

Notes to Financial Statements

31 March 2001

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- Marketing and distribution of electronic components
- Design, manufacture and original equipment manufacture of electronic products and Internet appliances

2. 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 remeasurement of certain equity investments, 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 2001. The results of 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.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated in the Company's balance sheet at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any provisions for impairment in values, other than those considered to be temporary in nature, deemed necessary by the directors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the consolidation of subsidiaries and on the acquisition of associates represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition. Upon the disposal of interests in subsidiaries or associates, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation.

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 and overhaul costs, 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 an 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. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the remaining lease terms
Buildings	2%
Leasehold improvements	20% – 33 $\frac{1}{3}$ %
Furniture, fittings and office equipment	20% – 33 $\frac{1}{3}$ %
Plant, machinery and tools	20% – 50%
Motor vehicles	20%

Freehold land is not depreciated.

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 value of the relevant asset.

Other assets

Other assets held on a long term basis are stated at cost unless, in the opinion of the directors, there have been impairments in values which are considered to be other than temporary in nature, when they are written down to values determined by the directors, on an individual asset basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased assets

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Short term investments

Short term investments are investments in equity securities not held for an identified long term purpose and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The unrealised gains or losses arising from changes in the fair value of a security 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 using the weighted average method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Allowance is made for any obsolete or slow-moving items. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

2. 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) on 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) commission income, in the accounting period in which the services are provided; and
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

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.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer mandatory contributions vest fully with the employees when contributed into the Scheme. The Group's employer voluntary contributions are refundable to the Group when the employee leaves employment prior to the contributions vesting fully in accordance with the rules of the Scheme.

Prior to the Scheme being effective, the Group operated a defined contribution pension scheme for certain employees who were eligible to participate in the scheme. This scheme operated in a similar way to the Mandatory Provident Fund retirement benefits scheme, except that when an employee left the scheme prior to his/her interest in the employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. This scheme was terminated with effect from 1 December 2000.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

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3. TURNOVER

Turnover comprises the net invoiced value of goods sold, net of returns and discounts and after the elimination of intra-group transactions, and commissions received on distribution. Revenue from the following activities has been included in turnover:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Marketing and distribution	941,086	808,676
Design, manufacture and original equipment manufacture	158,994	148,921
	<u>1,100,080</u>	<u>957,597</u>

4. RELATED PARTY TRANSACTIONS

In addition to the related party transactions and balances detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

	<i>Notes</i>	Group	
		2001	2000
		HK\$'000	HK\$'000
Interest income from an associate	(a)	777	—
Sales of finished goods to an associate	(b)	21,153	—
Purchases of raw materials from an associate	(c)	<u>53,879</u>	<u>—</u>

(a) The interest income from an associate is charged at a rate of HIBOR plus 2.5% per annum on the loan advanced to the associate.

(b) The directors consider that the sales were made according to the standard prices, terms and conditions similar to those offered to other customers of the Group.

(c) The directors consider that the purchases were made according to the standard prices, terms and conditions similar to those offered to other customers of the associate.

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5. PROFIT FROM OPERATING ACTIVITIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Profit from operating activities is arrived at after charging:		
Depreciation:		
Owned fixed assets	8,596	7,061
Leased fixed assets	997	430
Operating lease rentals in respect of land and buildings	2,252	2,384
Auditors' remuneration	941	880
Loss on deemed disposal of interest in an associate	1,310	—
Loss on disposal of partial interest in an associate	1,010	—
Staff costs (including directors' remuneration – note 7):		
Wages and salaries	31,087	25,283
Pension contributions	1,130	840
Less: Forfeited contributions*	(97)	(105)
Net pension contributions	1,033	735
	32,120	26,018
Loss on disposal of fixed assets	—	27
Exchange losses, net	1,991	989
and after crediting:		
Gain on disposal of fixed assets	524	—
Gain on disposal of a property	—	6,388
Interest income	1,505	516

* At 31 March 2001, there were forfeited contributions of HK\$79,000 (2000: Nil) available to the Group to reduce its employer's voluntary contributions to the Mandatory Provident Fund retirement benefits scheme in future years.

