

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability on 16th November, 2000 under the Companies Act (1981) of Bermuda (the "Act"). Pursuant to a scheme of arrangement under Section 99 of the Act (the "Scheme"), the Company became the holding company of Honko International Holdings Limited ("Honko") on 18th June, 2001. On the same date, the Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in place of the shares of Honko ("Honko Shares").

The principal activities of the Company and its subsidiaries are manufacturing, sourcing and distribution of electronic parts and components, and investment holdings.

## 2. GROUP REORGANISATION AND FINANCIAL RESTRUCTURING

On 9th April, 2001, Honko put forward a restructuring proposal (the "Restructuring Proposal"), pursuant to which the Company issued shares for cash and restructured all its indebtedness as stipulated in a subscription agreement (the "Subscription Agreement") and two compromise agreements (the "Compromise Agreements") that were entered into on 18th January, 2001. The Subscription Agreement was entered into by Honko, the Company, an independent investor (the "Investor"), Kingsway SW Securities Limited ("Kingsway") and Mr. Lam Yat Keung, a director of Honko. The Compromise Agreements were entered into by Honko, the Company, the Investor, Kingsway and the borrowing banks, finance lease creditors and certain other creditors of Honko and its subsidiaries (collectively referred as the "Honko Group").

On 14th June, 2001, upon the approval of the independent shareholders of Honko and the fulfilment of the other conditions as set out in the Subscription Agreement and the Compromise Agreements, the Group underwent a group reorganisation and a debt restructuring (collectively referred as the "Financial Restructuring"), which comprised the following principal parts:

- (a) the Scheme was approved by a majority in number of the shareholders, representing three-fourths in value of the shareholders voting in person or by proxy of Honko at a meeting convened at the direction of the High Court of the Hong Kong Special Administrative Region of the People's Republic of China (the "Court") on 2nd May, 2001;
- (b) the Scheme was sanctioned by the Court on 17th May, 2001. A copy of the order of the Court as required by Section 166 of the Companies Ordinance was delivered to the Registrar of the Companies in Hong Kong for registration;
- (c) all of the Honko Shares as at 14th June, 2001 (except for 1,000,000 Honko Shares subscribed at par by the Company as part of the Scheme on 16th May, 2001) were cancelled and extinguished by way of a reduction of share capital, and swapped with the shares of the Company ("TechCap Shares") on a one-for-one basis, resulting in the issue of 358 million TechCap Shares;

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 2. GROUP REORGANISATION AND FINANCIAL RESTRUCTURING *(continued)*

- (d) simultaneously, a provisional allotment of 1,432 million TechCap Shares, whereby the shareholders of Honko were entitled to be allotted four TechCap Shares for every existing Honko Share held as at 14th June, 2001 at an allotment price of HK\$0.02 per share, resulting in cash proceeds of HK\$28.6 million;
- (e) the subscription of 2,800 million TechCap Shares by the Investor and of another 1,000 million TechCap Shares by subscribers procured by Kingsway at a subscription price of HK\$0.01 each, resulting in cash proceeds of HK\$38 million;
- (f) the repayment of HK\$28.7 million of the Honko Group's bank borrowings in the form of HK\$26 million cash and of 181 million TechCap Shares at a price of HK\$0.015 per share (HK\$2.7 million in aggregate), and the waiver of the remaining bank borrowings of HK\$137 million;
- (g) the repayment of HK\$3.57 million of the Honko Group's financial lease creditors in the form of HK\$3.4 million cash and 34 million TechCap Shares at a price of HK\$0.005 per share (HK\$170,000 in aggregate), the refinancing of HK\$13.6 million and the waiver of the remaining finance lease creditors of HK\$15.6 million;
- (h) the repayment of HK\$14.42 million of loans from directors in the form of 700 million TechCap Shares at a price of HK\$0.02 per share (HK\$14 million in aggregate) and of 84 million TechCap Shares at a price of HK\$0.005 per share (HK\$420,000 in aggregate), and the waiver of the remaining directors' loans of HK\$41.6 million;
- (i) the repayment of HK\$10 million of the Honko Group's management creditors in the form of 417 million TechCap Shares at a price of HK\$0.024 per share (HK\$10 million in aggregate);
- (j) the repayment of HK\$6.95 million of an amount due to a related company in the form of 287.5 million TechCap Shares at a price of HK\$0.024 per share (HK\$6.9 million in aggregate), and the waiver of the remaining HK\$50,000 due to the related company;
- (k) the subscription of Convertible Notes (note 30) by subscribers procured by Kingsway of HK\$25 million;
- (l) the Listing Committee of the Stock Exchange granted the listing of, and permission to deal in, the shares of the Company on 14th June, 2001; and
- (m) the listing of the shares of Honko on the Stock Exchange was withdrawn on 15th June, 2001 and the shares of the Company were listed on the Stock Exchange by way of introduction on 18th June, 2001.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 2. GROUP REORGANISATION AND FINANCIAL RESTRUCTURING *(continued)*

The Company, Honko and its subsidiaries (collectively the “Group”) resulting from the above mentioned reorganisation is regarded as a continuing entity under Statement of Standard Accounting Practice (“SSAP”) No. 27 “Accounting for Group Reconstructions” issued by the Hong Kong Society of Accountants. Accordingly the consolidated financial statements have been prepared and presented on the basis that the current group structure had been in existence throughout the two years ended 31st March, 2002.

