodwill **	15	4,413	9,610
Provision for inventories		–	121
Provision for bad and doubtful debts:			
Trade receivables		–	3,321
Other receivables		–	3,368
Staff costs (including directors' remuneration– note 9)			
Wages and salaries		10,516	24,419
Retirement benefits scheme contributions ***		584	618
		11,100	25,037
Minimum lease payments under operating leases in respect of land and buildings		1,351	2,584
Auditors' remuneration		700	980
Exchange losses, net		143	137

* The cost of sales includes approximately HK\$4,153,000 (2003: HK\$11,595,000) 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 2004, the Group had no forfeited contributions available to reduce its contributions to the retirement benefits scheme in future years (2003: Nil).

Notes to Financial Statements

31 March 2004

8. Finance Costs

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on bank loans, overdrafts and other loans wholly repayable within five years	274	4,256
Interest on finance leases	–	14
	274	4,270

9. Directors' Remuneration

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

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fees:		
Executive directors	–	2,160
Non-executive directors	300	300
	300	2,460
Other emoluments:		
Basic salaries, housing, allowances and benefits in kind for executive directors	3,250	3,400
Retirement benefits scheme contributions to executive directors	163	48
	3,413	3,448
	3,713	5,908

Notes to Financial Statements

31 March 2004

9. Directors' Remuneration (continued)

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

	Number of directors	
	2004	2003
Nil– HK\$1,000,000	7	6
HK\$1,500,001– HK\$2,000,000	–	1
	7	7

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.

Mr. Chan Chun Tung, John, an executive director, waived his director's fee for the year ended 31 March, 2004 in the amount of HK\$ 2,160,000 (2003: HK\$ nil) in aggregate. Save as aforesaid, 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 (2003: four) directors, details of whose remuneration are set out in note 9 above. The details of the remuneration of the remaining one (2003: one) non-director, highest paid employee for the year are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Basic salaries, housing, allowances and benefits in kind	650	650
Retirement benefits scheme contributions	33	13
	683	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.

Notes to Financial Statements

31 March 2004

11. Tax

During the year, the increase in Hong Kong profits tax rate from 16% to 17.5% became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004. Taxes on profits assessable elsewhere are calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2004	2003
	HK\$'000	HK\$'000 (Restated)
Current year provision:		
Hong Kong	–	–
Elsewhere	–	–
Deferred tax credit (note 24)	–	1,600
Tax credit for the year	–	1,600

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates in Hong Kong and Mainland China in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2004

	Hong Kong	Mainland China	Total
	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) before tax	6,680	(5,476)	1,204
Tax at the applicable tax rate	(1,169)	1,807*	638
Lower tax rate for specific provinces or local authority	–	(310)	(310)
Income not subject to tax	349	–	349
Expenses not deductible for tax	(916)	–	(916)
Tax losses utilised	1,736	–	1,736
Tax losses for the year not recognised	–	(1,497)	(1,497)
Tax credit/(charge)	–	–	–

Notes to Financial Statements

31 March 2004

11. Tax (continued)

Group – 2003

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Total <i>HK\$'000</i>
Loss before tax	(52,957)	(13,451)	(66,408)
Tax at the statutory tax rate	9,267	4,439*	13,706
Lower tax rate for specific provinces or local authority	–	(1,612)	(1,612)
Income not subject to tax	1,046	–	1,046
Expenses not deductible for tax	(3,844)	–	(3,844)
Tax losses for the year not recognised	(6,469)	(1,227)	(7,696)
Tax credit at the Group's effective rate	–	1,600	1,600

* The standard corporate income tax of Mainland China is 33%.

12. Net Profit/(Loss) from Ordinary Activities Attributable to Shareholders

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company, was HK\$35,882,000 (2003: HK\$56,133,000) (note 27(b)).

13. Earnings/(Loss) Per Share

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$1,204,000 (2003: net loss from ordinary activities attributable to shareholders HK\$64,698,000 (restated)), and the weighted average of 8,697,505,136 (2003: 8,619,360,478) ordinary shares in issue during the year.

The diluted earnings/(loss) per share for the years ended 31 March 2004 and 2003 have not been shown as the exercise prices of the outstanding share options of the Company were higher than the average market price of the Company's shares during the years, and therefore the share options were not dilutive.