6. FINANCE COSTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	16,010	11,892
Interest on finance leases	259	75
	16,269	11,967

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7. DIRECTORS' REMUNERATION

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Fees	<u>100</u>	<u>138</u>
Other emoluments:		
Basic salaries, housing, other allowances and benefits in kind	<u>6,362</u>	<u>5,010</u>
Pension scheme contributions	<u>258</u>	<u>122</u>
	<u>6,620</u>	<u>5,132</u>
	<u>6,720</u>	<u>5,270</u>

Fees of HK\$100,000 (2000: HK\$138,000) are payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors for the year (2000: Nil).

The remuneration of the directors fell within the following bands:

	2001	2000
	Number of directors	Number of directors
Nil – HK\$1,000,000	<u>4</u>	<u>5</u>
HK\$1,000,001 – HK\$1,500,000	<u>1</u>	<u>–</u>
HK\$1,500,001 – HK\$2,000,000	<u>1</u>	<u>–</u>
HK\$3,000,001 – HK\$3,500,000	<u>1</u>	<u>1</u>
	<u>7</u>	<u>6</u>

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

No value is included in directors' remuneration in respect of share options granted to a director during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted. Details of the options granted to the director during the year are set out in the section "Directors' rights to acquire shares" in the Report of the Directors on page 12.

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8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2000: two) directors, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining two (2000: three) non-director, highest paid employees are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Salaries and other benefits	2,312	2,387
Pension scheme contributions	95	49
	<u>2,407</u>	<u>2,436</u>

The remuneration of the two (2000: three) non-director, highest paid employees fell within the following bands:

	2001	2000
	Number of employees	Number of employees
Nil – HK\$1,000,000	–	3
HK\$1,000,001 – HK\$1,500,000	<u>2</u>	<u>–</u>

During the year, one of the non-director, highest paid employees was appointed as a director of the Company. The relevant portion of directors' emoluments of that employee is included in note 7 above.

No value is included in the remuneration of the two (2000: three) non-director, highest paid employees in respect of share options granted to them during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.

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9. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing laws, interpretations and practices in respect thereof.

	Group	
	2001	2000
	HK\$'000	HK\$'000
Provision for tax in respect of profit for the year:		
Hong Kong	2,972	2,339
Overseas	1,453	702
Deferred	–	94
Prior year overprovision	–	(382)
Share of tax attributable to associates	610	–
	<hr/>	<hr/>
Tax charge for the year	<u>5,035</u>	<u>2,753</u>

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$219,000 (2000: HK\$370,000).

11. DIVIDEND

No dividend was proposed or paid in respect of the year.

In the prior year, the directors recommended a bonus issue of new shares which were issued during the current year to the shareholders of the Company whose names appeared on the register of members of the Company on 22 September 2000, in the proportion of 1 new share for every 10 shares held by them. Based on the 212,856,012 ordinary shares in issue as at 22 September 2000, 21,285,601 new ordinary shares were issued. These new shares were issued as fully paid by capitalising the sum of approximately HK\$2,128,000 standing to the credit of the share premium account of the Company and rank pari passu in all respects with all other issued shares of the Company.

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12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of HK\$16,127,000 (2000: HK\$22,340,000) and the weighted average of 230,118,380 (2000: 195,286,199) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders of HK\$16,127,000 (2000: HK\$22,340,000). The weighted average number of ordinary shares used in the calculation is the weighted average of 230,118,380 (2000: 195,286,199) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 414,037 (2000: 2,432,544) ordinary shares assumed to have been issued at no consideration on the deemed exercise of certain share options during the year.

The comparative amounts of the basic and diluted earnings per share have been adjusted for the effect of the one for ten bonus issue during the year.

13. FIXED ASSETS

Group

	Land and buildings (Hong Kong) HK\$'000	Land and buildings (Overseas) HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fittings and office equipment HK\$'000	Plant, machinery and tools HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At cost:							
At beginning of year	20,970	8,698	9,596	13,021	32,999	6,922	92,206
Additions	—	—	7,214	1,361	15,980	3,812	28,367
Disposals	—	—	—	(585)	(17)	(3,415)	(4,017)
Exchange realignments	—	(235)	—	(74)	—	(83)	(392)
At 31 March 2001	20,970	8,463	16,810	13,723	48,962	7,236	116,164
Accumulated depreciation:							
At beginning of year	2,198	1,074	2,823	10,734	10,024	4,666	31,519
Provided during the year	419	246	2,371	981	4,373	1,203	9,593
Disposals	—	—	—	(546)	(3)	(3,404)	(3,953)
Exchange realignments	—	(27)	—	(67)	—	(41)	(135)
At 31 March 2001	2,617	1,293	5,194	11,102	14,394	2,424	37,024
Net book value:							
At 31 March 2001	18,353	7,170	11,616	2,621	34,568	4,812	79,140
At 31 March 2000	18,772	7,624	6,773	2,287	22,975	2,256	60,687