## 3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared on a going concern basis because the Company’s major shareholders have agreed to provide adequate funds to enable the Company to meet in full its financial obligations as they fall due in the foreseeable future.

## 4. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised SSAPs.

The adoption of these new and revised SSAPs has resulted in the following changes to the disclosure requirements and the Group’s accounting policies.

### Leases

In accordance with SSAP 14 (Revised) “Leases”, some amendments were introduced to the disclosures specified for the Group’s leasing arrangements. These changes have not had any material effect on the results for the current or prior years and, accordingly, no prior period adjustment has been required. Disclosures of the Group’s leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised). Comparative amounts and disclosures have been restated in order to achieve a consistent presentation.

### Segment Reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 “Segment Reporting”. Segment disclosures for the year ended 31st March, 2001 have been amended so that they are presented on a consistent basis.

### Negative Goodwill

In adopting SSAP 30 “Business Combinations”, the Group has elected not to restate negative goodwill previously credited to reserves. Accordingly, negative goodwill arising on acquisitions of subsidiaries prior to 1st April, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 4. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(continued)*

### **Negative Goodwill** *(continued)*

Negative goodwill arising on acquisitions on or after 1st April, 2001 is presented as a deduction from assets and will be released to income statement based on an analysis of the circumstances from which the balance resulted.

## 5. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and the principal accounting policies adopted are as follows:

### **Basis of consolidation**

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

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

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisitions of subsidiaries on or after 1st April, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

On disposal of a subsidiary, the attributable amount of unamortised negative goodwill/goodwill previously credited to reserves is included in the determination of the profit or loss on disposal.

### **Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

### **Revenue recognition**

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

Trading of securities are recognised when the relevant transaction is executed.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

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

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the lease terms.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation and any identified impairment losses.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is included in net profit or loss for the year.

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

Leasehold land	Over the remaining lease terms
Buildings	2.5%
Leasehold improvements	20%
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	30%

### Investments in subsidiaries

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

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

### **Leases**

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

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

### **Inventories**

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

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Taxation**

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

### **Foreign currencies**

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in net profit or loss for the year.

## 6. SEGMENTAL INFORMATION

For management purposes, the Group is currently organised into three operating divisions - manufacturing of electronic parts and components, sourcing and distribution of electronic parts and components, and investment holding. These divisions are the basis on which the Group reports its primary segment information.



# Notes to The Financial Statements

For the year ended 31st March, 2002

## 6. SEGMENTAL INFORMATION (continued)

The Group's operations are principally located in Hong Kong and other regions of the People's Republic of China ("PRC"). An analysis of the Group's revenue and segment results by business and geographical segments is as follows:

### Business segments

Income statement	Manufacturing of electronic parts and components <i>HK\$'000</i>	Sourcing and distribution of electronic parts and components <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
For the year ended 31st March, 2002				
Segment revenue	182,413	7,231	–	189,644
Segment results	(7,072)	(1,548)	(1,358)	(9,978)
Other operating income				2,385
Unallocated corporate expenses				(23,490)
Loss from operations				(31,083)
Gain on financial restructuring net of expenses				158,159
Finance costs				(17,444)
Profit before taxation				109,632
For the year ended 31st March, 2001				
Segment revenue	208,478	10,197	–	218,675
Segment results	(6,488)	(1,413)	–	(7,901)
Other operating income				1,098
Unallocated corporate expenses				(1,109)
Loss from operations				(7,912)
Finance costs				(19,547)
Loss before taxation				(27,459)

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 6. SEGMENTAL INFORMATION (continued)

### Business segments (continued)

Balance sheet	Manufacturing of electronic parts and components <i>HK\$'000</i>	Sourcing and distribution of electronic parts and components <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
At 31st March, 2002				
<b>(i) ASSETS</b>				
Segment assets	65,875	2,912	51,134	119,921
Unallocated corporate assets				47,247
Consolidated total assets				167,168
<b>(ii) LIABILITIES</b>				
Segment liabilities	59,080	2,791	–	61,871
Unallocated corporate liabilities				63,705
Consolidated total liabilities				125,576
At 31st March, 2001				
<b>(i) ASSETS</b>				
Segment assets	67,926	6,271	–	74,197
Unallocated corporate assets				7,654
Consolidated total assets				81,851
<b>(ii) LIABILITIES</b>				
Segment liabilities	95,230	3,132	–	98,362
Unallocated corporate liabilities				238,695
Consolidated total liabilities				337,057

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 6. SEGMENTAL INFORMATION (continued)

### Business segments (continued)

Other information	Manufacturing of electronic parts and components <i>HK\$'000</i>	Sourcing and distribution of electronic parts and components <i>HK\$'000</i>	Unallocated corporate assets <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
At 31st March, 2002				
Additions of property, plant and equipment	489	–	8,154	8,643
Deprecation and amortisation	2,707	–	2,372	5,079