Notes to Financial Statements

31 March 2004

14. Fixed Assets

Group

	Leasehold land and buildings <i>HK\$'000</i>	Land use rights <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles, furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:						
At beginning of year	13,238	821	427	13,686	5,018	33,190
Additions	-	-	-	5	203	208
Disposals	-	-	-	-	(172)	(172)
At 31 March 2004	13,238	821	427	13,691	5,049	33,226
Accumulated depreciation:						
At beginning of year	7,357	821	421	8,635	3,253	20,487
Provided during the year	1,892	-	6	1,973	760	4,631
Disposals	-	-	-	-	(155)	(155)
At 31 March 2004	9,249	821	427	10,608	3,858	24,963
Net book value:						
At 31 March 2004	3,989	-	-	3,083	1,191	8,263
At 31 March 2003	5,881	-	6	5,051	1,765	12,703

The Group is required to pay an annual fee of HK\$57,000 in respect of certain land in Mainland China used by the Group for its car audio business 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\$96,000 (2003: HK\$92,000). The Group's legal counsel confirmed that the Group properly owns the legal right to use the land for the period granted.

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

Notes to Financial Statements

31 March 2004

14. Fixed Assets (continued)

Company

	Leasehold improvements	Furniture, fixtures and equipment	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:			
At beginning of year and at 31 March 2004	299	415	714
Accumulated depreciation:			
At beginning of year	299	304	603
Provided during the year	–	83	83
At 31 March 2004	299	387	686
Net book value:			
At 31 March 2004	–	28	28
At 31 March 2003	–	111	111

Notes to Financial Statements

31 March 2004

15. Goodwill

The amount of the goodwill remaining in the Group's consolidated reserves as at 31 March 2004, arising from the acquisition of subsidiaries prior to 1 April 2001 and the adoption of SSAP 30 in 2001, is as follows:

Group

	Goodwill eliminated against consolidated reserves <i>HK\$'000</i> <i>(Restated)</i>
Cost:	
At 1 April 2003 and at 31 March 2004	49,062
Accumulated impairment:	
At 1 April 2003	44,649
Provided during the year	4,413
At 31 March 2004	49,062
Net amount:	
At 31 March 2004	—
At 31 March 2003	4,413

Notes to Financial Statements

31 March 2004

15. Goodwill (continued)

The Group had goodwill arising from the acquisition of Sino Electronics Limited and its subsidiaries (collectively the “SE Group”) (note 17), which carried out the car audio business of the Group, previously eliminated against consolidated reserves. SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group’s deferred tax liability and goodwill previously eliminated against consolidated reserves arising from the acquisition of the SE Group during the year ended 31 March 2000 by HK\$4,400,000 (note 24). As a consequence, the goodwill eliminated against consolidated reserves at 1 April 2002 has been increased by HK\$4,400,000 and the goodwill attributable to the acquisition of the SE Group was restated to HK\$13,813,000. In the prior year, the directors estimated the recoverable amount of goodwill eliminated against consolidated reserves to be HK\$4,413,000 as at 31 March 2003. In the opinion of the directors, the additional goodwill of HK\$4,400,000 recognised as a result of the adoption of SSAP 12 should have been impaired during the year ended 31 March 2003. Accordingly, the Group recognised a further impairment on the goodwill of HK\$4,400,000 and resulted in a prior year adjustment that the aggregate impairment loss of goodwill charged to the profit and loss account amounted to HK\$9,610,000 for the year ended 31 March 2003.

The Group has made a further provision for impairment loss on the remaining balance of HK\$4,413,000 and the balance charged to the profit and loss account during the year. The impairment loss was estimated by the directors based on the recoverable amounts of the goodwill. In the opinion of the directors, such impairment losses arose from the intense competition in the car audio industry which adversely affected the profitability of the business.

16. Other Securities

Investment securities

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted equity investments outside Hong Kong, at cost	90,000	90,000
Provisions for impairment in values	(90,000)	(90,000)
	–	–

Other securities

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted debt investments in Hong Kong, at fair value	–	26,200
Listed equity investments in Hong Kong, at fair value	177,283	136,549
Unlisted investment fund	4,015	3,857
	181,298	166,606

Notes to Financial Statements

31 March 2004

16. Other Securities (continued)

The market value of the Group's listed other securities at the date of approval of these financial statements was approximately HK\$171,675,000 (2003: HK\$188,536,000)

At 31 March 2004, the unlisted investment fund of HK\$4,015,000 (2003: HK\$3,857,000) was pledged to secure the banking facilities granted to the Group (note 23).