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13. FIXED ASSETS (continued)

The land and buildings at cost included above are held under the following lease terms:

	Hong Kong <i>HK\$ '000</i>	Overseas <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
Freehold	—	8,463	8,463
Medium term leases	20,970	—	20,970
	<u>20,970</u>	<u>8,463</u>	<u>29,433</u>

Certain land and buildings held by Group companies were pledged to banks to secure certain bank borrowings and banking facilities granted to the Group (note 23).

The net book value of assets held under finance leases included in the total amount of fixed assets as at 31 March 2001 amounted to HK\$11,236,000 (2000: HK\$1,546,000). The depreciation charge for the year in respect of such assets amounted to HK\$997,000 (2000: HK\$430,000).

14. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Unlisted shares, at cost	55,015	55,015
Due from subsidiaries	109,545	106,194
Due to subsidiaries	(15,676)	(15,676)
	<u>148,884</u>	<u>145,533</u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

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14. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ operations	Nominal value of issued and fully paid share capital	Class of shares held	Equity interest attributable to the Company		Principal activities
				Direct	Indirect	
AV Electronics Group Limited	British Virgin Islands/ Hong Kong	US\$40,000	Ordinary	100%	–	Investment holding
AVT Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	Ordinary	100%	–	Investment holding
AV Cassette Limited	Hong Kong	HK\$100	Ordinary	–	100%	Dormant
AV Chaseway Limited	Hong Kong	HK\$2,500,000	Ordinary	–	100%	Manufacture and trading of electronic products and Internet appliances
AV Concept (China) Industrial Co., Limited	Hong Kong	HK\$10,000	Ordinary	–	100%	Investment holding
AV Concept Electronics Limited	British Virgin Islands/ Hong Kong	US\$2	Ordinary	–	100%	Dormant
AV Concept Limited	Hong Kong	HK\$2	Ordinary	–	100%	Trading of electronic components
		HK\$1,000,000	Deferred	–	100%	
AVC Technology Limited	Hong Kong	HK\$2	Ordinary	–	100%	Trading of electronic products and Internet appliances
		HK\$100,000	Deferred	–	100%	
Bostex Electronics Pte Ltd	Singapore	S\$2,000,000	Ordinary	–	100%	Trading of electronic components

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15. INTERESTS IN ASSOCIATES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	—	—	31,480	—
Share of net assets	14,022	—	—	—
Loan to an associate	15,000	—	—	—
Due from an associate	15,766	—	2,109	—
	<u>44,788</u>	<u>—</u>	<u>33,589</u>	<u>—</u>

The loan to an associate is unsecured, bears interest at a rate of HIBOR plus 2.5% per annum and has no fixed terms of repayment.

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Equity interest attributable to the Group		Principal activities
			2001	2000	
Guangzhou Thinker E-Commerce Co., Ltd. (“Thinker”)*	Corporate **	People’s Republic of China	35%	—	Provision of system integration and e-commerce related services
Reigncom Limited (“Reigncom Korea”)*	Corporate	Republic of Korea	20%	—	Design and trading of electronic products

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

** This associate has no issued share capital and is formed under a joint venture contract.

Each of the above associates has a financial year end of 31 December. The consolidated financial statements have been adjusted for material transactions between the associates and the Company and its subsidiaries between 1 January and 31 March.

The interest in Thinker is held through a wholly-owned subsidiary. The shareholding in Reigncom Korea is held by the Company.