At 31st March, 2001

Additions of property, plant and equipment	1,341	–	317	1,658
Deprecation and amortisation	9,292	–	754	10,046

### Geographical segments

The following table provides an analysis of the Group's turnover by geographical markets, irrespective of the origin of the goods:

	Turnover		Contribution to profit (loss) before taxation	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Hong Kong	151,583	139,578	111,170	(15,870)
Other Asian countries	23,608	56,426	(954)	(8,267)
United States of America	7,573	11,906	(306)	(1,743)
Europe and others	6,880	10,765	(278)	(1,579)
	<b>189,644</b>	218,675	<b>109,632</b>	(27,459)

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 6. SEGMENTAL INFORMATION (continued)

### Geographical segments (continued)

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	55,391	64,713	489	1,341
Hong Kong	62,153	7,538	8,154	317
Other Asian countries	2,004	1,734	–	–
United States of America	337	143	–	–
Europe and others	36	69	–	–
	<b>119,921</b>	<b>74,197</b>	<b>8,643</b>	<b>1,658</b>

## 7. OTHER OPERATING INCOME

	2002	2001
	HK\$'000	HK\$'000
Dividend income – listed shares	1	–
Exchange gain	–	1,085
Interest income on bank deposits and loan receivables	2,321	–
Rental income	–	13
Other income	63	–
	<b>2,385</b>	<b>1,098</b>

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 8. LOSS FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Auditors' remuneration		
Current year	800	620
Underprovision in prior years	71	–
Depreciation		
Owned assets	2,513	2,054
Assets held under finance leases	2,566	7,992
	<b>5,079</b>	10,046
Exchange loss	167	–
Loss on disposal of investment in securities	463	–
Gain on disposal of investment properties	(37)	–
Loss on disposal of property, plant and equipment	253	1,027
Minimum lease payments in respect of:		
Land and buildings	4,313	2,930
Motor vehicles	276	–
Plant and machinery	1,800	1,578
Preliminary expenses	50	–
Impairment loss of land and buildings and investment properties (included in administrative expenses)	–	807
Staff costs:		
Wages and salaries (including directors' emoluments)	33,226	21,975
Contributions to retirement benefit scheme	456	107
	<b>33,682</b>	22,082
Unrealised holding loss on investment in securities	896	–

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 9. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on:		
Bank loans and overdrafts	3,265	15,794
Bonds	2,743	–
Convertible notes	424	–
Obligations under finance leases	680	651
Other borrowings wholly repayable within five years	564	3,102
Premium on redemption of bonds	4,368	–
	12,044	19,547
Financial restructuring cost	5,400	–
	17,444	19,547

## 10. DIRECTORS' EMOLUMENTS

	2002 HK\$'000	2001 HK\$'000
Directors' fees	645	320
Other emoluments		
Salaries and other benefits	10,898	15,214
Contributions to retirement benefit scheme	73	–
	11,616	15,534

The directors' fees disclosed above include directors' fees of HK\$Nil (2001: HK\$320,000) payable to independent non-executive directors.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 10. DIRECTORS' EMOLUMENTS (continued)

The emoluments of the directors were within the following bands:

	2002 Number of directors	2001 Number of directors
Nil - HK\$1,000,000	12	5
HK\$1,000,001 - HK\$1,500,000	1	2
HK\$1,500,001 - HK\$2,000,000	3	–
HK\$2,000,001 - HK\$2,500,000	–	1
HK\$2,500,001 - HK\$3,000,000	1	1
HK\$3,000,001 - HK\$8,000,000	–	1
	17	10

During the year, a director waived emolument of HK\$150,000. No director waived any emoluments in the year ended 31st March, 2001.

## 11. EMPLOYEES' EMOLUMENTS

Of the five highest paid employees in the Group, five (2001: four) were directors of the Company whose emoluments are included in note 10 above. The emoluments of the remaining one individual in 2001 were as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	–	1,323,000
Contributions to retirement benefit scheme	–	–
	–	1,323,000

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 12. TAXATION

No tax is payable on the profit for the year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

The taxation credit for the year represents the overprovision in Hong Kong Profits Tax in previous years.

No provision for Hong Kong Profits Tax had been made in previous year as the Company and its subsidiaries incurred a tax loss for that years.

Details of potential deferred taxation not provided for in the year are set out in note 35.