17. Interests in Subsidiaries

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	–	–
Due from subsidiaries	505,705	497,416
Less: Provision for impairment	(300,075)	(269,874)
	205,630	227,542
Portion classified as current assets	(205,630)	(197,210)
Non-current portion	–	30,332

Except for the aggregate amount of HK\$30,332,000 due from subsidiaries as at 31 March 2003 of which the Company had undertaken not to demand their repayment within a two-year period from 31 March 2003 and until the subsidiaries have sufficient working capital in excess of their respective normal requirements, the amounts due from subsidiaries as at the balance sheet date are unsecured, interest-free and have no fixed terms of repayment.

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

Notes to Financial Statements

31 March 2004

17. Interests 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		Principal activities
			Direct	Indirect	
Hoshing Limited	British Virgin Islands	Ordinary US\$1	100	–	Investment holding
Sino Electronics Limited	British Virgin Islands/ Hong Kong	Ordinary US\$2	–	100	Investment holding
Chongqing Electronics Limited	Hong Kong	Ordinary HK\$2	–	100	Trading of car audio equipment
Dongguan Chongqing Electrical Limited +	Mainland China	RMB13,675,000	–	100	Manufacturing of car audio equipment
139 Enterprises Limited	Hong Kong	Ordinary US\$2	–	100	Provision of administrative services
Chaifa Finance Limited	Hong Kong	Ordinary HK\$2	–	100	Provision of finance services
Main Purpose Investments Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	–	100	Trading of securities

+ Wholly-owned foreign enterprise.

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.

Notes to Financial Statements

31 March 2004

18. 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 bore interest at the rate of 7% per annum, were unsecured and matured on 2 July 2004. The Wonson Convertible Notes were convertible into approximately 642,857,000 ordinary shares of Wonson at an initial price of HK\$0.028 per share and the conversion prices would 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 were subject to adjustment. The Wonson Convertible Notes matured on 2 July 2004 and Wonson International Holdings Limited repaid all the outstanding principal amount of the Wonson Convertible Notes, together with interest accrued, in cash to the Group.

	Group	
	2004 HK\$'000	2003 HK\$'000
Wonson Convertible Notes	10,500	10,500
Portion classified as current assets	(10,500)	–
Non-current portion	–	10,500

Notes to Financial Statements

31 March 2004

19. Inventories

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	2,716	1,563
Work in progress	1,187	1,222
Finished goods	492	809
	4,395	3,594

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$1,096,000 (2003: HK\$1,345,000) as at 31 March 2004.

20. Trade Receivables

An aged analysis of the Group's trade receivables as at the balance sheet date is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
0 – 120 days	719	581
121 – 210 days	9	–
	728	581

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 where 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. The Group's 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.

Notes to Financial Statements

31 March 2004

21. Cash and Cash Equivalents and Pledged Deposits

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	20,214	1,731	10,094	73
Time deposits	11,970	25,953	–	3,002
	32,184	27,684	10,094	3,075
Less: Pledged time deposits for bank overdraft facilities (note 23)	(6,534)	(6,493)	–	–
Cash and cash equivalents	25,650	21,191	10,094	3,075

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$279,000 (2003: HK\$30,000). The 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.

Notes to Financial Statements

31 March 2004

22. 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	
	2004 HK\$'000	2003 HK\$'000
0 – 120 days	1,601	2,547
121 – 210 days	77	197
Over 210 days	5	6
	1,683	2,750

23. Pledge of Assets

As at 31 March 2004, the Group's banking facilities were secured by the following:

- (a) Fixed deposits of HK\$6,534,000 (2003: HK\$6,493,000) owned by the Group (note 21); and
- (b) An unlisted investment fund of HK\$4,015,000 (2003: HK\$3,857,000) owned by the Group (note 16).

Notes to Financial Statements

31 March 2004

24. Deferred Tax

The movements in deferred tax liabilities during the year are as follows:

Deferred tax liabilities

Group

	Fair value adjustments arising from acquisition of subsidiaries
	<i>HK\$'000</i>
At 1 April 2002	–
As previously reported	–
Prior year adjustment:	
SSAP 12 – restatement of deferred tax	1,600
As restated	1,600
Deferred tax credited to the profit and loss account during the year (<i>note 11</i>)	(1,600)
Deferred tax liabilities	
At 31 March 2003 and 2004	–

The Group has tax losses arising in Hong Kong and Mainland China of HK\$161,080,000 (2003: HK\$171,920,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 March 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy resulted in an increase in the Group's deferred tax liability and goodwill previously eliminated against consolidated reserves arising from the acquisition of the SE Group during year ended 31 March 2000 by HK\$4,400,000, respectively. As a consequence, the consolidated net loss attributable to shareholders for the year ended 31 March 2003 has been increased by HK\$2,800,000 due to the net effect on recognition of deferred tax credit of HK\$1,600,000 and the additional impairment loss on goodwill previously eliminated against consolidated reserves of HK\$4,400,000 (note 15) and the consolidated accumulated losses at 1 April 2002 have been reduced by HK\$2,800,000, as detailed in the consolidated statement of changes in equity.