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15. INTERESTS IN ASSOCIATES (continued)

Included in the Group's share of the net assets of its associates is the share of net assets of Reigncom Korea which was acquired by the Company during the year and, in the opinion of the directors, is material in the context of the Group's financial statements. Details of the net assets and the results of Reigncom Korea and its subsidiaries as at 31 March 2001 and for the year then ended, are as follows:

	2001 HK\$'000
Non-current assets	63,976
Current assets	123,431
Current liabilities	(76,670)
Non-current liabilities	(44,239)
	<u>66,498</u>
Share of net assets attributable to the Group at 31 March 2001	<u>13,300</u>
Turnover	134,013
Profit before tax	<u>19,403</u>
Profit before tax attributable to the Group for the year ended 31 March 2001	<u>5,463</u>

Reigncom Korea had no material contingent liabilities as at 31 March 2001.

16. LONG TERM RECEIVABLE

	2001 HK\$'000	Group 2000 HK\$'000
Long term receivable	<u>2,347</u>	<u>4,387</u>

The balance represents an amount due from Inter-Cassette (Hong Kong) Limited ("ICHL"), a wholly-owned subsidiary of a former minority shareholder of a subsidiary of the Group. The balance is secured by certain fixed assets of ICHL, is interest-free and is not repayable within one year.

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17. OTHER ASSETS

	2001	Group 2000
	HK\$'000	HK\$'000
Other assets, at cost	<u>2,472</u>	<u>1,668</u>

In the opinion of the directors, there have been no impairments in the values of these assets.

18. SHORT TERM INVESTMENTS

	2001	Group 2000
	HK\$'000	HK\$'000
Listed equity investments in Hong Kong, at market value	<u>1,406</u>	<u>—</u>

19. INVENTORIES

	2001	Group 2000
	HK\$'000	HK\$'000
Raw materials	24,330	17,425
Work in progress	6,620	144
Finished goods	<u>155,754</u>	<u>92,399</u>
	<u>186,704</u>	<u>109,968</u>

The carrying amount of inventories included in the above that are carried at net realisable value is HK\$25,474,000 (2000: HK\$2,101,000).

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20. ACCOUNTS RECEIVABLE

Trading terms with customers vary with the type of products supplied. Invoices are normally payable within 30 days of issuance, except for well-established customers, where the terms are extended to 60 days. On customer-specific and highly specialised items, deposits in advance or letters of credit may be required prior to the acceptance and delivery of the products. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. A credit committee consisting of the senior management and the directors of the Group has been established to review and approve large customer credits.

The aged analysis of the accounts receivable as at 31 March 2001 was as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Accounts receivable:		
Current	76,253	70,353
Overdue less than 30 days	36,641	28,033
Overdue 31 – 60 days	10,450	17,936
Overdue over 60 days	21,551	38,214
	144,895	154,536

The above aged analysis, stated net of provision for doubtful debts, was prepared based on the invoice due dates.

21. CASH AND CASH EQUIVALENTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Cash and bank balances	23,809	12,195
Time deposits	—	4,208
	23,809	16,403

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22. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The aged analysis of accounts payable as at 31 March 2001 was as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade creditors:				
Current	38,934	33,305	—	—
Overdue less than 30 days	13,798	16,635	—	—
Overdue 31 – 60 days	2,067	4,754	—	—
Overdue over 60 days	2,464	3,733	—	—
	<u>57,263</u>	<u>58,427</u>	<u>—</u>	<u>—</u>
Accrued expenses	6,727	8,409	380	330
	<u>63,990</u>	<u>66,836</u>	<u>380</u>	<u>330</u>

The above aged analysis was prepared based on the invoice due dates.

23. INTEREST-BEARING BANK BORROWINGS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Amounts repayable within one year or on demand:		
Bank overdrafts	—	572
Revolving bank loans under trade facilities	8,286	—
Other bank loans	—	313
	<u>8,286</u>	<u>885</u>
Import and trust receipt loans	231,470	120,101
	<u>239,756</u>	<u>120,986</u>

Certain of the above bank borrowings and of the Group's banking facilities are secured by fixed charges over certain of the land and buildings held by the Group (note 13).