## 13. EARNINGS (LOSS) PER SHARE

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

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Profit (loss) for the year and earnings (loss) for the purposes of basic earnings (loss) per share	110,639	(27,459)
Effect of dilutive potential ordinary shares: Interest on convertible notes	424	—
Earnings (loss) for the purposes of diluted earnings (loss) per share	111,063	(27,459)
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	7,243,301,528	358,004,664
Effect of dilutive potential ordinary shares: Options	126,347,159	—
Convertible notes	730,547,945	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	8,100,196,632	358,004,664



# Notes to The Financial Statements

For the year ended 31st March, 2002

## 14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>THE GROUP</b>						
<b>COST</b>						
At 1st April, 2001	2,137	7,722	127,637	8,449	1,040	146,985
Additions	–	1,625	33	850	6,135	8,643
Disposals	(2,137)	–	(9,934)	(1,712)	(155)	(13,938)
<b>At 31st March, 2002</b>	<b>–</b>	<b>9,347</b>	<b>117,736</b>	<b>7,587</b>	<b>7,020</b>	<b>141,690</b>
<b>DEPRECIATION</b>						
At 1st April, 2001	1,125	5,446	124,757	8,181	1,040	140,549
Provided for the year	–	1,179	2,067	537	1,296	5,079
Eliminated on disposals	(1,125)	–	(9,721)	(1,662)	(155)	(12,663)
<b>At 31st March, 2002</b>	<b>–</b>	<b>6,625</b>	<b>117,103</b>	<b>7,056</b>	<b>2,181</b>	<b>132,965</b>
<b>NET BOOK VALUE</b>						
<b>At 31st March, 2002</b>	<b>–</b>	<b>2,722</b>	<b>633</b>	<b>531</b>	<b>4,839</b>	<b>8,725</b>
At 31st March, 2001	1,012	2,276	2,880	268	–	6,436

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>			
<b>COST</b>			
Additions during the year and at 31st March, 2002	93	2,545	2,638
<b>DEPRECIATION</b>			
Provided for the year and at 31st March, 2002	15	573	588
<b>NET BOOK VALUE</b>			
<b>At 31st March, 2002</b>	<b>78</b>	<b>1,972</b>	<b>2,050</b>

Included in the net book values of property, plant and equipment are plant and machinery of HK\$83,000 (2001: HK\$1,944,000), furniture, fixtures and equipment of HK\$77,000 (2001: HK\$24,000) and motor vehicles of HK\$3,720,000 (2001: Nil) held under finance leases.

The leasehold land and buildings of the Group were situated in Hong Kong and held under medium term leases. They were pledged to banks to secure banking facilities granted to the Group as at 31st March, 2001 and disposed of during the year.

As at 31st March, 2002, a motor vehicle with carrying amount of HK\$352,000 is held under the name of a company in which Mr. Wong Chong Kwong, Derek, a director of the Company, has a beneficial interest, on behalf of the Group.

## 15. INVESTMENT PROPERTIES

	<b>THE GROUP</b> <i>HK\$'000</i>
At 1st April, 2001	1,083
Disposals	(1,083)
<b>At 31st March, 2002</b>	<b>—</b>

The investment properties were situated in Hong Kong and held under medium term leases. They were pledged to banks to secure banking facilities granted to the Group as at 31st March, 2001 and disposed of during the year.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 16. INTERESTS IN SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Unlisted investment, at cost less impairment	–	–
Amounts due from subsidiaries net of allowances	75,914	–
	75,914	–

Particulars of principal subsidiaries of the Company as at 31st March, 2002 are as follows:

Name of company	Place of incorporation/ registration and operations	Issued and paid-up capital	Class of shares held	Equity interest attributable to the Company		Principal activities
				Directly	Indirectly	
東莞森信電子有限公司	PRC	HK\$38,000,000	N/A	–	100%	Manufacture of electronic parts and components
Honey Resources Limited	Hong Kong	HK\$10,000,000	Ordinary	–	100%	Investment holding
Honey Technology Limited	Hong Kong/ PRC, Hong Kong	HK\$1,000,000	Ordinary	–	100%	Manufacture and trading of electronic parts and components
Honey Technology (B.V.I.) Limited	British Virgin Islands/ Hong Kong	US\$1	Ordinary	–	100%	Investment holding
Honko BVI Limited	British Virgin Islands/ Hong Kong	US\$50,000	Ordinary	–	100%	Investment holding
Honko Industrial (Holdings) Limited	British Virgin Islands/ Hong Kong	US\$1	Ordinary	–	100%	Investment holding

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 16. INTERESTS IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ registration and operations	Issued and paid-up capital	Class of shares held	Equity interest attributable to the Company		Principal activities
				Directly	Indirectly	
Honko International Holdings Limited	Bermuda/ Hong Kong	HK\$100,000	Ordinary	100%	–	Investment holding
TechCap BioTech Holdings Limited	British Virgin Islands/ Hong Kong	US\$1,000	Ordinary (common)	100%	–	Investment holding
TechCap Holdings (Hong Kong) Limited	Hong Kong	HK\$10,000	Ordinary	100%	–	Investment holding
TechCap Investment Holdings Limited	British Virgin Islands/ Hong Kong	US\$100	Ordinary	100%	–	Investment holding
Weritable Enterprises Limited	British Virgin Islands/ Hong Kong	US\$3,201,300	Ordinary	–	100%	Investment holding
Wisdom Profit Investment Limited	Hong Kong	HK\$10,000	Ordinary	–	100%	Investment holding
Woodson International Limited	Hong Kong	HK\$10,000	Ordinary	–	100%	Investment holding and trading of electronic of electronic parts and components
Young Honest Limited	Hong Kong	HK\$10,000	Ordinary	–	100%	Investment holding

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 17. INVESTMENTS IN SECURITIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Equity securities:		
Listed investments in Hong Kong (other investment – current)	108	–
Unlisted investments (investment securities – non-current)	28,526	–
	28,634	–
Market value of Listed securities	108	–

Included in unlisted investments is an investment in Hamilton Apex Technology Ventures, L.P. (the “Partnership”), a Delaware Limited Partnership formed in California, amounting to US\$2.7 million (equivalent to HK\$21,026,000). The Partnership is licensed under the Small Business Investment Act of 1958, as amended, as a Small Business Investment Company for the purpose of investing in debt or equity securities of companies in United States of America.