Notes to Financial Statements

31 March 2004

25. Share Capital

Shares	2004	2003
	HK\$'000	HK\$'000
Authorised:		
60,000,000,000 ordinary shares of HK\$0.01 each	600,000	600,000
Issued and fully paid:		
9,332,430,478 (2003: 8,619,360,478) ordinary shares of HK\$0.01 each	93,324	86,194

During the year, 713,070,000 share options were exercised at the subscription price of HK\$0.0215 per share, resulting in the issue of 713,070,000 ordinary shares of HK\$0.01 each for a total cash consideration of approximately HK\$15,331,000.

A summary of the movements in the issued share capital of the Company is as follows:

	Number of	Issued	Share	Total
	shares in issue	share	premium	Total
		capital	account	Total
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 April 2002, 31 March 2003 and 1 April 2003	8,619,360,478	86,194	259,399	345,593
Share options exercised	713,070,000	7,130	8,201	15,331
Issued share capital as at 31 March 2004	9,332,430,478	93,324	267,600	360,924

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 26.

Notes to Financial Statements

31 March 2004

26. Share Option Schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

On 22 February 1994, the Company adopted a share option scheme (the "Old Scheme") in order to attract, retain and motivate high-calibre employees of the Group. Under the Old 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 prices on the Stock Exchange for the five trading days immediately preceding the date of the 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 Old Scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time. 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 Old 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. There was no share option granted under the Old Scheme which remained outstanding as at 31 March 2004.

The Old Scheme was terminated on 27 August 2003 and a new share option scheme (the "New Scheme"), which complies with the new requirements of Chapter 17 of the Listing Rules on granting options under share option schemes, was adopted pursuant to the ordinary resolution passed by the shareholders at the annual general meeting of the Company held on 27 August 2003. Upon adoption of the New Scheme, no options have been granted under the Old Scheme from 27 August 2003.

Under the New Scheme, eligible participants include the Company's directors, including independent non-executive directors, other employees of the Group or any invested entity, suppliers of goods or services to the Group or any invested entity, customers of the Group or any invested entity, shareholders of the Group or any invested entity, holders of securities of the Group or any invested entity and persons or entities that provide research, development or other technological support to the Group or any invested entity. The New Scheme became effective on 27 August 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the New Scheme is an amount equivalent to 10% of the shares of the Company in issue as at the date of a approval of the New Scheme, i.e. 861,936,047 shares, unless approval for refreshing the 10% limit from the Company's shareholders has been obtained. The maximum number of shares issued and to be issued under share options to each eligible participant in the New Scheme (including exercised, cancelled and outstanding options) within any 12-month period, is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Notes to Financial Statements

31 March 2004

26. Share Option Schemes (continued)

Under the New Scheme, share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5,000,000, is subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options under the New Scheme may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such period shall not be more than 10 years from the date of the offer of the share options subject to the provisions for early termination set out in the New Scheme. Unless otherwise determined by the directors at their sole discretion, there is no requirement of a minimum period for which an option must be held before an option can be exercised.

The exercise price of the share options granted under the New Scheme is determined by the directors, but shall not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of a share of the Company on the date of offer.

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

Since the date of adoption of the New Scheme, no option have been granted under the New Scheme. As at the date of this annual report, the total number of shares available for issue under the New Scheme is 861,936,047 shares, representing 9.24% of the total issued share capital of the Company on that date.