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24. FINANCE LEASE PAYABLES

There were commitments under finance leases at the balance sheet date as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Amounts payable:		
Within one year	2,851	252
In the second year	2,851	255
In the third to fifth years, inclusive	2,719	756
After five years	322	203
	<hr/>	<hr/>
Total minimum finance lease payments	8,743	1,466
Future finance charges	(1,016)	(230)
	<hr/>	<hr/>
Total net finance lease payables	7,727	1,236
Portion classified as current liabilities	(2,380)	(192)
	<hr/>	<hr/>
Long term portion of finance lease payables	<u>5,347</u>	<u>1,044</u>

25. OTHER LONG TERM PAYABLE

The other long term payable represents the long term portion of an amount payable for the acquisition of a sports and social club debenture.

26. DEFERRED TAX

	Group	
	2001	2000
	HK\$'000	HK\$'000
At beginning of year	395	301
Charge for the year	—	94
Exchange realignments	(3)	—
	<hr/>	<hr/>
At end of year	<u>392</u>	<u>395</u>

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26. DEFERRED TAX (continued)

The principal components of the Group's provision for deferred tax and deferred tax liabilities/(assets) not provided for/(recognised) are as follows:

	Provided		Not provided	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accelerated capital allowances	392	395	2,060	1,380
Tax losses available for future relief	—	—	(3,861)	(1,306)
	<u>392</u>	<u>395</u>	<u>(1,801)</u>	<u>74</u>

27. SHARE CAPITAL

	2001	2000
	HK\$'000	HK\$'000
Authorised:		
800,000,000 ordinary shares of HK\$0.10 each	<u>80,000</u>	<u>80,000</u>
Issued and fully paid:		
236,321,613 (2000: 203,996,012) ordinary shares of HK\$0.10 each	<u>23,632</u>	<u>20,400</u>

During the year ended 31 March 2001, the following movements in share capital were recorded:

- (a) Pursuant to an agreement dated 29 February 2000, the Company granted Reigncom Limited ("Reigncom HK"), a company incorporated in Hong Kong, a call option to subscribe for 8,860,000 ordinary shares of HK\$0.10 each in the Company (the "Option Shares"). In the same agreement, Reigncom HK granted a put option to the Company whereby the Company may require Reigncom HK to subscribe for the Option Shares.

Both the call and the put options were exercisable for a period of one year commencing on 29 February 2000 at a subscription price of HK\$3.60 per share.

The call option was exercised by Reigncom HK during the year to subscribe for 8,860,000 shares of the Company. The share issue raised cash proceeds, before expenses, of HK\$31,896,000.

- (b) Pursuant to an ordinary resolution passed in the Annual General Meeting held on 22 September 2000, the Company issued 21,285,601 bonus shares of HK\$0.10 each to the shareholders of the Company in the proportion of 1 bonus share for every 10 shares held by the shareholders whose names appeared on the register of members of the Company on the same date. The bonus shares were issued as fully paid by capitalising the sum of approximately HK\$2,128,000 standing to the credit of the share premium account of the Company.

27. SHARE CAPITAL (continued)

- (c) On 8 December 2000, by a private arrangement, the Company entered into an agreement (the “Repurchase Agreement”) with B2B International Ltd. (“B2B International”), to repurchase 3,820,000 shares in the Company (the “Repurchase Shares”) for a consideration of 17,200 shares in Reigncom Korea held by the Company (the “Reigncom Shares”). The Reigncom Shares represented 8.04% of the entire issued share capital of Reigncom Korea. B2B International is an indirect wholly-owned subsidiary of Reigncom Korea. The Reigncom Shares were acquired by the Company pursuant to a subscription agreement dated 29 February 2000 and the Repurchase Shares were issued upon the exercise of the call option granted as detailed in (a) above. The arrangement has the effect of partially unwinding the Company’s previous subscription of shares in Reigncom Korea. Following the completion of the Repurchase Agreement on 13 March 2001, the Repurchase Shares were cancelled and the issued share capital of the Company was reduced by the par value thereof.

The premium and the related expenses of HK\$13,343,000 arising on the share repurchase transaction had been charged to the share premium account. An amount equivalent to the par value of the shares cancelled and the premium on the share repurchase had been transferred from the share premium account of the Company to the capital redemption reserve.

- (d) On 21 March 2001, the Company issued 6,000,000 shares of HK\$0.10 each to eCom International Limited (“eCom”), a company incorporated in the British Virgin Islands, at an ascribed issue price of HK\$2.50 per share as part of the consideration for the acquisition of a 20% interest in Thinker.