As at 31st March, 2002, the Group has committed to contribute additional capital of US\$12.3 million (equivalent to HK\$95,940,000) to the Partnership upon the request by the general partner of the Partnership.

The remaining unlisted investment of HK\$7,500,000 represents a 15% equity interest in Steer Tornado Holdings Ltd (“Steer Tornado”), an investment holding company which in turn owns a 25% equity interest in China Advantage Limited (“China Advantage”). China Advantage has been assigned the beneficial ownership of three biological and chemical engineering technology patents, two of which have been registered in the PRC.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 18. LOAN RECEIVABLES

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Unsecured term loans	4,052	–
Secured term loan	21,854	–
	25,906	–
Less: Amount due within one year shown under current assets	(3,820)	–
Amount due after one year	22,086	–

The unsecured term loans, bear interest at 8% per annum and are repayable within the period from 2002 to 2006.

The secured term loan bears interest at 2% over Hong Kong prime rates and is repayable in one lump sum on 29th September, 2004.

## 19. INVENTORIES

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Raw materials	16,332	13,008
Work in progress	12,685	7,121
Finished goods	12,866	19,056
	41,883	39,185

Included above are work in progress of HK\$10,668,000 (2001: HK\$7,121,000) and finished goods of HK\$12,866,000 (2001: HK\$14,884,000) which are carried at net realisable value.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 20. TRADE RECEIVABLES

The Group allows a credit period of 60 to 90 days to its customers. The ageing analysis is as follows:

	2002 HK\$'000	2001 HK\$'000
Current to overdue 30 days	20,849	24,218
Overdue 31 - 60 days	2,162	3,030
Overdue 61 - 90 days	1,148	1,498
Overdue over 90 days	1,247	2,335
Total	25,406	31,081

## 21. EXCHANGEABLE LOAN RECEIVABLE

The exchangeable loan receivable of HK\$12.5 million represents a loan to another shareholder of Steer Tornado ("ST Shareholder") which carries interest at the same amount as the dividends receivable from the 25% equity interest in Steer Tornado. On or before 14th September, 2002, both the borrower of the loan and the Group have the option to convert the loan into a 25% equity interest in Steer Tornado. The loan is repayable on 14th March, 2003 if the option is not exercised.

Pursuant to a supplementary agreement entered into on 28th June, 2002, the borrower's option to convert the loan into a 25% equity interest in Steer Tornado has been superseded. The loan has also become interest bearing at 6% per annum commencing from 15th August, 2002 and is repayable in five installments from 15th October, 2002 onwards.

## 22. GOOD FAITH DEPOSIT

The good faith deposit ("Deposit") of HK\$10 million represents good faith money paid to ST shareholder for the acquisition of up to 55% equity interest in Steer Tornado. The Group can exercise the purchase right on or before 14th August, 2002 (the "Exercisable Period"). Throughout the Exercisable Period, the Group and the buyer will try to finalise the sale and purchase agreement and/or the exchangeable loan agreement between them. The Deposit will be returned to the Group with no interest immediately and unconditionally should the Group decide not to exercise the purchase right during the Exercisable Period.

On 18th June, 2002, the Group served notice to ST Shareholder that the Group decided not to exercise the purchase right and demand repayment of the Deposit.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 23. TRADE PAYABLES

The ageing analysis of the Group is as follows:

	2002 HK\$'000	2001 HK\$'000
Current to overdue 30 days	16,202	12,998
Overdue 31 - 60 days	5,120	3,717
Overdue 61 - 90 days	1,366	4,989
Overdue over 90 days	20,568	15,575
<b>Total</b>	<b>43,256</b>	<b>37,279</b>

## 24. OBLIGATIONS UNDER FINANCE LEASES

### THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amounts payable under finance leases:				
Within one year	5,817	36,916	5,300	36,462
In the second to fifth year inclusive	3,536	–	3,277	–
After five years	4,281	–	4,150	–
	<b>13,634</b>	36,916	<b>12,727</b>	36,462
Less: future finance charges	(907)	(454)	–	–
<b>Present value of lease obligations</b>	<b>12,727</b>	36,462	<b>12,727</b>	36,462
Less: Amount due for settlement within 12 months (shown under current liabilities)			(5,300)	(36,462)
<b>Amount due for settlement after 12 months</b>			<b>7,427</b>	–