Notes to Financial Statements

31 March 2004

26. Share Option Schemes (continued)

The movements of the share options granted under the Old Scheme during the year are as follows:

Name or category of participant	At 1 April 2003	Number of share options			Date of grant of share options †	Exercise period of share options	Exercise price of share options ** HK\$	Price of Company's shares	
		Lapsed during the year	Exercised during the year	At 31 March 2004				At grant date of options *** HK\$	At exercise date of options*** HK\$
Directors									
Mr. Chan Chun Tung, John	# 2,400,000	(2,400,000)	-	-	29 September 1997	27 March 2000 to 21 February 2004	# 0.1888	0.155	-
Mr. Wong Howard	212,990,000	-	(212,990,000)	-	17 August 2001	21 August 2001 to 21 February 2004	0.0215	0.026	0.031
Mr. Wong Yat Fai	212,990,000	-	(212,990,000)	-	17 August 2001	21 August 2001 to 21 February 2004	0.0215	0.026	0.031
Mr. Wu Qing	212,990,000	-	(212,990,000)	-	17 August 2001	21 August 2001 to 21 February 2004	0.0215	0.026	0.031
	641,370,000	(2,400,000)	(638,970,000)	-					
Other employees									
In aggregate	80,100,000	(6,000,000)	(74,100,000)	-	17 August 2001	21 August 2001 to 21 February 2004	0.0215	0.026	0.031
	721,470,000	(8,400,000)	(713,070,000)	-					

There were no share options granted or cancelled during the year.

Notes to Financial Statements

31 March 2004

26. Share Option Schemes (continued)

- * 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 share disclosed regarding 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 price of the Company's shares disclosed regarding the exercise of the share options is the weighted average of the Stock Exchange closing price of the shares immediately before the date on which the options were exercised..
- # 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.

The 713,070,000 share options exercised during the year resulted in the issue of 713,070,000 additional ordinary shares of the Company for a total cash consideration of approximately HK\$15,331,000 (note 25).

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

27. 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 were eliminated against consolidated reserves as explained in note 15 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.

In addition, pursuant to special and ordinary resolutions passed at the 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.

Notes to Financial Statements

31 March 2004

27. Reserves (continued)

(b) Company

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 and at 1 April 2003	259,399	556	492,681	(631,393)	121,243
Premium upon issue of shares (<i>note 25</i>)	8,201	–	–	–	8,201
Net loss for the year	–	–	–	(35,882)	(35,882)
At 31 March 2004	267,600	556	492,681	(667,275)	93,562

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.

Notes to Financial Statements

31 March 2004

28. Notes to the Consolidated Cash Flow Statement

(a) Disposal of subsidiaries

	2004	2003
	HK\$'000	HK\$'000
Net assets disposed of:		
Fixed assets	-	25,135
Construction in progress	-	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* (<i>note 6</i>)	-	5,943
	-	17,000
Satisfied by:		
Cash	-	17,000

* There was no tax arising from the disposal.

Notes to Financial Statements

31 March 2004

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

(a) Disposal of subsidiaries (continued)

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

	2004 HK\$'000	2003 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 the discontinued operations	–	4,929

The subsidiaries disposed of during the year ended 31 March 2003 contributed HK\$84,833,000 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.

- (b) During the year ended 31 March 2003, 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.

Notes to Financial Statements

31 March 2004

29. Operating Lease Arrangements

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

At 31 March 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	1,440	919
In the second to fifth years, inclusive	142	673
	1,582	1,592

In addition, the Group is required to pay an annual fee of HK\$57,000 in respect of the use of certain land in Mainland China for its car audio business up to 2006 with an annual increment of 5% commencing from 1993. The total future annual fee payable within one year and in the second to fifth years, inclusive, from the balance sheet date amounted to HK\$101,000 and HK\$134,000, respectively.

30. Commitments

Apart from the operating lease commitment detailed in note 29 above, the Group and the Company did not have any significant commitments at 31 March 2004.

The Group had commitments under forward foreign exchange contracts of HK\$1,513,000 at 31 March 2003.

Notes to Financial Statements

31 March 2004

31. Contingent Liabilities

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Bills discounted with recourse	109	–

	Company	
	2004 HK\$'000	2003 HK\$'000
Guarantees given to banks in connection with banking facilities granted to subsidiaries	–	12,997

As at 31 March 2004, 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.

32. Related Party Transactions

- (a) During the year ended 31 March 2003, 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 ended 31 March 2003, for nil consideration.
- (b) During the year ended 31 March 2003, 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) During the years ended 31 March 2003 and 2004, the Company provided corporate guarantees for banking facilities granted to Chaifa Investment Limited, a company which was disposed of by the Group in the prior year relating to the discontinued operations and in which Mr. Chan Chun Tung, John, is a director, to the extent of HK\$12,997,000 for nil consideration. The corporate guarantees were released during the year.

Notes to Financial Statements

31 March 2004

33. Comparative Amounts

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

34. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 21 July 2004.