During the year ended 31 March 2000, the following movements in share capital were recorded:

- (e) Pursuant to a subscription agreement dated 25 November 1999, 33,166,000 shares of HK\$0.10 each were issued for cash at a subscription price of HK\$1.25 per share. The share issue raised cash proceeds, before expenses, of HK\$41,457,500.
- (f) The subscription rights attached to 5,000,000 share options were exercised at the subscription price of HK\$0.73 per share, resulting in the issue of 5,000,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$3,650,000.
- (g) Pursuant to an ordinary resolution passed on 29 March 2000, the authorised share capital of the Company was increased from HK\$40,000,000 to HK\$80,000,000 by the creation of 400,000,000 additional shares of HK\$0.10 each, ranking pari passu in all respects with the existing shares of the Company.

Notes to Financial Statements

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27. SHARE CAPITAL (continued)

A summary of the transactions during the year and in the prior year with reference to the above movements of the Company's ordinary share capital is as follows:

	Par value <i>HK\$ '000</i>	Number of shares issued/ (repurchased)
At 1 April 1999	16,583	165,830,012
Issue of shares	3,317	33,166,000
Exercise of share options	500	5,000,000
At 31 March 2000 and 1 April 2000	20,400	203,996,012
Issue of shares	1,486	14,860,000
Bonus issue of shares	2,128	21,285,601
Repurchase and cancellation of shares	(382)	(3,820,000)
At 31 March 2001	23,632	236,321,613

Share options

On 1 April 1996, the Company approved a share option scheme (the "Scheme") under which the directors may, at their discretion, grant options to executive directors of the Company and employees of the Group to subscribe for ordinary shares in the Company.

(i) Share options expiring on 27 June 2003

At the beginning of the year, there were 10,499,600 outstanding share options granted to certain employees of the Group. During the year, one of such employees was appointed as a director of the Company. The options are exercisable during the period from 28 June 2000 to 27 June 2003 at a subscription price of HK\$1.19 per share.

Pursuant to the one for ten bonus issue of the Company on 22 September 2000, the number of these share options granted was adjusted from 10,499,600 to 11,549,560 and the exercise price was adjusted from HK\$1.19 per share to HK\$1.08 per share.

None of these share options was exercised during the year.

The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 11,549,560 additional ordinary shares of HK\$0.10 each.

27. SHARE CAPITAL (continued)

Share options (continued)

(ii) Share options expiring on 19 April 2003

On 20 October 2000, the Company granted 5,500,000 share options for nil consideration to certain employees of the Group. During the year, one of such employees was appointed as a director of the Company.

The options are exercisable during the period from 20 April 2001 to 19 April 2003 at a subscription price of HK\$0.47 per share.

None of these share options was exercised during the year.

The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 5,500,000 additional ordinary shares of HK\$0.10 each.

(iii) Share options which expired on 27 March 2001

Pursuant to an option agreement dated 28 March 2000, the Company granted eCom, a company incorporated in the British Virgin Islands, an option to subscribe for 15,000,000 ordinary shares of HK\$0.10 each in the Company.

The share option was exercisable during the period from 28 March 2000 to 27 March 2001 at a subscription price of HK\$2.50 per share.

The share option was not exercised and was lapsed on 27 March 2001.

(iv) Share options which expired on 28 February 2001

As described in note (a) above, Reigncom HK exercised the call option during the year to subscribe for 8,860,000 shares of the Company at a subscription price of HK\$3.60 per share.