# Notes to The Financial Statements

For the year ended 31st March, 2002

## 24. OBLIGATIONS UNDER FINANCE LEASES (continued)

### THE COMPANY

	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amounts payable under finance leases:				
Within one year	591	—	498	—
In the second to fifth year inclusive	506	—	471	—
After five years	105	—	104	—
	1,202	—	1,073	—
Less: future finance charges	(129)	—	—	—
Present value of lease obligations	1,073	—	1,073	—
Less: Amount due for settlement within 12 months (shown under current liabilities)			(498)	—
Amount due for settlement after 12 months			575	—

The Group has leased certain of its fixtures and equipment and motor vehicles under finance leases with an average lease term of 3 years. For the year ended 31st March, 2002, the average effective borrowing rate was 5%. Interest rates are fixed at the contract date. All leases are with fixed repayment schedule and no arrangements have been entered into for contingent rental payments.

During the year ended 31st March, 2001, certain financial creditors have taken legal action against the Group for the recovery of outstanding lease payables of approximately HK\$21 million. Pursuant to the Financial Restructuring as detailed in note 2, all finance lease payables as at 31st March, 2001 were partially repaid, refinanced or waived.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 25. BANK LOANS AND OTHER BORROWINGS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Bank overdrafts:		
Secured	–	5,650
Unsecured	–	31,537
	–	37,187
Trust receipt loans:		
Secured	–	12,701
Unsecured	–	60,006
	–	72,707
Bank loans:		
Import loans, unsecured	–	2,640
Other borrowings:		
Trust receipt loans, unsecured	–	14,739
Post-dated cheques discounted, unsecured	–	885
Others, unsecured	–	2,340
	–	17,964
	–	130,498

The Group's bank loans, overdrafts and trust receipt loans at 31st March, 2001 were secured by the leasehold properties of the Group and personal guarantees given by Mr. Lam Yat Keung, a former director of the Company and a relative of Mr. Lam Yat Keung.

The Group had given undertakings with respect to financial data and ratios to banks in support of certain bank borrowings. As at 31st March, 2001, the Group had not complied with the terms of the undertakings.

The other borrowings bore interest at rates ranging from the prime lending rate plus 0.5% per annum to 18% per annum.

Pursuant to the Financial Restructuring as detailed in note 2, all the bank loans and other borrowings were partially repaid or waived.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 26. AMOUNTS DUE TO RELATED COMPANIES/SHAREHOLDERS/DIRECTORS

The amounts due to related companies and the directors as at 31st March, 2002 are unsecured, interest-free and with no fixed terms of repayment.

The amount due to a related company of HK\$6,950,000 as at 31st March, 2001 represented the repayment of bank loans by the related company on behalf of the Group.

During the year, certain balances of amounts due to related companies, shareholders and directors were partially repaid or waived upon the Financial Restructuring.

## 27. LOANS FROM DIRECTORS

Details of the loans from directors are as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Mr. Lam Yat Keung	–	45,423
Mr. Tam King Ho	–	5,938
	–	51,361

The loans from the directors were unsecured, interest-free and pursuant to the Financial Restructuring as detailed in note 2, the loans were partially repaid or waived.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 28. SHARE CAPITAL

	Number of shares '000	Nominal value HK\$'000
Ordinary shares of HK\$0.005 each		
Authorised:		
On incorporation and at 31st March, 2001	20,000	100
Increased on 16th May, 2001	14,980,000	74,900
<b>At 31st March, 2002</b>	<b>15,000,000</b>	<b>75,000</b>
Issued and fully paid:		
On incorporation and at 31st March, 2001	–	–
Issue of shares as consideration for the exchange of the issued share capital of Honko	358,005	1,790
Issue of shares under the provisional allotment	1,432,019	7,160
Issue of shares to investors	2,800,000	14,000
Issue of shares to placees procured by Kingsway	1,000,000	5,000
Issue of shares to settle bank and other borrowings	180,894	905
Issue of shares to management creditors	416,667	2,084
Issue of shares to finance lease creditors regarding waiver of debts due to them	34,021	170
Issue of shares to certain Honko Group directors regarding capitalisation of Honko Group directors' loans	700,000	3,500
Issue of shares to a related company regarding waiver of a related company's debts	287,500	1,437
Issue of shares to certain Honko Group directors regarding waiver of Honko Group directors' loans	84,000	420
Issue of shares on exercise of convertible notes	2,250,000	11,250
Issue of shares on exercise of share options	739,000	3,695
<b>At 31st March, 2002</b>	<b>10,282,106</b>	<b>51,411</b>

On incorporation, the authorised share capital of the Company was HK\$100,000 dividend into 20,000,000 shares of HK\$0.005 each, all of which were issued and allotted nil paid on 27th November, 2000. On 16th May, 2001, these 20,000,000 shares were repurchased and cancelled by the Company.

On 16th May, 2001, the authorised share capital of the Company was increased from HK\$100,000 to HK\$75,000,000 by the creation of a further 14,980,000,000 shares of HK\$0.005 each, ranking pari passu with the then existing share capital of the Company.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 28. SHARE CAPITAL (continued)

The share capital of the Group as at 31st March, 2001 shown on the consolidated balance sheet represented the share capital of Honko as at that date prior to the group reorganisation as mentioned in note 2.

### Share options

At 31st March, 2002, the following options to subscribe for shares were outstanding under the Company's share option scheme:

Number of options	Exercisable period		Exercise price per share HK\$
	From	To	
220,000,000	31st August, 2001	30th August, 2011	0.043
6,000,000	11th October, 2001	10th October, 2011	0.052

## 29. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Special reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
At 1st April, 2000	91,335	190	1,255	(1,270)	-	(355,057)	(263,547)
Loss for the year	-	-	-	-	-	(27,459)	(27,459)
At 31st March, 2001	91,335	190	1,255	(1,270)	-	(382,516)	(291,006)
Share swap upon group reorganisation	(91,335)	125,345	-	-	-	-	34,010
Profit for the year	-	-	-	-	-	110,639	110,639
Shares issued at a premium	106,271	-	-	-	-	-	106,271
Share issue expenses	(3,461)	-	-	-	-	-	(3,461)
Waiver of debts from an equity participant	-	-	-	-	33,728	-	33,728
<b>At 31st March, 2002</b>	<b>102,810</b>	<b>125,535</b>	<b>1,255</b>	<b>(1,270)</b>	<b>33,728</b>	<b>(271,877)</b>	<b>(9,819)</b>

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 29. RESERVES (continued)

	Share premium <i>HK\$'000</i>	Accumulated loss <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>			
At 1st April, 2000	–	–	–
Loss for the year	–	(1,109)	(1,109)
At 31st March, 2001	–	(1,109)	(1,109)
Loss for the year	–	(112,222)	(112,222)
Shares issued at a premium	106,271	–	106,271
Share issue expenses	(3,461)	–	(3,461)
<b>At 31st March, 2002</b>	<b>102,810</b>	<b>(113,331)</b>	<b>(10,521)</b>

The contributed surplus of the Group represents the difference between the value of share capital, share premium and contributed surplus of Honko Group acquired over the nominal value of the Company's shares issued in exchange therefor.

The special reserve of the Group represents waiver of debts from an equity participant.

The capital reserve of the Group represents negative goodwill arising on acquisition of a subsidiary.

The Company has no distributable reserve as at 31st March, 2001 and 2002.

## 30. CONVERTIBLE NOTES

	<b>THE GROUP AND THE COMPANY</b>	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Issued on 14th June, 2001	25,000	–
Converted during the year	(22,500)	–
At 31st March	2,500	–

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 30. CONVERTIBLE NOTES *(continued)*

The convertible notes carry interest at the best lending rate payable quarterly in arrears with the first interest payment due on 13th September, 2001 and the last interest payment due on 13th June, 2004. Each note entitles the holder to convert the note into new shares of the Company at a conversion price, subject to adjustment, of HK\$0.01 per share during the period from 14th June, 2001 to 13th June, 2004.

## 31. BONDS

	THE GROUP AND THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Issued on 31st August, 2001	93,600	—
Redempted during the year	(54,600)	—
At 31st March	39,000	—

The bonds carry interest at 12% per annum. At any time on or before the maturity date of 27th August, 2003, the Company is entitled to redeem the bonds at the 108% of face value of the bonds without interest. In addition, at any time on or after 27th August, 2002 and up to the maturity date, the bond holders may require the Company to redeem the whole principal amount of the bonds at 100% of face value of the bonds without interest.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 32. RECONCILIATION OF PROFIT (LOSS) BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2002 HK\$'000	2001 HK\$'000
Profit (loss) before taxation	109,632	(27,459)
Interest income	(2,321)	–
Finance costs	17,444	19,547
Dividend income	(1)	–
Depreciation	5,079	10,046
Impairment loss in land and buildings and investment properties	–	807
Loss on disposal of investment in securities	463	–
Unrealised holding loss on investment in securities	896	–
Gain on disposal of investment properties	(37)	–
Loss on disposal of property, plant and equipment	253	1,027
Gain on financial restructuring net of expenses attributable to non cash equivalent items	(120,972)	–
Increase in inventories	(2,698)	(12,676)
Decrease in trade receivables	5,788	4,124
Increase in prepayments, deposits and other receivables	(1,135)	(443)
Increase in trade payables	7,970	5,945
Increase in other payables and accrued liabilities	1,666	3,916
Decrease in trust receipt loans	–	(1,464)
(Decrease) increase in amounts due to shareholders	(1,109)	1,109
Net cash inflow from operating activities	20,918	4,479