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28. RESERVES

Group

	Share premium account <i>HK\$'000</i>	Capital reserve* <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 1999	62,768	—	(5,462)	36,715	94,021
Issue of shares	38,141	—	—	—	38,141
Exercise of share options	3,150	—	—	—	3,150
Exchange realignments	—	—	(604)	—	(604)
Net profit for the year	—	—	—	22,340	22,340
At 31 March 2000 and 1 April 2000	104,059	—	(6,066)	59,055	157,048
Issue of shares	45,410	—	—	—	45,410
Bonus issue of shares	(2,128)	—	—	—	(2,128)
Repurchase and cancellation of shares	(13,343)	—	—	—	(13,343)
Transfer to capital redemption reserve	(12,491)	12,491	—	—	—
Goodwill on acquisitions of interests in associates	(49,481)	—	—	—	(49,481)
Deemed disposal of interest in an associate:					
Goodwill written back	1,909	—	—	—	1,909
Exchange fluctuation reserve released	—	—	140	—	140
Transfer to capital reserve	—	1,632	—	(1,632)	—
Disposal of partial interest in an associate:					
Goodwill written back	7,816	—	—	—	7,816
Reserves released	—	(468)	572	468	572
Exchange realignments	—	—	(2,874)	—	(2,874)
Net profit for the year	—	—	—	16,127	16,127
At 31 March 2001	81,751	13,655	(8,228)	74,018	161,196

Notes to Financial Statements

31 March 2001

28. RESERVES (continued)

Group

	Share premium account HK\$'000	Capital reserve* HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Reserves retained by:					
Company and subsidiaries	81,751	12,491	(6,803)	72,686	160,125
Associates	—	1,164	(1,425)	1,332	1,071
At 31 March 2001	81,751	13,655	(8,228)	74,018	161,196
Reserves retained by:					
Company and subsidiaries	104,059	—	(6,066)	59,055	157,048
Associates	—	—	—	—	—
At 31 March 2000	104,059	—	(6,066)	59,055	157,048

* Included in the balance of the capital reserve as at 31 March 2001 is a capital redemption reserve balance amounting to approximately HK\$12,491,000 (2000: Nil).

Company

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 1999	62,768	—	24,053	86,821
Issue of shares	38,141	—	—	38,141
Exercise of share options	3,150	—	—	3,150
Net profit for the year	—	—	370	370
At 31 March 2000 and 1 April 2000	104,059	—	24,423	128,482
Issue of shares	45,410	—	—	45,410
Bonus issue of shares	(2,128)	—	—	(2,128)
Repurchase and cancellation of shares	(13,343)	—	—	(13,343)
Transfer to capital redemption reserve	(12,491)	12,491	—	—
Net profit for the year	—	—	219	219
At 31 March 2001	121,507	12,491	24,642	158,640

Notes to Financial Statements

31 March 2001

28. RESERVES (continued)

In accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium account is distributable in certain circumstances.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash outflow from operating activities:

	2001 HK\$'000	2000 HK\$'000
Profit from operating activities	32,164	37,060
Interest income	(1,505)	(516)
Loss/(gain) on disposal of fixed assets	(524)	27
Gain on disposal of a property	—	(6,388)
Depreciation	9,593	7,491
Loss on deemed disposal of interest in an associate	1,310	—
Loss on disposal of partial interest in an associate	1,010	—
Decrease in long term receivable	1,040	—
Increase in inventories	(77,182)	(39,049)
Decrease in accounts receivable	8,721	33,697
Decrease/(increase) in prepayments, deposits and other receivables	8,320	(6,014)
Decrease in accounts payable and accrued expenses	(2,635)	(21,424)
Increase/(decrease) in import and trust receipt loans	14,634	(23,158)
Decrease in other long term payable	(35)	(35)
Net cash outflow from operating activities	<u>(5,089)</u>	<u>(18,309)</u>

Notes to Financial Statements

31 March 2001

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Bank loans and finance lease payables HK\$'000
Balance at 1 April 1999	79,351	3,399
Net cash inflow/(outflow) from financing	45,108	(1,856)
Inception of finance lease contracts	—	7
Exchange realignments	—	(1)
	<hr/>	<hr/>
Balance at 31 March 2000 and 1 April 2000	124,459	1,549
Net cash inflow/(outflow) from financing	30,662	(4,528)
Repurchase and cancellation of shares	(12,491)	—
Transfer to capital redemption reserve	(12,491)	—
Issue of shares on acquisition of interest in an associate	15,000	—
Goodwill on acquisitions of interests in associates	(49,481)	—
Goodwill written back on deemed disposal of interest in an associate	1,909	—
Goodwill written back on disposal of partial interest in an associate	7,816	—
Inception of finance lease contracts	—	10,740
Exchange realignments	—	(34)
	<hr/>	<hr/>
Balance at 31 March 2001	<u>105,383</u>	<u>7,727</u>