# Notes to The Financial Statements

For the year ended 31st March, 2002

## 33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$'000	Obligations under finance leases HK\$'000	Bank loans and other borrowings HK\$'000	Amounts due to related companies HK\$'000	Amounts due to and loans from directors HK\$'000	Convertible notes HK\$'000	Bonds HK\$'000
At 1st April, 2000	1,790	36,474	7,905	6,950	67,026	-	-
Net cash outflow from financing	-	(12)	(2,040)	-	(163)	-	-
At 31st March, 2001	1,790	36,462	5,865	6,950	66,863	-	-
Transfer (to) from other borrowings	-	(3,671)	160,159	-	(853)	-	-
Issue of shares for cash	99,189	-	-	-	-	-	-
Share issue expenses	(3,461)	-	-	-	-	-	-
Inception of finance leases	-	3,013	-	-	-	-	-
Repayment by issue of shares (note 2)	34,203	(170)	(2,713)	(6,900)	(24,420)	-	-
Waiver of debts (note 2)	-	(15,603)	(137,347)	(50)	(41,590)	-	-
Conversion into share capital	22,500	-	-	-	-	(22,500)	-
Issue of bonds	-	-	-	-	-	-	93,600
Premium on redemption of bonds	-	-	-	-	-	-	4,368
Net cash (outflow) inflow from financing	-	(7,304)	(25,964)	532	773	25,000	(58,968)
<b>At 31st March, 2002</b>	<b>154,221</b>	<b>12,727</b>	<b>-</b>	<b>532</b>	<b>773</b>	<b>2,500</b>	<b>39,000</b>

## 34. MAJOR NON-CASH TRANSACTIONS

During the year, the leasehold land and buildings and investment properties of the Group with carrying values of HK\$1,012,000 and HK\$1,083,000 respectively as of 31st March, 2001 have been taken possession and then disposed of by the banks. The consideration have been used to set off against certain bank loans upon the Financial Restructuring.

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$3,013,000.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 35. DEFERRED TAXATION

At the balance sheet date, the major components of the unprovided deferred tax asset (liabilities) are as follows:

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences because of:				
Tax losses	18,251	33,124	3,447	—
Difference of tax allowances and depreciation	(317)	569	(138)	—
	17,934	33,693	3,309	—

The amount of unprovided deferred tax credit (charge) for the year is as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Tax losses utilised	(14,873)	(453)
(Excess) shortfall of tax allowances over depreciation	(886)	4,770
	(15,759)	4,317

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the losses will be utilised in the foreseeable future.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 36. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Guarantees given to banks, in respect of banking facilities utilised by subsidiaries	–	–	1,188	–
Bills discounted with recourse	501	513	–	–
	501	513	1,188	–

As at 31st March, 2001, Honko had given guarantees to banks and financial creditors in respect of facilities granted to one of its subsidiaries in the amount of HK\$172,680,000. The facilities were utilised to the extent of HK\$132,850,000 as at 31st March, 2001.

In addition, the Company has provided guarantee to the landlord of a rented premise of one of its subsidiaries. Pursuant to which, the subsidiary will duly observe and perform all terms and conditions and will pay all monies in accordance with the tenancy agreement.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 37. OPERATING LEASE COMMITMENTS

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

	2002 HK\$'000	2001 HK\$'000
Land and buildings:		
Within one year	5,332	2,117
In the second to fifth year, inclusive	7,214	4,008
	<b>12,546</b>	6,125
Plant and machinery:		
Within one year	1,740	1,800
In the second to fifth year, inclusive	540	2,280
	<b>2,280</b>	4,080
Motor vehicle:		
Within one year	276	276
In the second to fifth years, inclusive	150	425
	<b>426</b>	701

Leases are negotiated for an average term of 3 to 4 years and rentals are fixed for an average of 3 to 4 years.

The Company had no operating lease commitments at the balance sheet date.

## 38. RETIREMENT BENEFITS SCHEME

The Group operates Mandatory Provident Fund Schemes for all qualifying employees. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

The retirement benefits cost charged to the income statement represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

## 39. RELATED PARTY TRANSACTION

Mr. Lam Yat Keung, a director of the Company, and one of his relatives had provided guarantees to banks on bank loans made to the Group totalling HK\$7,488,000 as at 31st March, 2001.

# Notes to The Financial Statements

For the year ended 31st March, 2002

## 40. POST BALANCE SHEET EVENTS

Pursuant to a conditional sale and purchase agreement signed between the Company and Apex Technology Investment Co., Ltd (“Apex”) on 18th January, 2002, the Company agreed to acquire US\$2,000,000 convertible bonds in Apex. Upon full conversion of the Apex convertible bonds, the Company will own a 2.2% equity interest of Korea Asten Engineering Co. Ltd, a company incorporated in Korea with its share listed on Kosdaq Stock Market, Inc. The transaction has been approved by the shareholders of the Company and the due date for completion has been extended from 30th April, 2002 to 31st July, 2002.

On each of 17th April, 2002 and 17th May, 2002, 100,000,000 shares of HK\$0.005 each in the Company were issued and allotted at HK\$0.01 each upon the conversion of the convertible notes with carrying value of HK\$1,000,000.

On 28th June, 2002, a conditional sale and purchase agreement was entered into between the Company and Global Med International Holdings Limited (“Global”). Pursuant to the agreement, the Company agreed to acquire a 4% equity interest in Global Med International Limited (“Med International”) at a total consideration of HK\$18 million to be satisfied in full by the issue of promissory notes of the Company. The completion of this transaction is subject to the satisfactory results of a due diligence review on Med International.