(c) Major non-cash transactions

- (i) On 21 March 2001, the Company issued a total of 6,000,000 new shares of HK\$0.10 each at an ascribed issue price of HK\$2.50 per share as part of the consideration for the acquisition of interest in an associate, as detailed in note 27(d).
- (ii) Pursuant to the Repurchase Agreement (as detailed in note 27(c)), the Company repurchased 3,820,000 shares of the Company of HK\$0.10 each from B2B International and in return, disposed of 17,200 shares in Reigncom Korea. The transaction was completed on 13 March 2001.
- (iii) During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$10,740,000.
- (iv) Pursuant to an ordinary resolution passed in the Annual General Meeting held on 22 September 2000, the Company issued 21,285,601 bonus shares of HK\$0.10 each to the shareholders of the Company in the proportion of 1 bonus share for every 10 shares held by the shareholders whose names appeared on the register of members of the Company on 22 September 2000. The bonus shares were issued as fully paid by capitalising the sum of approximately HK\$2,128,000 standing to the credit of the share premium account of the Company.
- (v) During the year, the Group recorded a loss on the deemed disposal of an interest in an associate of HK\$1,310,000. The deemed disposal had no significant impact on the Group's cash flow.

Notes to Financial Statements

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30. CONTINGENT LIABILITIES

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bills discounted with recourse	—	8,306	—	—
Standby documentary credits*	20,600	—	—	—
Guarantees given in respect of facilities granted to:				
— Subsidiaries**	—	—	424,805	313,193
— A supplier	3,900	—	—	—
	<u>24,500</u>	<u>8,306</u>	<u>424,805</u>	<u>313,193</u>

* Pursuant to the shareholders' agreement of Reigncom Korea, the Group has provided standby documentary credits in favour of the bankers of Reigncom Group for the amount of HK\$20,600,000 (2000: Nil). The Group will be liable for such amounts up to HK\$20,600,000 due by Reigncom Group to its bankers in the event Reigncom Group is unable to pay them. Subject to re-negotiation, the last expiry date of such documentary credits is 15 December 2001.

** At the balance sheet date, HK\$276,994,000 (2000: HK\$138,155,000) had been utilised for the banking facilities granted to subsidiaries guaranteed by the Company.

31. COMMITMENTS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital commitments contracted for	<u>284</u>	<u>—</u>	<u>—</u>	<u>—</u>
Annual commitments payable in the following year under operating leases in respect of land and buildings expiring:				
Within one year	8	148	—	—
In the second to fifth years, inclusive	437	—	—	—
After five years	1,862	1,861	—	—
	<u>2,307</u>	<u>2,009</u>	<u>—</u>	<u>—</u>

Notes to Financial Statements

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31. COMMITMENTS (continued)

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Other commitments, contracted for*	<u>2,000</u>	<u>50,568</u>	<u>–</u>	<u>43,568</u>

* On 29 February 2000, the Company entered into an agreement with Reigncom Korea to subscribe for new shares in Reigncom Korea. The Group's and the Company's commitment as at 31 March 2000 in respect of the subscription of new shares in Reigncom Korea amounted to US\$5,600,000, which was approximately HK\$43,568,000.

On 28 March 2000, AVT Holdings Limited ("AVT"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement and a transfer contract to subscribe for and to purchase shares in Thinker. On 16 August 2000, AVT entered into two supplemental contracts to each of the joint venture agreement and the transfer contract. These agreements and contracts are collectively referred to as the "Thinker Contracts". Pursuant to the Thinker Contracts, the Group's commitment as at 31 March 2000 in respect of the subscription and purchase of shares in Thinker amounted to HK\$7,000,000, of which HK\$5,000,000 was paid during the current year. The Group's commitment as at 31 March 2001 in respect of the Thinker Contracts is therefore HK\$2,000,000.

32. COMPARATIVE AMOUNTS

The fixed assets categories, "Furniture, fittings and office equipment" and "Plant, machinery and tools", were previously disclosed as one category under the heading of "furniture, fittings and equipment" in note 13 to the financial statements. The category was split during the year for the purpose of clearer presentation. Accordingly, the prior year's balances of cost, accumulated depreciation and net book value in respect of this category of fixed assets have been reclassified for comparative purposes.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 26 July 2001.